

BEFORE THE NEW MEXICO OIL CONSERVATION COMMISSION

APPLICATION OF PRESTON EXPLORATION
COMPANY, L.P. FOR COMPULSORY POOLING
AND APPROVAL OF A NON-STANDARD OIL
SPACING AND PRORATION UNIT, LEA
COUNTY, NEW MEXICO.

No. 12780

APPLICATION

Preston Exploration Company, L.P. applies for an order pooling all mineral interests from the surface to the base of the Strawn formation underlying Lot 3 of Section 4, Township 17 South, Range 38 East, N.M.P.M., Lea County, New Mexico, and approving a non-standard oil spacing and proration unit, and in support thereof, states:

1. Applicant is a working interest owner in Lot 3 of Section 4, and has the right to drill a well thereon.

2. Applicant proposes to drill its E.S. Schapp Well No. 1, at an orthodox bottomhole location in Lot 3 (Unit C) of the section, and seeks to dedicate Lot 3 of Section 4 to the well for all pools or formations developed on 40-acre spacing within that vertical extent.

3. Applicant requests approval of a non-standard 38.08 acre oil spacing and proration unit for the well. The non-standard unit is due to a variation in the government survey.

4. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in Lot 3 of Section 4 for the purposes set forth herein.

5. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the

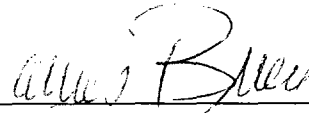
drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, applicant seeks an order pooling all mineral interest owners in Lot 3 of Section 4, pursuant to NMSA 1978 §70-2-17.

6. The pooling of all mineral interests underlying Lot 3 of Section 4 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, Applicant requests that, after notice and hearing, the Division enter its order:

- A. Pooling all mineral interests in Lot 3 of Section 4, from the surface to the base of the Strawn formation;
- B. Approving a non-standard 38.08 acre oil spacing and proration unit;
- C. Designating Preston Exploration, L.L.C. as operator of the well;
- D. Considering the cost of drilling and completing the well, and allocating the cost thereof among the well's working interest owners;
- E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates as provided in the COPAS accounting procedure; and
- F. Setting a penalty for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Bruce", is written over a horizontal line.

James Bruce
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Attorney for Preston Exploration
Company, L.P.