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JUL 10 1997

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July 10, 1997
(Our File No. 97-1.75)

MICHAEL J. CONDON

HAND-DELIVERED

Michael E. Stogner
Chief Hearing Examiner
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505

HAND-DELIVERED

Rand Carroll, Esq.
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505

Re: Application of Doyle Hartman, Case No. 6987 and Case No. 11792

Gentlemen:

Please accept this letter as our statement of what we perceive to be the proper scope of the evidentiary hearing which the Division, at the hearing on June 30, 1997, ruled it would set in this matter. We address the scope of the inquiry into the prudence of Oxy's MLMU operation as requested by Examiner Stogner.

We believe the scope of the inquiry under the prudence of Oxy's MLMU operation should generally track the factors set forth in NMSA 1978, § 70-7-6(A)(1) through (4) and (6) as follows:

- (1) that the unitized management, operation and further development of the oil or gas pool or a portion thereof is reasonably necessary in order to effectively carry on pressure maintenance or secondary or tertiary recovery operations, to substantially increase the ultimate recovery of oil and gas from the pool;
- (2) that the method of operation by Oxy as applied to such pool or portion thereof is feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil and gas from the pool or unitized portion thereof than would otherwise be recovered;
- (3) that the estimated additional costs, if any, of conducting such operations will not exceed the estimated value of the additional oil and gas so recovered plus a reasonable profit;
- (4) that Oxy's continued method of operation will benefit the working interest owners and royalty owners of the oil and gas rights within the pool or portion thereof directly affected;

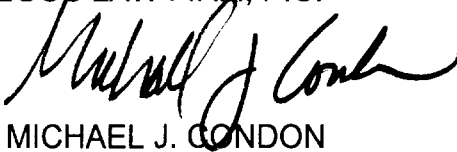
Michael E. Stogner
Rand Carroll
July 10, 1997
Page 2

- (6) whether in light of the 40-acre five spot pilot program inaugurated in 1994 the participation factors allocate the produced and saved unitized hydrocarbons to the separately owned tracts in the unit area on a fair, reasonable and equitable basis.

As previously stated by counsel for both sides, the Examiner's expression of the parameters of inquiry will greatly assist in guiding pre-hearing discovery and we await such direction. If you have any questions or need any additional information, please feel free to contact us.

Very truly yours,

GALLEGOS LAW FIRM, P.C.

By 
MICHAEL J. CONDON

MJC:sa

cc: William F. Carr
Thomas Kellahin
fxc: Doyle Hartman
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