

BEFORE EXAMINED ASHLEY
OIL CONSERVATION SERVICE

EXHIBIT NO.

CASE NO. 12396

KELLAHIN AND KELLAHIN

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JASON KELLAHIN (RETIRED 1991)

October 26, 1999

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

TO: NOTICE OF THE HEARING OF THE FOLLOWING
NEW MEXICO OIL CONSERVATION DIVISION CASE:

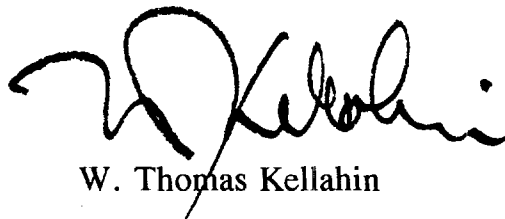
*Re: Application of Burlington Resources Oil & Gas Company
to amend the Special Rules and Regulations for the
Basin-Fruitland Coal Gas Pool for the purposes of
changing well locations requirements, Rio Arriba,
Sandoval, McKinley and San Juan Counties, New Mexico.*

On behalf of Burlington Resources Oil & Gas Company, please find enclosed our a copy of its referenced application. This case has been set for hearing on the New Mexico Oil Conservation Division Examiner's docket now scheduled for November 18, 1999. The hearing will be held at the Division hearing room located at 2040 South Pacheco, Santa Fe, New Mexico.

As an operator who may be affected by this application, we are notifying you of your right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application. Failure to appear at the hearing may preclude you from any involvement in this case at a later date.

Pursuant to the Division's Memorandum 2-90, you are further notified that if you desire to appear in this case, then you are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, November 12, 1999, with a copy delivered to the undersigned.

Very truly yours,



W. Thomas Kellahin

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**APPLICATION OF BURLINGTON RESOURCES
OIL & GAS COMPANY TO AMEND RULE 7 OF THE
SPECIAL RULES AND REGULATIONS FOR THE
BASIN-FRUITLAND COAL GAS POOL, SAN JUAN,
RIO ARriba, MCKINLEY AND SANDOVAL COUNTIES,
NEW MEXICO**

CASE NO. _____

APPLICATION

Comes now BURLINGTON RESOURCES OIL & GAS COMPANY, by and through its attorneys, Kellahin and Kellahin, and applies to the New Mexico Oil Conservation Division to amend Rule 7 of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool to change the well location boundary requirements from not closer than 790 feet to not closer than 660 feet to any outer boundary of a spacing unit and from not closer than 130 feet to not closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

In support of its application, Burlington Resources Oil & Gas Company ("Burlington"). states:

(1) Burlington is the operator of approximately 908 wells currently producing from the Basin-Fruitland Coal Gas Pool.

(2) The Basin-Fruitland Coal Gas Pool is currently governed by the "Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool" including Rule 7 which pertains to well spacing and location requirements which are set forth as follows:

"Rule 7. The first well drilled or recompleted on every standard or non-standard unit in the Basin-Fruitland Coal Gas Pool shall be located in the NE/4 or the SW/4 of a single governmental section and shall be located no closer than 790 feet to any outer boundary of the proration unit nor closer than 130 feet to any quarter section line nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary."

(3) One of the most effective and efficient current means of drilling and producing new coal gas wells is to do so as wellbores which can also be used to produce gas from other formations including the Mesaverde and Pictured Cliffs formations.

(4) In order to increase the opportunity to locate wells in the optimum position or to accommodate numerous topographic and archeological conditions, it is either necessary to process numerous cases for unorthodox well locations or to relax the exterior and interior footage setback requirements.

(5) The current well location requirements for wells in the Basin-Fruitland Gas Pool are not the same as the current well location regulations for wells in the Blanco-Mesaverde Gas Pool or the Pictured Cliffs pools.

(6) Effective February 1, 1999, Division Order R-10987-A amended the Blanco-Mesaverde Gas Pool Rules to (a) change the initial and infill well location boundary requirements from not closer than 790 feet to not closer than 660 feet to any outer boundary of a quarter section and (b) from not closer than 130 feet to not closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(7) As a result of the different well location requirements for each of these pools, the drilling of a Mesaverde well at a standard location can be unorthodox in the Fruitland Coal Gas Pool.

(8) In addition, effective August 31, 1999, the Division entered Order R-11231 which, among other things, amended the well location requirements for certain gas wells spaced on "statewide spacing rules" so they could be located not closer than 660 feet to an outer boundary and not closer than 10 feet to an interior quarter-quarter section line.

(9) These differences require both the Division and the operator to process administrative non-standard location applications for the Basin-Fruitland Coal Gas wells which otherwise are not necessary.

(10) To the best of Burlington's knowledge, few, if any, of the administrative applications filed to obtain unorthodox coal gas well locations closer than 790 feet but not closer than 660 feet to the outer boundary of the quarter section have either been protested or denied.

(11) It is an unnecessary administrative burden on both the operators and the Division to process this type coal gas well location exception for which there has been few if any objections.

(12) It is in the best interests of conservation to establish uniform well locations requirements for the gas producing formations currently spaced on 160-acre and 320-acre gas spacing units in the Northwestern portion of New Mexico.

(13) Accordingly, Burlington desires that the Division amend the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool to modify well location requirements as follows:

"Rule 7. Well Location Requirements:

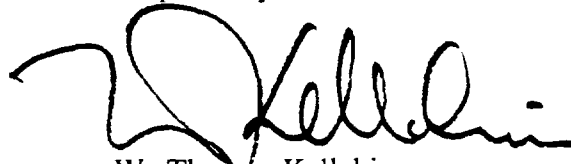
- (a) Wells drilled or recompleted within the Basin-Fruitland Coal Gas Pool shall be located in the NE/4 or the SW/4 of a single governmental section and shall be located no closer than 660 feet to any outer boundary of a spacing unit nor closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary.
- (b) Wells located within federal exploratory units shall not be closer than 10 feet to any section, quarter section or interior quarter-quarter section line or subdivision inner boundary, except that wells located within one-half mile of the outer boundary of any such unitized area shall not be closer than permitted by subparagraph (a) above."

(14) In accordance with Division Order R-11205, effective July 15, 1999, copies of this application have been sent to all operators in the pool.

(15) Approval of this application is in the best interests of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE Applicant requests that this matter be set for hearing on November 18, 1999 before a duly appointed Examiner of the Oil Conservation Division and that after hearing is matter, the Division enter its order granting this application.

Respectfully submitted

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

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Exhibit 2