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W. THOMAS KELLAHIN*

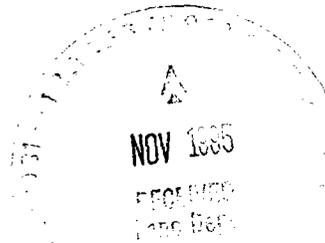
*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

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November 6, 1995

HAND DELIVERED



RECEIVED
NOV 6 1995
Oil Conservation Division

Mr. William J. LeMay, Director
Oil Conservation Division
2040 S. Pacheco
Santa Fe, New Mexico 87505

Re: Hill Federal Well No. 2Y
N/2 Section 25, T25N, R2W, NMPM
Application of Southland Royalty Company for
Compulsory Pooling, Rio Arriba County, New Mexico

Dear Mr. LeMay:

On behalf of Southland Royalty Company, please find enclosed our application for compulsory pooling which we request be set for hearing on the next available Examiner's docket now scheduled for December 7, 1995.

Also enclosed is our proposed notice of publication for this case.

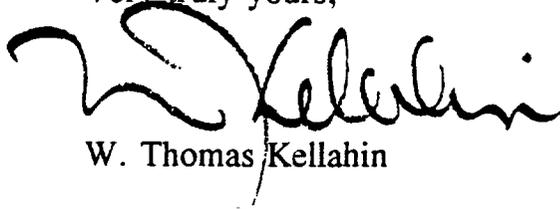
By copy of this letter, including the application, to all affected parties, we are notifying them by certified mail-return receipt requested, that they have the right to appear at the hearing, to make a statement to the Division, to present evidence and cross-examine witnesses either in support of or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

Oil Conservation Division
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Page 2.

While you are not required to attend this hearing, you are advised that failure to appear at that time and become a party of record could preclude you from challenging the matter at a later date.

Pursuant to the Division's Memorandum 2-90, all interested parties are hereby 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, December 1, 1995, with a copy delivered to the undersigned.

Very truly yours,



W. Thomas Kellahin

Enclosure

cc: Southland Royalty Company

BY CERTIFIED MAIL-RETURN RECEIPT REQUESTED

to: Parties listed in Application

PROPOSED ADVERTISEMENT FOR NMOCD DOCKET

CASE ___: Application of Southland Royalty Company for compulsory pooling, Rio Arriba County, New Mexico. Applicant seeks an order pooling all mineral interests in the Blanco Mesaverde Gas Pool underlying the N/2 of Section 25, T25N, R2W, NMPM, Rio Arriba County, New Mexico, forming a standard 320-acre spacing and proration unit. Said unit is to be dedicated to Southland Royalty Company's Hill Federal Well No. 2Y which is an existing Dakota/Mancos well to be recompleted in the Mesaverde formation at a standard gas well location. Also to be considered will be the costs of participation in said well, including but not limited to the costs of recompleting, the allocation of those costs and income therefor as well as actual operating costs and charges for supervision, a charge for risk involved in recompleting said well and the designation of applicant as the operator of the well. Said well is located approximately 2-1/2 miles southeast of Gavilan, New Mexico.

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

IN THE MATTER OF THE APPLICATION
OF SOUTHLAND ROYALTY COMPANY
FOR COMPULSORY POOLING,
RIO ARRIBA COUNTY, NEW MEXICO.

CASE NO. _____

A P P L I C A T I O N

Comes now SOUTHLAND ROYALTY COMPANY, 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, including record title owners, in the Blanco Mesaverde Gas Pool underlying the N/2 of Section 25, T25N, R2W, NMPM, Rio Arriba County, New Mexico, forming standard 320-acre spacing and proration unit. Said unit is to be dedicated to Southland Royalty Company's Hill Federal Well No. 2Y which is an existing Mancos/Dakota well located 1760 feet FEL and 1710 feet FNL of said Section and is to be recompleted to test for production from the Mesaverde formation. Also to be considered will be the costs of participation in said well, including but not limited to the costs of recompletion, the allocation of those costs and income therefor as well as actual operating costs and charges for supervision, a charge for the risk involved in recompleting and the designation of applicant as the operator of the well.

In support of its application, Southland Royalty Company ("Southland") states:

1. Southland is the operator of the Hill Federal Well No. 2Y which is an existing Mancos/Dakota well which Meridian proposes to recomplete into the Blanco Mesaverde Gas Pool and to which will be dedicated a spacing and proration unit consisting of the N/2 of Section 25, T25N, R2W, NMPM, Rio Arriba County, New Mexico. See Exhibit "A" attached.

3. Southland has proposed to the other interest owners in this spacing unit the voluntary formation of a 320-acre spacing unit consisting of the N/2 of said Section 31 to be dedicate to the subject well if the proposed recompletion is successful.

5. Despite its good faith efforts, Southland has been unable to obtain a written voluntary agreement from the record title and working interest owners as identified on Exhibit "B" attached hereto.

6. Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of past and future production from the subject well and this spacing unit, Southland needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

7. In accordance with the Division's notice requirements, a copy of this application has been sent to all interest owners as shown on Exhibit "B" attached.

8. Southland requests that this matter be set for a hearing before the Division on the next available Examiner's docket now scheduled for December 7, 1995.

WHEREFORE, Southland, as applicant, requests that this application be set for hearing on December 7, 1995 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 recompleting and operating the subject well at a standard gas well location upon terms and conditions which include:

(1) Southland Royalty Company be named operator;

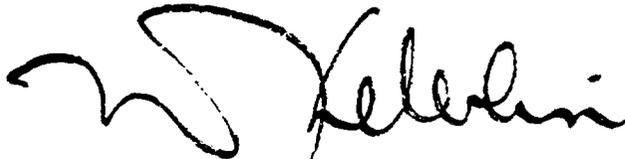
(2) provisions for each working interest owner to participate in any Blanco Mesaverde Gas Pool production by reimbursing the applicant for the costs of recompleting, equipping and operating said well;

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

(4) Provision for overhead rates of \$4950.05 per month drilling and \$494.98 per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS; and

(5) 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
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285
ATTORNEYS FOR APPLICANT

