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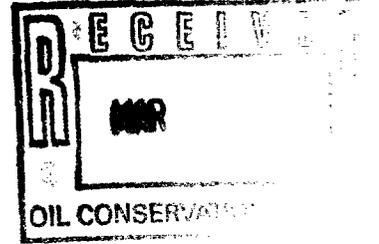
W. THOMAS KELLAHIN*

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May 2, 1994



HAND DELIVERED

10979

Mr. Michael E. Stogner
Chief Hearing Examiner
Oil Conservation Division
310 Old Santa Fe Trail, Room 219
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Carlsbad "7" Well No. 1
W/2 Sec. 7, T22S, R27E, NMPM
Application of Naumann Oil & Gas, Inc.
for Compulsory Pooling, an Unorthodox Well location
and a Non-Standard Gas Proration and Spacing Unit,
Eddy County, New Mexico

Dear Mr. Stogner:

On behalf of Naumann Oil & Gas, Inc., please find enclosed our application for compulsory pooling, including an unorthodox gas well location and a non-standard proration unit, which we request be set for hearing on the Examiner's docket now scheduled for May 26, 1994. Also enclosed is our proposed notice of publication for this case.

Oil Conservation Division

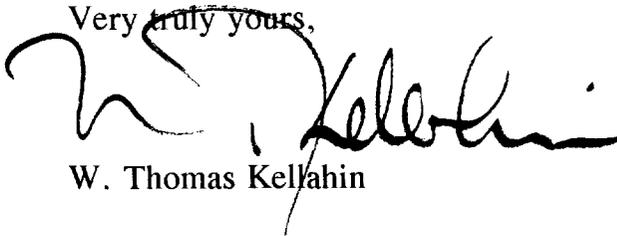
May 2, 1994

Page 2.

By separate letter to all affected parties, we are notifying them by certified mail-return receipt requested, that they have the right to appear at the hearing, to make a statement to the Division, to present evidence and cross-examine witnesses either in support of or in opposition to the application.

In addition, pursuant to the Division's Memorandum 2-90, all interested parties will be informed that if they appear in the case, then they are requested to file a Pre-Hearing Statement with the Division not later than 4:00 pm on Friday, May 20, 1994, with a copy delivered to the undersigned.

Very truly yours,

A handwritten signature in black ink, appearing to read "W. Thomas Kellahin". The signature is written in a cursive style with a large initial "W" and a long horizontal stroke at the end.

W. Thomas Kellahin

Enclosures

cc: Naumann Oil & Gas, Inc.

cc: David N. Frye

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

IN THE MATTER OF THE APPLICATION
OF NAUMANN OIL & GAS, INC.,
FOR COMPULSORY POOLING,
AN UNORTHODOX GAS WELL LOCATION AND A
NON-STANDARD GAS PRORATION AND SPACING UNIT,
EDDY COUNTY, NEW MEXICO.

CASE NO. 10979

APPLICATION

Comes now NAUMANN OIL & GAS, INC., by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17(c) (1978) applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests in the Strawn formation underlying the W/2 of Section 7, T22S, R27E, NMPM, Eddy County, New Mexico, forming a non-standard 307.02-acre gas spacing and proration unit for the Strawn formation which currently includes but is not necessarily limited to the Undesignated Carlsbad-Strawn Gas Pool. Said unit is to be dedicated to the Carlsbad "7" Well No. 1 which is located at an unorthodox gas well location 760 feet FSL and 690 feet FWL (Unit M) of said Section 7 and was originally drilled as a Morrow formation gas well in the South Carlsbad-Morrow Gas Pool and subsequently plugged and abandoned. Also to be considered will be the value of the existing wellbore and the costs of drilling and completing said well and the allocation of the value and costs

thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well.

In support of its application, Naumann Oil & Gas, Inc. ("Naumann") states:

1. Naumann has acquired ownership of the wellbore known as the Carlsbad "7" Well No 1. which is a plugged and abandoned well formerly drilled to the Morrow formation. Naumann has a working interest ownership in the oil and gas minerals underlying the W/2 of Section 7, T22S, R27E, NMPM, Eddy County, New Mexico. See plat attached as Exhibit "A."

2. The Carlsbad "7" Well No 1 was originally drilled by C & K Petroleum in accordance with Division Order R-5451 entered on July 5, 1997 in Case 5939 which order approved the unorthodox gas well location 760 feet FSL and 690 feet FWL of said Section 7 and the compulsory pooling of "all mineral interests in the Pennsylvanian formation underlying the W/2 of Section 7, T22S, R27E, NMPM, South Carlsbad Field, Eddy County, New Mexico."

3. On March 22, 1994, Naumann proposed the re-entry of the Carlsbad "7" Well No. 1 to all interest owners in the proposed spacing unit and invited each interest owner to participate on a voluntary basis by each paying his/her proportionate share of the value of the existing wellbore and the costs of to re-enter and complete of said well as a Strawn gas well.

4. All of the working interest ownership of the oil & gas minerals Strawn formation underlying W/2 of said Section 7 have voluntarily agreed to the formation of this spacing unit and to participation in this re-entry except for those parties identified and described on Exhibit "B" attached hereto.

5. Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, Naumann needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

6. In accordance with the Division's notice requirements, a summary of this application and notice of this hearing will be sent to the operator, or in the absence of an operator the owners of interest in the Strawn spacing units towards which the subject well encroaches. See Exhibit "C"

7. In accordance with the Division's notice requirements, a summary of this application and notice of this hearing will be sent to the interest parties listed in Exhibit "B" and Exhibit "C" to this application notifying them of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for May 26, 1994.

WHEREFORE, Naumann Oil & Gas, Inc., as applicant, requests that this application be set for hearing on May 26, 1994 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in this spacing unit for the drilling of the subject well at the proposed well location upon terms and conditions which include:

(1) Naumann Oil & Gas, Inc. be named operator;

(2) The order make provisions for applicant and all working interest owners to participate in reimbursing Naumann for the value of the existing wellbore and the costs of re-entering, completing, equipping and operating the well;

(3) In the event a working interest owner fails to elect to participate, then provision be made to recover out of production, reimbursement for the value of the existing wellbore and the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200 %;

(4) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written in a cursive style.

W. THOMAS KELLAHIN
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