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*NOT LICENSED IN NEW MEXICO

January 21, 1997

Hand Delivered

Michael E. Stogner
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: OCD Case No. 11698; Application of Mallon Oil Company for
compulsory pooling (SE4/NE4 S28-26S-29E)

Dear Mr. Stogner:

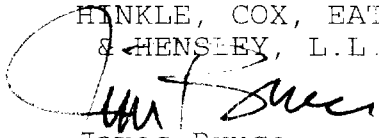
As you requested at the hearing, enclosed are the following:

1. A copy of the survey of Section 28 is attached as Exhibit A. The well unit is highlighted in yellow, and the acreage of Red Bluff Water Power Control District ("Red Bluff") is cross-hatched.
2. Red Bluff is an agency of the State of Texas. However, its interest in the well unit arises from United States Oil and Gas Lease NM 71599 (attached as Exhibit B). Thus, Mallon seeks to force pool Red Bluff's working interest in the well unit.
3. Mallon also had to force pool Red Bluff in Case No. 9458, involving Unit L of Section 27. Copies of Order Nos. R-8773 and R-8773-A are attached as Exhibits C and D. Another Mallon pooling case in this area involved Unit B of Section 28 (Order Nos. R-9124 and R-9124-A).

Please call me if you have any questions.

Very truly yours,

HINKLE, COX, EATON, COFFIELD
& HENSLEY, L.L.P.


James Bruce

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ROSWELL, NEW MEXICO 88202
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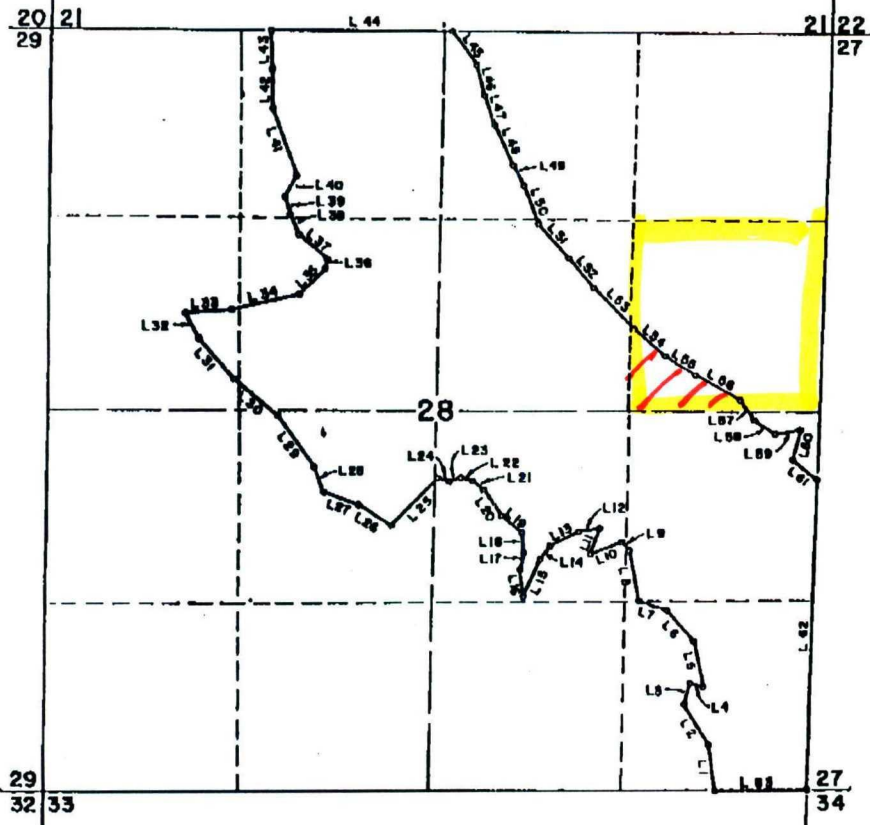
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SECTION 28, TOWNSHIP 26 SOUTH, RANGE 29 EAST, N.M.P.M., EDDY COUNTY, NEW MEXICO



SUBDIVISION	RED BLUFF ACREAGE	MALLON ACREAGE
NW 1/4 NE 1/4	11.384 Ac.	29.040 Ac.
SW 1/4 NE 1/4	34.497 Ac.	5.692 Ac.
SE 1/4 NE 1/4	5.686 Ac.	34.464 Ac.
NE 1/4 NW 1/4	33.672 Ac.	6.891 Ac.
SE 1/4 NW 1/4	34.171 Ac.	6.154 Ac.
SW 1/4 NW 1/4	2.773 Ac.	37.362 Ac.
NE 1/4 SW 1/4	13.429 Ac.	26.701 Ac.
NW 1/4 SE 1/4	23.735 Ac.	16.248 Ac.
SW 1/4 SE 1/4	36.991 Ac.	2.918 Ac.
SE 1/4 SE 1/4	24.117 Ac.	15.572 Ac.

LINE NO.	BEARING	DISTANCE	LINE NO.	BEARING	DISTANCE
1	N 07°47'46" W	318.71'	31	N 41°17'30" W	369.33'
2	N 31°51'34" W	322.84'	32	N 26°42'54" W	191.30'
3	N 19°24'12" E	142.02'	33	N 86°30'02" E	319.19'
4	N 76°29'31" E	93.51'	34	N 78°46'00" E	476.44'
5	N 11°53'54" W	322.51'	35	N 43°16'28" E	250.60'
6	N 41°01'30" W	290.17'	36	N 13°13'33" E	60.77'
7	N 72°36'27" W	205.76'	37	N 48°48'32" W	265.40'
8	N 09°43'20" W	306.19'	38	N 24°16'30" W	142.92'
9	N 43°09'26" W	83.26'	39	N 15°04'01" W	134.32'
10	N 64°59'07" W	236.75'	40	N 29°28'31" E	171.91'
11	N 21°04'45" E	193.39'	41	N 28°03'41" E	499.12'
12	N 81°16'58" W	148.31'	42	N 00°56'01" W	273.84'
13	N 62°12'11" W	225.36'	43	N 01°44'03" W	172.34'
14	N 38°44'45" W	114.75'	44	N 89°43'00" E	1252.33'
15	N 23°22'11" W	294.68'	45	N 33°37'30" E	285.44'
16	N 04°39'13" E	192.79'	46	N 14°26'04" E	225.92'
17	N 15°04'32" E	128.23'	47	N 19°11'55" E	217.23'
18	N 04°42'13" W	141.92'	48	N 24°42'20" E	307.12'
19	N 31°09'36" W	167.93'	49	N 28°35'30" E	133.31'
20	N 34°21'08" W	213.19'	50	N 20°28'01" E	288.64'
21	N 31°30'36" W	102.96'	51	N 43°09'31" E	314.14'
22	N 72°44'53" W	85.28'	52	N 39°23'23" E	278.19'
23	N 61°34'08" W	86.62'	53	N 46°15'21" E	386.47'
24	N 69°39'35" W	91.28'	54	N 48°22'30" E	290.88'
25	N 43°38'34" W	433.89'	55	N 37°47'09" E	247.66'
26	N 58°14'44" W	270.01'	56	N 64°06'19" E	335.37'
27	N 70°36'56" W	234.53'	57	N 33°24'28" E	178.78'
28	N 19°23'40" W	186.30'	58	N 33°31'30" E	190.82'
29	N 35°09'10" W	432.39'	59	N 78°34'18" E	181.17'
30	N 59°25'54" W	392.03'	60	N 14°37'36" W	226.36'
			61	N 32°47'11" E	211.96'
			62	N 01°38'00" W	2149.80'
			63	N 89°47'00" W	643.30'

NOTE: A drawing was prepared for a tract in Section 28, Township 26 South, Range 29 East, N.M.P.M., by platting the field notes furnished by Red Bluff Water Power Control District on a U.S. General Land Office section plat. The notes were prepared by H.R. Hume and were approved by the U.S. Bureau of Land Management on August 4, 1937. Due to an error or errors in the survey or the typed description of the survey, the tract with 83 sides did not close by 246.00 feet. A copy of this plat labeled "Exhibit A" is attached.

The drawing shown on this page is an office drawing which graphically portrays what was intended in the original field notes. We have held the section line (L. 44) on the south and east section lines and adjusted the distance to force a closure that will contain the 220.24 feet as called for in the field notes. Obviously, we do not certify that the drawing is correct.

John W. West, N.M. P.M. & L.S. No. 676
Towns N.P.M. 1138

REV. 9-20-91 645

GP II ENERGY

Red Bluff Water and Power Control District
Subdivision Acreage in Section 28, Township
26 South, Range 29 East, N.M.P.M., Eddy
County, New Mexico.

JOHN W. WEST ENGINEERING COMPANY
CONSULTING ENGINEERS HOBBS, NEW MEXICO

Scale: 1" = 1000'

Drawn By: M. Mitchell

Date: 11/17/88 Cr. Sch

Sheet 1 of 1 Sheets

EXHIBIT

A

Jim Ed Miller
447-2833
Pecos, TX.

111 W. 2nd
Pecos
79775

4452037

Form 100-11
(August 1987)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Serial No. NM NM 71599
3109 (9430-2d)

OFFER TO LEASE AND LEASE FOR OIL AND GAS

The undersigned (reverse) offers to lease all or any of the lands in Item 2 that are available for lease pursuant to the Mineral Leasing Act of 1920 (40 U.S.C. 181 et seq.), the Mineral Leasing Act for Acquired Lands (30 U.S.C. 351-359), the Attorney General's Opinion of April 2, 1941 (40 Comp. Gen. 41). Signatory certifies compliance with qualifications concerning Federal coal lease; holdings provided in Sec. 2(a)(2)(A) of the Mineral Leasing Act.

Read Instructions Before Completing

1. Name Red Bluff Water Power Control District
Street c/o Jennings, Losae and Carson
Box 1180
City, State, Zip Code Roswell, NM 88202-1180

RECEIVED
BUR. OF LAND MGMT.
N.M.S.O. SANTA FE
MAR 23 1988 PM
7:30 PM 1,2,3,4,5,6

2. This offer lease is for (Check Only One) ☒ PUBLIC DOMAIN LANDS ☐ ACQUIRED LANDS (percentage interest)

Surface Managing agency if other than BLM: Unit/Project

Legal description of land requested:

Section Meridian State County

Amount returned: Filing fee \$ Rental fee \$ Total \$

DO NOT WRITE BELOW THIS LINE.

3. Land included in lease:

1 26 S., R. 29 E., Meridian NMP State New Mexico County Eddy

Parcel 2 - 38.50 acres

Parcel 3 - 220.50 acres

(see description by courses and distances attached)

DESCRIPTION
Amended
TO include parcel 1
(SEE DISCUSSION OF
5/6/88)

*TERM: For a period not to exceed twenty (20) years;
Subject to any unit agreement heretofore or hereafter
approved by the Secretary of the Interior the provisions
of said agreement to govern the lands subject thereto where
inconsistencies with the terms of this lease occur.

365.90
Total acres in lease 259.00
Rental returned \$ 259.00

In accordance with the above offer, or the previously submitted simultaneous oil and gas lease application or competitive bid, this lease is issued granting the nonexclusive right to conduct oil and geophysical exploration, and the exclusive right to drill for, mine, extract, remove and dispose of all the oil and gas (except helium) in the lands described in item 3 together with the right to build and maintain necessary improvements thereupon for the term indicated below, subject to renewal or extension in accordance with the appropriate leasing authority. Rights granted are subject to applicable laws, the terms, conditions, and associated stipulations of this lease, the Secretary of the Interior's regulations and formal orders in effect as of lease issuance, and to regulations and formal orders hereafter promulgated when not inconsistent with lease rights granted or specific provisions of this lease.

Type and primary term of lease:

THE UNITED STATES OF AMERICA

by Marshall A. Quinn
Signing Officer

Chief, Mineral Leasing Unit 1 3-29-88
(Date)

EFFECTIVE DATE OF LEASE April 1, 1988

Simultaneous noncompetitive lease (ten years)

Regular noncompetitive lease (ten years)

Competitive lease (five years)

X either Right-of-Way Lease (20 years)

EXHIBIT

B

4. (a) Undersigned certifies that (1) offeror is a citizen of the United States; an association of such citizens; a municipality; or a corporation organized under the laws of the United States or of any State or Territory thereof; (2) all parties holding an interest in the offer are in compliance with 43 CFR 3100 and the leasing authorities; (3) offeror's chargeable interests, direct and indirect, in either public domain or acquired lands do not exceed 200,000 acres in oil and gas options or 146,080 acres in options and leases in the same State, or 300,000 acres in leases and 200,000 acres in options in either leasing District in Alaska; and (4) offeror is not considered a minor under the laws of the State in which the lands covered by this offer are located.

(b) Undersigned agrees that signature to this offer constitutes acceptance of this lease, including all terms, conditions, and stipulations of which offeror has been given notice, and any amendment or separate lease that may include any land described in this offer open to leasing at the time this offer was filed but omitted for any reason from this lease. The offeror further agrees that this offer cannot be withdrawn, either in whole or part, unless the withdrawal is received by the BLM State Office before this lease, an amendment to this lease, or a separate lease, whichever covers the land described in the withdrawal, has been signed on behalf of the United States.

This offer will be rejected and will afford offeror no priority if it is not properly completed and executed in accordance with the regulations, or if it is not accompanied by the required payments, 18 U.S.C. Sec. 1001 makes it a crime for any person knowingly and willfully to make to any Department or Agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

Red Bluff Water Power Control District

Duly executed this 14th day of March

19 88

by: W. L. Fuller

W. L. Fuller, President

(Signature of Lessee or Attorney-in-Fact)

LEASE TERMS

Sec. 1. Rentals—Rentals to be paid to proper office of lessor in advance of each lease year. Annual rental rates per acre or fraction thereof are:

- (a) Simultaneous noncompetitive lease, \$1.00 for the first 3 years, thereafter, \$3.00.
- (b) Regular noncompetitive lease, \$1.00;
- (c) Competitive lease, \$2.00; or
- (d) Other, see attachment.

If all or part of a noncompetitive leasehold is determined to be within a known geological structure or a favorable petroleum geological province, annual rental shall become \$2.00, beginning with the lease year following notice of such determination. However, a lease that would otherwise be subject to rental of more than \$2.00 shall continue to be subject to the higher rental.

If this lease or a portion thereof is converted to an approved competitive or unit plan which includes a well capable of producing leased resources, and the plan contains a provision for disposition of production, royalties shall be paid on the production allocated to this lease. However, annual rentals shall continue to be due at the rate specified in (a), (b), (c), or (d) for those lands not within a participating area.

Failure to pay annual rental, if due, on or before the anniversary date of this lease (or next official working day if office is closed) shall automatically terminate this lease by operation of law. Rentals may be waived, reduced, or suspended by the Secretary upon a sufficient showing by lessee.

Sec. 2. Royalties—Royalties shall be paid to proper office of lessor. Royalties shall be computed in accordance with regulations on production removed or sold. Royalty rates are:

- (a) Simultaneous noncompetitive lease, 12 1/2 %;
- (b) Regular noncompetitive lease, 12 1/2 %;
- (c) Competitive lease, see attachment; or
- (d) Other, see attachment.

Lessee reserves the right to specify whether royalty is to be paid in value or in kind, and the right to establish reasonable minimum values on products after giving lessee notice and an opportunity to be heard. When paid in value, royalties shall be due and payable on the last day of the month following the month in which production occurred. When paid in kind, production shall be delivered, unless otherwise agreed to by lessee, in merchantable condition on the premises where produced without cost to lessee. Lessee shall not be required to hold such production in storage beyond the last day of the month following the month in which production occurred, nor shall lessee be held liable for loss or destruction of royalty oil or other products in storage from causes beyond the reasonable control of lessee.

Minimum royalty shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Lessee shall pay such difference at end of lease year. This minimum royalty may be waived, suspended, or reduced, and the above royalty rates may be reduced, for all or portions of this lease if the Secretary determines that such action is necessary to encourage the greatest ultimate recovery of the leased resources, or is otherwise justified.

An interest charge shall be assessed on late royalty payments or underpayments in accordance with the Federal Oil and Gas Royalty Management Act of 1983 (FOGRMA) (96 Stat. 2447). Lessee shall be liable for royalty payments on oil and gas lost or wasted from a lease site when such loss or waste is due to negligence on the part of the operator, or due to the failure to comply with any rule, regulation, order, or custom issued under FOGRMA or the leasing authority.

Sec. 3. Bonds—Lessee shall file and maintain any bond required under regulations.

Sec. 4. Diligence, rate of development, utilization, and drainage—Lessee shall exercise reasonable diligence in developing and producing, and shall prevent unnecessary damage to, loss of, or waste of leased resources. Lessor reserves right to quantify rate of development and production in the public interest and to require lessee to subordinate to a cooperative or unit plan, within 90 days of notice, if deemed necessary for proper development and operation of area, field, or pool embracing these leased lands. Lessee shall drill and produce wells necessary to protect leased lands from drainage or pay compensatory royalty for drainage in amount determined by lessee.

Sec. 5. Discoveries, evidence, and inspection—Lessee shall file with proper office of lessor, not later than 30 days after effective date thereof, any contract or evidence of other arrangements for sale or disposal of production. At such time and in such form as lessor may prescribe, lessee shall furnish detailed statements showing amounts and quality of all products removed and sold, proceeds therefrom, and amount used for production purposes or nonproduction use. Lessee may be required to provide plans and schematic diagrams showing development work and improvements, and reports with respect to parties in interest, operations, and development costs. In the form prescribed by lessor, lessee shall keep a daily drilling record, a log, information on well surveys and logs, and a record of surface investigations and furnish copies to lessor when required. Lessee shall keep open at all reasonable times for inspection by any authorized officer of lessor, the leased premises and all wells, improvements, machinery, and fixtures thereon, and all books, accounts, maps, and records relative to operations, surveys, or investigations on/over the leased lands. Lessee shall maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that

support costs claimed in manufacturing, preparation, and/or transportation costs. All such records shall be maintained in lessor's accounting offices for future audit by lessor. Lessee shall maintain required records for 6 years after they are generated or, if an audit or investigation is underway, until released of the obligation to maintain such records by lessor.

During existence of this lease, information obtained under this section shall be closed to inspection by the public in accordance with the Freedom of Information Act (5 U.S.C. 552).

Sec. 6. Conduct of operations—Lessee shall conduct operations in a manner that maintains adverse impacts to the land, air, and water, to cultural, biological, visual, and other resources, and to other land uses or users. Lessee shall take reasonable measures deemed necessary by lessor to accomplish the intent of this section. To the extent consistent with lease rights granted, such measures may include, but are not limited to, modification to siting or design of facilities, timing of operations, and specification of interim and final reclamation measures. Lessor reserves the right to continue existing uses and to authorize future uses upon or in the leased lands, including the approval of easements or rights-of-way. Such uses shall be conditioned so as to prevent unnecessary or unreasonable interference with rights of lessee.

Prior to disturbing the surface of the leased lands, lessee shall contact lessor to be apprised of procedures to be followed and modifications or reclamation measures that may be necessary. Areas to be disturbed may require inventories or special studies to determine the extent of impacts to other resources. Lessee may be required to complete minor inventories or short-term special studies under guidelines provided by lessor. If in the conduct of operations, threatened or endangered species, objects of historic or scientific interest, or substantial unanticipated environmental effects are observed, lessee shall immediately contact lessor. Lessee shall cease any operations that would result in the destruction of such species or objects.

Sec. 7. Mining operations—To the extent that impacts from mining operations would be substantially different or greater than those associated with normal drilling operations, lessor reserves the right to deny approval of such operations.

Sec. 8. Extraction of helium—Lessor reserves the option of extracting or having extracted helium from gas production in a manner specified and by means provided by lessor at no expense or loss to lessee or owner of the gas. Lessee shall include in any contract or sale of gas the provisions of this section.

Sec. 9. Damages to property—Lessee shall pay lessor for damage to lessor's improvements, and shall save and hold lessor harmless from all claims for damage or harm to persons or property as a result of lease operations.

Sec. 10. Protection of diverse interests and equal opportunity—Lessee shall: pay when due all taxes (legally assessed and levied under laws of the State or the United States, accord all employees complete freedom of purchase; pay all wages at least twice each month in lawful money of the United States; maintain a safe working environment in accordance with standard industry practices; and take measures necessary to protect the health and safety of the public.

Lessee reserves the right to ensure that production is sold at reasonable prices and to prevent monopoly. If lessor operates a pipeline, or owns controlling interest in a pipeline or a company operating a pipeline, which may be operated accessible to oil derived from these leased lands, lessee shall comply with section 28 of the Mineral Leasing Act of 1920.

Lessee shall comply with Executive Order No. 11246 of September 24, 1965, as amended, and regulations and relevant orders of the Secretary of Labor issued pursuant thereto. Neither lessor nor lessee's subcontractors shall maintain segregated facilities.

Sec. 11. Transfer of lease interests and relinquishment of lease—As required by regulations, lessee shall file with lessor any assignment or other transfer of an interest in this lease. Lessee may relinquish this lease or any legal subdivision by filing in the proper office a written relinquishment, which shall be effective as of the date of filing, subject to the continued obligation of the lease and surety to pay all accrued rentals and royalties.

Sec. 12. Delivery of premises—At such time as all or portions of this lease are returned to lessor, lessee shall place affected wells in condition for suspension or abandonment, reclaim the land as specified by lessor and, within a reasonable period of time, remove equipment and improvements not deemed necessary by lessor for preservation of producible wells.

Sec. 13. Proceedings in case of default—If lessee fails to comply with any provision of this lease, and the noncompliance continues for 30 days after written notice thereof, this lease shall be subject to cancellation. Lessee shall also be subject to applicable provisions and penalties of FOGRMA (96 Stat. 2447). However, if this lease includes land known to contain valuable deposits of leased resources, it may be cancelled only by judicial proceedings. This provision shall not be construed to prevent the exercise by lessor of any other legal and equitable remedy, including waiver of the default. Any such remedy or waiver shall not prevent later cancellation for the same default occurring at any other time.

Sec. 14. Heirs and successors-in-interest—Each obligation of this lease shall extend to and be binding upon, and every benefit hereof shall inure to the heirs, executors, administrators, lawlessors, beneficiaries, or assignees of the respective parties hereto.

NM NM 71599
3109 (943C-2d)

ATTACHMENT

The royalty rate to be applied to this lease is at the rate of 14.0%

ry

The following description was prepared by M. R. Estes, surveyor for the Red Bluff Water Power Control District, and certified as to being true and correct as to boundaries, corners and lines of the Red Bluff Water Power Control District Reservoir in the State of New Mexico on May 20, 1936, and further approved by the Bureau of Land Management on August 4, 1937.

FIELD NOTES

Red Bluff Reservoir

Parcel II

Sec. 27; Twp. 26 South, Range 29 East, Eddy County, New Mexico.

Beginning at a point in the South line of sec. 27, Twp. 26 South, Range 29 East, Eddy County, New Mexico, which point is East along said South line of sec. 27, a distance of 1228.1' from the Southwest corner of said Sec. 27;

Thence North $26^{\circ} 24\frac{1}{2}'$ East 70.9' to a point;
Thence North $68^{\circ} 54'$ West 186.2' to a point;
Thence North $8^{\circ} 46'$ West 279.0' to a point;
Thence North $31^{\circ} 17'$ West 223.9' to a point;
Thence North $48^{\circ} 30'$ West 330.0' to a point;
Thence North $23^{\circ} 36'$ West 263.1' to a point;
Thence North $28^{\circ} 13'$ West 251.4' to a point;
Thence North $72^{\circ} 45'$ East 249.2' to a point;
Thence North $60^{\circ} 17'$ West 422.0' to a point;
Thence North $57^{\circ} 49\frac{1}{2}'$ West 259.4' to a point;
Thence North $2^{\circ} 35\frac{1}{2}'$ West 304.6' to a point;
Thence North $19^{\circ} 16\frac{1}{2}'$ East 126.6' to a point;
Thence North $2^{\circ} 45\frac{1}{2}'$ East 75.5' to a point;
Thence South $54^{\circ} 15\frac{1}{2}'$ West 189.1' to a point;
Thence North $78^{\circ} 27\frac{1}{2}'$ West 176.1' to a point;
Thence North $45^{\circ} 47\frac{1}{2}'$ West 47 $\frac{1}{2}'$ to a point in the West line of said sec. 27;
Thence South along the West line of sec. 27 a distance of 2149.8' to the Southwest corner of said sec. 27;
Thence East along the south line of sec. 27 a distance of 1228.1' to the point of beginning.
The above described tract containing 38.5 acres, more or less.

The following description was prepared by M. R. Estes, surveyor for the Red Bluff Water Power Control District, and certified as to being true and correct as to boundaries, corners and lines of the Red Bluff Water Power Control District Reservoir in the State of New Mexico on May 20, 1936, and further approved by the Bureau of Land Management on August 4, 1937.

FIELD NOTES

Red Bluff Reservoir

Parcel III

Sec. 28, Twp. 26 South, Range 29 East, Eddy County, New Mexico.

Beginning at a point in the South line of sec. 28, Twp. 26 South, Range 29 East, Eddy County, New Mexico, which point is west along said South line a distance of 643.3' from the southeast corner of sec. 28;

Thence North 7° 47' West 318.9' to a point;
 Thence North 31° 50' West 323.0' to a point;
 Thence North 19° 23' East 142.1' to a point;
 Thence South 76° 31' East 95.5' to a point;
 Thence North 11° 53' West 322.7' to a point;
 Thence North 41° 00' West 290.3' to a point;
 Thence North 72° 34' West 205.8' to a point;
 Thence North 9° 43' West 366.4' to a point;
 Thence North 45° 08' West 83.3' to a point;
 Thence South 67° 01' West 236.7' to a point;
 Thence North 21° 04' East 195.7' to a point;
 Thence South 82° 19' West 148.3' to a point;
 Thence South 62° 14' West 225.5' to a point;
 Thence South 38° 46' West 114.7' to a point;
 Thence South 23° 23' West 294.5' to a point;
 Thence North 6° 39' West 192.9' to a point;
 Thence North 15° 04' East 128.4' to a point;
 Thence North 6° 42' West 142.0' to a point;
 Thence North 52° 08' West 187.7' to a point;
 Thence North 34° 20' West 213.3' to a point;
 Thence North 51° 37' West 103.0' to a point;
 Thence North 72° 43' West 85.3' to a point;
 Thence South 65° 56' West 86.6' to a point;
 Thence North 69° 58' West 91.3' to a point;
 Thence South 44° 00' West 453.7' to a point;
 Thence North 58° 13' West 270.1' to a point;
 Thence North 70° 55' West 254.6' to a point;
 Thence North 19° 23' West 186.4' to a point;
 Thence North 35° 08' West 432.8' to a point;
 Thence North 50° 24' West 392.2' to a point;
 Thence North 41° 16' West 369.7' to a point;
 Thence North 26° 42' West 191.4' to a point;
 Thence North 86° 28' East 319.2' to a point;

Parcel III (continued)

Sec. 28, Twp. 26 South, Range 29 East, Eddy County, New Mexico

Thence North 76° 44' East 478.5' to a point;
Thence North 45° 15' East 350.7' to a point;
Thence North 15° 13' East 60.8' to a point;
Thence North 48° 47' West 265.5' to a point;
Thence North 24° 16' West 143.0' to a point;
Thence North 15° 03' West 134.4' to a point;
Thence North 29° 27' East 172.0' to a point;
Thence North 20° 03' East 499.4' to a point;
Thence North 0° 56' West 274.0' to a point;
Thence North 1° 44' West 272.5' to a point in the North line of sec. 28;

Thence East along the said North line a distance of 1036.8' to a point in said North line;

Thence South 35° 37' East 279.7' to a point;
Thence South 14° 26' East 226.2' to a point;
Thence South 19° 12' East 217.5' to a point;
Thence South 24° 43' East 307.5' to a point;
Thence South 28° 55' East 155.7' to a point;
Thence South 20° 28' East 289.2' to a point;
Thence South 43° 08' East 314.5' to a point;
Thence South 39° 22' East 270.5' to a point;
Thence South 46° 13' East 387.1' to a point;
Thence South 48° 20' East 291.2' to a point;
Thence South 57° 44' East 247.7' to a point;
Thence South 62° 05' East 355.9' to a point;
Thence South 33° 23' East 170.9' to a point;
Thence South 55° 49' East 180.2' to a point;
Thence North 78° 38' East 182.2' to a point;
Thence South 14° 53' West 220.6' to a point;
Thence South 45° 47' East 195.6' to a point in the East line of said sec. 28;

Thence South along the East line of sec. 28 a distance of 2149.8' to the Southeast corner of sec. 28;

Thence West along the South line of sec. 28 a distance of 643.3' to the point of beginning;

The above described tract containing 220.5 acres, more or less.

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:

CASE NO. 9458
Order No. R-8773

APPLICATION OF MALLON OIL
COMPANY FOR COMPULSORY
POOLING, EDDY COUNTY, NEW
MEXICO.

See Also R-8773-A

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 12, 1988, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 28th day of October, 1988, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

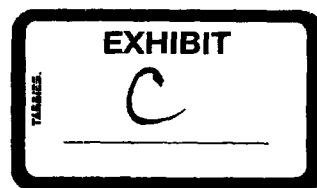
FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Mallon Oil Company, seeks an order pooling all mineral interests in the Bell Canyon, Cherry Canyon, and Brushy Canyon formations (Delaware Mountain Group) underlying the NW/4 SW/4 (Unit L) of Section 27, Township 26 South, Range 29 East, NMPM, Brushy Draw-Delaware Pool, Eddy County, New Mexico, forming a standard 40-acre oil spacing and proration unit within said pool.

(3) The applicant has the right to drill and proposes to drill a well at a standard location in said NW/4 SW/4 of Section 27.

(4) Red Bluff Water Power Control District, an interest owner in the proposed proration unit who has not agreed to



pool its interests, appeared at the hearing in opposition to the application.

(5) The evidence presented indicates that the applicant has made a reasonable attempt to secure voluntary agreement with Red Bluff Water Power Control District and has been unable to do so.

(6) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(7) The applicant should be designated the operator of the subject well and unit.

(8) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(9) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(10) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(11) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(12) \$3056.00 per month while drilling and \$334.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate

share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(13) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(14) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before February 1, 1989, the order pooling said unit should become null and void and of no effect whatsoever.

(15) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(16) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Bell Canyon, Cherry Canyon, and Brushy Canyon formations (Delaware Mountain Group) underlying the NW/4 SW/4 (Unit L) of Section 27, Township 26 South, Range 29 East, NMPM, Brushy Draw-Delaware Pool, Eddy County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of February, 1989, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Delaware formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before

the 1st day of February, 1989, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Mallon Oil Company is hereby designated the operator of the subject well and unit.

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed

estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$3056.00 per month while drilling and \$334.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) Any well costs or charges which are to be paid out of production shall be withheld only from the working

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Case No. 9458
Order No. R-8773

interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

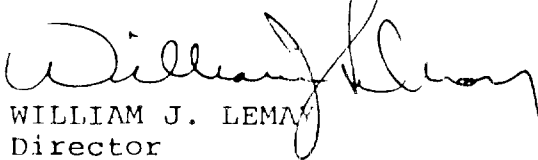
(13) Should all parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

S E A L

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 9458 (DE NOVO)
Order No. R-8773-A

APPLICATION OF MALLON OIL
COMPANY FOR COMPULSORY
POOLING, EDDY COUNTY, NEW
MEXICO.

See Also R-8773

ORDER OF THE COMMISSION

BY THE COMMISSION:

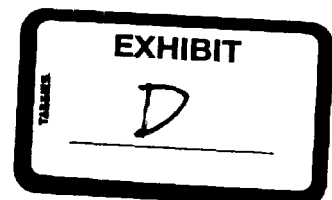
This cause came on for hearing at 9 o'clock a.m. on January 19, 1989, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 16th day of February, 1989, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Mallon Oil Company, seeks an order pooling all mineral interests in the Bell Canyon, Cherry Canyon, and Brushy Canyon formations (Delaware Mountain



Group) underlying the NW/4 SW/4 (Unit L) of Section 27, Township 26 South, Range 29 East, NMPM, Brushy Draw-Delaware Pool, Eddy County, New Mexico, forming a standard 40-acre oil spacing and proration unit within said pool.

(3) The matter came on for hearing at 8:15 a.m. on October 12, 1988, at Santa Fe, New Mexico, before Oil Conservation Division Examiner David R. Catanach and, pursuant to this hearing, Order No. R-8773 was issued on October 28, 1988, granting the application and force-pooling Red Bluff Water Power Control District ("Red Bluff").

(4) A timely application for hearing De Novo was made by Red Bluff in this case and the matter was set for hearing before the Commission.

(5) The matter came on for hearing De Novo on January 19, 1989.

(6) During the pendency of this action Order No. R-8773 has not been stayed and is in full force and effect.

(7) The record of Case No. 9458 made before the Division Examiner is made a part of the record in this de novo case.

(8) The findings and order entered by the Division Director (Order No. R-8773) were supported by substantial evidence.

(9) Red Bluff has not presented any additional evidence in this hearing which would support a change in Order No. R-8773 entered by the Division.

(10) Order No. R-8773 should be affirmed and made an order of the Commission in this proceeding.

(11) Red Bluff should be granted time in which to pay its share of the reasonable well costs subsequent to entry of this order, and a reasonable time shall be 30 days less the number of days between the date Red Bluff received the estimated well costs (November 10, 1988) and the date Red Bluff filed its application for de novo hearing (November 28, 1988), or 12 days from this order.

IT IS THEREFORE ORDERED THAT:

(1) Division Order No. R-8773, entered October 28, 1988, is hereby affirmed and made an order of this Commission and is continued in full force and effect.

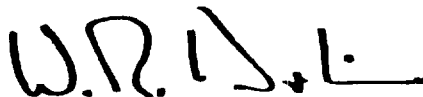
(2) Red Bluff shall have 12 days after the date of this order to pay its share of reasonable well costs to the operator in lieu of paying such costs out of production, and if Red Bluff pays its share of costs as provided, it shall remain liable for operating costs but shall not be liable for such charges.

CASE NO. 9458 (DE NOVO)
Order No. R-8773-A
Page 4

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM R. HUMPHRIES, Member



ERLING A. BROSTUEN, Member

WILLIAM J. LEMAY, Chairman and
Secretary

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