

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285

TELEFAX (505) 982-2047

W. THOMAS KELLAHIN*

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

JASON KELLAHIN (RETIRED 1991)

May 20, 1997

HAND DELIVERED

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

**Re: OXY Pearl State Com. Well No. 1
Application of OXY USA INC.
for Compulsory Pooling
Eddy County, New Mexico**

Dear Mr. LeMay:

On behalf of OXY USA INC., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for June 26, 1997. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: OXY USA INC.
Attn: Richard E. Foppiano
Attn: C. Kent Woolley

CASE 150: Application of OXY USA INC., for compulsory pooling, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 32, T19S, R29E, NMPM, Eddy County, New Mexico, forming a standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent, which presently may include but is not necessarily limited to the West Parkway-Morrow Gas Pool. Said unit is to be dedicated to its OXY Pearl State Com. Well No. 1 to be drilled and completed at a standard gas well location in Unit I of said Section 32. Also to be considered will be the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of the applicant as the operator of the well and a charge for risk involved in said well. Said unit is located approximately 12 miles northeast of Carlsbad, New Mexico.

3. OXY has 100% of the working interest ownership in the oil and gas minerals from the surface to the base of the Morrow formation underlying the SE/4 of Section 32, T19S, R29E, NMPM, Eddy County, New Mexico.

4. OXY has proposed a well to be drilled at a standard gas well location in Unit I of said Section 32 and the dedication of the well to a standard gas proration and spacing unit consisting of the E/2 of said Section 32 for any and all production below the top of the Wolfcamp formation to all of the working interest owners in the spacing unit.

5. Despite its good faith efforts, OXY has been unable to obtain a written voluntary agreement from those remaining working interest owners or unleased mineral owners listed on Exhibit "A."

6. 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, OXY 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 the parties whose interest is to be pooled as listed on Exhibit "A" notifying each 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 June 26, 1997.

WHEREFORE, OXY, as applicant, requests that this application be set for hearing on June 26, 1997 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 interests described in the appropriate spacing unit for the drilling of the subject well at a standard gas well location upon terms and conditions which include:

- (1) OXY USA INC. be named operator;

- (2) Provisions for applicant and all working interest and unleased mineral owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) In the event a working interest or unleased mineral interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200%;
- (4) Provision for overhead rates per month drilling and 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:



W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285

Exhibit "A"

Penwell Energy, Inc.
100 ARCO Building
600 N. Marienfeld
Midland, Texas 79701
Attn: Mark Wheeler