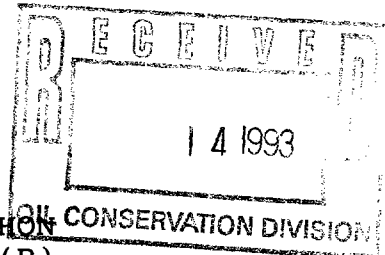


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:



APPLICATION OF CONOCO INC. AND MARATHON
OIL COMPANY FOR EXCEPTIONS TO RULE 5(B)
OF THE SPECIAL RULES AND REGULATIONS FOR THE
SOUTH DAGGER DRAW UPPER PENNSYLVANIAN POOL,
(DIVISION ORDER R-5353), OR IN THE ALTERNATIVE,
FOR THE CREATION OF A NEW POOL WITH THE ADOPTION OF
SPECIAL RULES FOR SAID POOL, EDDY COUNTY, NEW MEXICO.

CASE NO. 16848

A P P L I C A T I O N

Comes now Conoco Inc. and Marathon Oil Company, by their attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation for an amendment of Rule 5(b) of the Special Rules and Regulations of the South Dagger Draw Upper Pennsylvanian Pool (Division Order R-5353), or in the alternative for the creation of a New Pool and the Adoption of Special Rules therefor and in support thereof states:

(1) There is an extensive hydrocarbon reservoir in Eddy County, New Mexico currently subdivided into various pools, the southern portion of which is upstructure and is classified as a gas pool being designated as the "Indian Basin Upper Pennsylvanian Gas Pool." Just north

of Indian Basin is a portion of this reservoir which is down structure, is classified as an associated oil-gas pool being designated as the South Dagger Draw-Upper Penn Pool.

(2) There exist a special "transition" area, being the southern most portion of the South Dagger Draw Upper Penn Pool and the area between that pool and the current northern boundary for the Indian Basin Upper Penn Pool in which there is a transition from oil production to gas production.

(3) This transition area is currently defined as including Sections 34, 35 and 36, T20S, R24E and Sections 34, 35 and 36, T20-1/2S, R23E, Eddy County, New Mexico, and is identified on Exhibit "A".

(4) Conoco Inc. and Marathon Oil Company operate both gas wells and oil wells in the transition area.

(5) The current rules for the Indian Basin Upper Penn Gas Pool provide for 640-acre gas spacing and proration units with the option for multiple gas wells in a single such unit.

(6) The current rules for the South Dagger Draw-Upper Penn Pool provide for 320-proration and spacing units with the option for multiple oil wells BUT preclude the simultaneous dedication of both oil and gas wells to the same unit. (See applicable Rule 5(b) of Associated Pool Rules (Order R-5353)).

(7) Within the Transition Area, the application of Rule 5(b) of R-5353 has and will continue to be an unnecessary limitation on the orderly development of the reservoir.

(8) Within the Transition Area, an exception to Rule 5(b) of R-5353 can be made thereby authorizing the simultaneous dedication of both gas wells and oil wells to the same spacing unit provided a limiting gas allowable is set on the gas wells.

(9) The current South Dagger Draw Pool Rules establish allowables of 1400 BOPD with a corresponding gas limit of 1,400 MCFPD per 320-acre spacing and proration unit.

(10) The current maximum allowable for a non-marginal well in the Indian Basin-Upper Penn Pool is 6,500 MCFPD.

(11) Based upon current data, the maximum gas allowable for a spacing unit in either pool is excessive for an individual gas well in the Transition Area and may cause a reduction in ultimate oil recovery.

(12) A new maximum gas allowable should be set for any gas well in the Transition Area which would provide an adequate limitation of gas withdrawals from the reservoir such that multiple gas wells in a spacing unit could be produced simultaneously with any oil wells in that same spacing unit without adverse affect on ultimate oil recovery.

(13) The Applicants' propose that a new Rule 5(c) be added to Order R-2323 to provide an exception to Rule 5(b) only for the Transition Area, as identified in paragraph (3) above, that shall include appropriate language to accomplish the following:

- (a) A maximum combination of eight oil and gas wells may be simultaneously dedicated to a 320-acre spacing and proration unit in the Transition Area;
- (b) A new maximum gas allowable shall be set for any gas well in the Transition Area to avoid any adverse affect on ultimate oil recovery;
- (c) The combined gas production from both oil and gas wells in a 320-acre spacing and proration unit in the Transition Area shall not exceed the maximum casinghead gas allowable of 1,400 MCFPD currently established for the South Dagger Draw-Upper Penn Pool.

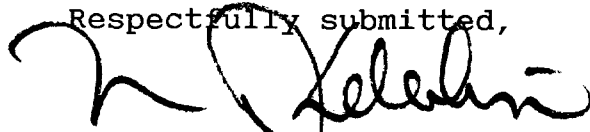
(14) In the alternative, Applicants' propose that a new pool be created for the Transition Area with the adoption of Special Rules and Regulations, including those set forth in Order R-5353 but modified to delete current Rule 5(b) and to substitute a new Rule 5(b) containing provisions as described in paragraph (13) above.

(15) Notification of this application and request for hearing to be held on October 7, 1993 has been sent by certified mail return receipt to those parties identified on Exhibit "B" attached.

Conoco, Inc. and
Marathon Oil Company
NMOCD Application
Page 5

Wherefore, Applicants' request that, after notice
and hearing, this application be granted.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the typed name.

W. Thomas Kellahin
Kellahin & Kellahin

