

**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. 11837

**APPLICATION OF BURLINGTON RESOURCES
OIL & GAS COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Burlington Resources Oil & Gas Company, as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANT

Burlington Resources Oil & Gas Company
3300 N. "A" Street, Bldg 6
Midland, Texas 79705
(915) 688-9044
attn: Rick Gallegos

ATTORNEY

W. Thomas Kellahin
KELLAHIN & KELLAHIN
P.O. Box 2265
Santa Fe, NM 87504
(505) 982-4285

OPPONENTS

Kerry Petroleum Company, Inc.
K P Acquisitions Corporation
500 West Texas Ste 1450
Midland, Texas 79701
(915) 687-5958
attn: H. L. Stonestreet

ATTORNEY

RECEIVED

AUG 18 1997

Oil Conservation Division

STATEMENT OF CASE

Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying N/2 Section 23, T26S, R30E, Burlington Resources Oil & Gas Company ("Burlington") requests an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

Burlington requests an order pooling the mineral interest of described in this spacing unit for the drilling of its El Paso "23" Federal Well No. 1 as a multi lateral directional wellbore for potential production from the surface to the base of the Wolfcamp formation upon terms and conditions which include:

- (1) Burlington be named operator;
- (2) The order make provisions for all uncommitted interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) In the event an uncommitted working interest owner fails to elect to participate he becomes a "compulsory pooled party" and then provisions should 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) A provision for overhead rates and a method for adjusting those rates in accordance with COPAS accounting procedures;
- (5) For such other and further relief as may be proper.

PROPOSED EVIDENCE

APPLICANT:

WITNESSES	EST. TIME	EXHIBITS
Rick Gallegos (landman)	20 min.	@ 6 exhibits
Keith Winfrey (geologist)	20 Min.	@ 4 exhibits
Doug Seams (engineer)	20 Min.	@ 8 exhibits

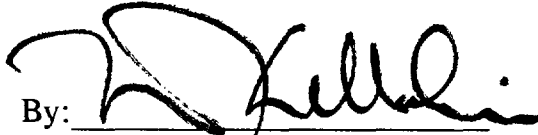
PROCEDURAL MATTERS

Kerry Petroleum Company, Inc. and K P Acquisition Corporation, with a 4.3055 % working interest, have filed a motion for dismissal/continuance contends that Burlington did not negotiate in "good faith".

Burlington has negotiated in good faith as attested to by Mr. Rick Gallegos, See Affidavit attached hereto as Exhibit "A".

Accordingly Burlington requests that the motion for a continuance or dismissal filed by Kerry Petroleum Company, Inc. and K P Acquisition Corporation be denied.

KELLAHIN AND KELLAHIN

By: 
W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

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

**IN THE MATTER OF THE APPLICATION
OF BURLINGTON RESOURCES OIL & GAS
COMPANY FOR COMPULSORY POOLING
LEA COUNTY, NEW MEXICO**

CASE 11837

AFFIDAVIT OF RICK GALLEGOS

STATE OF TEXAS)
) SS
COUNTY OF MIDLAND)

Before me, the undersigned authority, personally appeared Rick Gallegos, who being first duly sworn, stated:

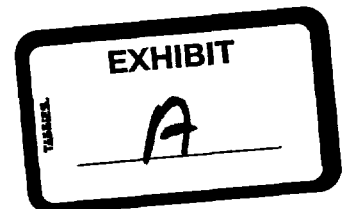
A. My name is Rick Gallegos. I am over the age of majority and am competent to make this Affidavit.

B. I am a staff landman for Burlington Resources Oil & Gas Company who has been responsible for contacting the interest owners involved in this case.

C. The following is a partial factual summary of my efforts on behalf of Burlington to consolidate the interests of Kerry Petroleum Company, Inc. ("Kerry") and K P Acquisitions Corporation ("KP") as subsidiary of Kerry on a voluntarily basis for Burlington's proposed El Paso "23" Federal Well No 2.¹

(1) Burlington has proposed a multilateral directional wellbore in the N/2 of Section 23, T26S, R30E, Eddy County, New Mexico which is estimated to cost as follows:

¹ communications with other owners have been omitted.



(a) dry hole costs	\$1,614,100.
(b) completion	250,000.
(c) facilities	94,000.
Total:	\$1,987,300..

(2) On December 18, 1996, Burlington obtained a Drilling Title Opinion which indicated that this spacing unit includes some 9 record title owners and some 18 working interest owners below the base of the Bone Springs formation. At that time, Burlington had 50% of the working interests.

(3) As of July 29, 1997, the date of the filing of the compulsory pooling application, I had been able to obtain the voluntarily agreement of 7 working interest owners so that as of the date the total percentage of voluntarily committed working interest owners was now 64.09%

(4) As of August 15, 1997, I have obtained the voluntary agreement of 6 more working interest owners so that as of that date Burlington had obtained the voluntary agreement of 73.89% percent of the working interest owners.

(5) On June 2, 1997, my predecessor, Leslyn Swierc, sent a letter to all working interest owners formally proposing the subject well and including an AFE. **See Exhibit 1.**

(6) A supplemental Drilling Title Opinion dated July 25, 1997, concludes the following:

(a) there is a 12.5% federal royalty burden on the entire N/2 of Section 23.

(b) additionally, there is a ^{16.75}6.25% overriding interest burden on the NW/4 of Section 23 where KP/Kerry own their interest.

(c) On April 1, 1988, KP created an additional overriding royalty burden on its interest of 3% which was assigned as follows: $21.75 = 16.75$

- | | |
|-------------------------|-----|
| (i) William P. Ahern | 1/3 |
| (ii) C. T. Richmond | 1/3 |
| (iii) H. L. Stonestreet | 1/3 |

(d) In addition, the KP interest is further burdened by a "secondary production payment created on January 31, 1991 to Turik Energy, Inc. equal to 50% of net proceeds attributable to the NW/4 of Section 23."

(7) In summary, Kerry's working interest which is burdened with a 12.5 % Royalty and a 6.25 % ORR which results in Kerry having a 0.338540 % net revenue interest which translates into a gross 81.25 % net working interest.

(8) In summary, KP's working interest which is burdened with a 12.5 % R, a 6.25 % ORR and an additional 3 % ORR described in paragraph (6)(c) above which results in KP having a net revenue interest of 3.04305 % which translates into a gross 78.25 % net working interest.

(9) Between June 2, 1997 and July 21, 1997, I had the approximately four conversations with H. L. Stonestreet, senior vice president and Lynn Charuk, a geologist, with whom I attempted to negotiate a voluntary agreement for the commitment of the Kerry and KP interests, including the following conversation on July 14, 1997, in which I offered to either purchase the Kerry/KP's 4.3055 % interest for \$250.00 per net acre or farm in their interest on the basis of a proportionately reduced 78 % net revenue interest delivered to Burlington. Kerry-KP countered by offering to farmout to Burlington on the basis of a proportionately reduced 75 % net revenue interest delivered to Burlington convertible to a proportionately reduced 50 % working interest at payout.

(10) On July 21, 1997, in an effort to continue good faith negotiations, I wrote to Kerry/KP and renewed my verbal offers on behalf Burlington in writing to Kerry/KP. **See Exhibit 2**

(11) The difference between my offer and Kerry/KP's counteroffer is significant because the Kerry/KP interests are already heavily burdened by overriding royalties plus a particularly onerous 50 % net proceeds interest such that the economic parameters will not support Burlington increasing its offer.

(12) I have received and reviewed Mr. Stonestreet's "Opposition" filed in this case and dispute his statement of facts and disagree with his conclusions and opinions.

(13) While it is not Burlington's practice to market gas for other working interest owners, we will attempt to accommodate Kerry/KP in that regards. The marketing of gas was never expressed to me by Mr. Stonestreet as a necessary component of reaching a voluntarily agreement.

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Burlington's Objection to Continuance
Page 4**

D. In my opinion:

(1) Burlington has provided these parties with an adequate period in which to make their own analysis and reach their own independent decision concerning whether they wanted to sell, farmout, or participate in this well.

(2) I have concluded good faith efforts to obtain voluntarily agreement. However despite my efforts, we are unable to reach an agreement with Kerry/KP and now need a compulsory pooling order.

(3) The KP/Kerry interests are already burdened with significant overriding royalties and their desire to keep an additional 3.25% ORR simply reduces their net revenue interest below the percentage that Burlington desire to accept.


(4) We continue to invite Kerry/KP to participate in this well.

FURTHER AFFIANT SAYETH NOT:


Rick Gallegos

STATE OF TEXAS)
)SS
COUNTY OF MIDLAND)

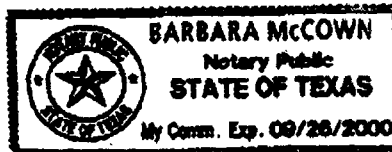
SUBSCRIBED AND SWORN to before me this 15TH day of August, 1997 by Rick Gallegos.


Notary Public

My Commission Expires:

9/26/2000

(SEAL)



BURLINGTON RESOURCES

MID-CONTINENT DIVISION
June 2, 1997

WORKING INTEREST OWNERS

Re: El Paso "23" Federal No. 2
1320' FNL & 2639' FEL
Section 23, T-26-S, R-30-E
Eddy County, New Mexico

Ladies and Gentlemen:

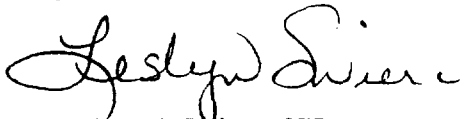
Burlington Resources Oil & Gas Company hereby proposes the drilling of the El Paso "23" Federal No. 2, a 12,000' Wolfcamp test with two 1,000' lateral extensions (the "Well"). The Well will be located and staked 1320' FNL & 2639' FEL Section 23, T-26-S, R-30-E, Eddy County, New Mexico. The plan is to drill to the top of the Wolfcamp, core the "A" zone and drill two horizontal extensions perpendicular to the apparent fracture azimuth.

Enclosed please find an Authority for Expenditure ("AFE") in the amount of \$1,987,300 to drill, complete and equip the Well. Also enclosed is a Joint Operating Agreement ("JOA") with an additional signature page, dated effective July 1, 1997 proposed to cover the N/2 Section 23, T-26-S, R-30-E, Eddy County, New Mexico, as to depths below the base of the Bone Spring formation. If you concur with the drilling of the Well, please execute the AFE and the signature page to the JOA and return to Charlotte Baysinger at the address below within thirty (30) days of your receipt of same.

I will be assuming a new assignment in the Williston Basin of the Rocky Mountains effective July 1st, therefore, should have any questions concerning the Joint Operating Agreement, you may contact Mr. Rick Gallegos at (915) 688-9044 and any engineering questions may be directed to Mr. Doug Seams at (915) 688-6854. I would like to take this opportunity to say that I have enjoyed working with you and thank you for your cooperation and patience. I wish you all the best of luck in all your future endeavors.

Very truly yours,

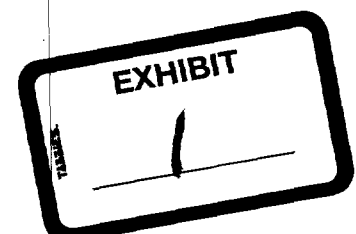
BURLINGTON RESOURCES
OIL & GAS COMPANY



Leslyn M. Swierc, CPL
Senior Staff Landman

LMS/bgm
Enclosures

cc: Doug Seams
Rick Gallegos
Charlotte Baysinger
Don Davis
Mike Wallace



WORKING INTEREST OWNERS

Burlington Resources Oil & Gas Company
P. O. Box 51810
Midland, Texas 79710-1810

Geodyne Nominee Corporation
320 S. Boston Avenue
Tulsa, Oklahoma 74103

Ralph E. Williamson
Box 994
Midland, Texas 79702

J. C. Williamson
Box 16
Midland, Texas 79702

Trade Exploration Corp.
3400 City Center Tower II
301 Commerce Street
Fort Worth, Texas 76102

Jacque Oil and Gas Limited
3400 City Center Tower II
301 Commerce Street
Fort Worth, Texas 76102

Duer Wagner III
3400 City Center Tower II
301 Commerce Street
Fort Worth, Texas 76102

Byran C. Wagner
3400 City Center Tower II
301 Commerce Street
Fort Worth, Texas 76102

Lois G. Williamson
802 Palomino
Midland, Texas 79705

James D. Finley
3400 City Center Tower II
301 Commerce Street
Fort Worth, Texas 76102

Dennis P. Corkoran
3400 City Center Tower II
301 Commerce Street
Fort Worth, Texas 76102

David John Andrews
3400 City Center Tower II
301 Commerce Street
Fort Worth, Texas 76102

H. E. Patterson
3400 City Center Tower II
301 Commerce Street
Fort Worth, Texas 76102

Finwing Corporation
P. O. Box 10886
Midland, Texas 79702

Costilla Energy, Inc.
400 W. Illinois
Midland, Texas 79701

K P Acquisition Corp.
500 West Texas, Suite 1450
Midland, Texas 79701

ICA Energy, Inc.
700 N. Grant
Odessa, Texas 79761

C. W. Trainer
500 W. Texas, Suite 710
Midland, Texas 79701

Midland Division
P.O. Box 51810
Midland, Texas 79710-1810
(915) 688-6800

Date: _____
AFE No.: _____

**BURLINGTON RESOURCES OIL AND GAS
AUTHORITY FOR EXPENDITURE**

Foreman Area Team Name: Hobbs
DP No.: 61373A
Lease/Well Name: El Paso 23 #2 Lease No.: 012853201
Field/Prospect: Ross Draw (Wolfcamp) Region: Midland
Location: 1320 FNL & 2639 FEL Sec. 23, T26S, R30E County: Eddy State: New Mexico
AFE Type: (01) Development/Drilling Original Supplement Addendum Cost Center
API Well Type: Dev. Operator: Burlington Resources Inc.
Objective Formation: Wolfcamp Authorized Total Depth (Feet) 12,000'
Project Description: Drill, complete, and equip a 12,000' Wolfcamp test with two 1,000' horizontal extensions.

Est. Start Date: September 1, 1997 Prepared By: Doug Seams
Est. Completion Date: November 12, 1997

GROSS WELL COST DATA

	DRILLING		WORKOVER	CONSTRUCTION	TOTAL
	DRY HOLE	SUSPENDED	COMPLETION	OR FACILITY	
DAYS:	<u>68</u>	<u>70</u>	<u>10</u>	<u>3</u>	<u>57</u>
THIS AFE:	<u>1,614,100</u>	<u>1,643,300</u>	<u>250,000</u>	<u>94,000</u>	<u>1,987,300</u>
PRIOR AFE's:					
TOTAL COSTS:	<u>1,614,100</u>	<u>1,643,300</u>	<u>250,000</u>	<u>94,000</u>	<u>1,987,300</u>

JOINT INTEREST OWNERS

COMPANY	WORKING INTEREST PERCENT %	NET \$ EXPENDITURES	
		DRYHOLE \$	COMPLETED \$
<u>Finwig Corp.</u>	<u>10.0%</u>	<u>161,410</u>	<u>198,730</u>
<u>Duer Wagner & Co.</u>	<u>10.0%</u>	<u>161,410</u>	<u>198,730</u>
<u>J. C. Williamson</u>	<u>7.8</u>	<u>125,900</u>	<u>155,009</u>
<u>Minor Resources</u>	<u>7.5</u>	<u>121,058</u>	<u>149,048</u>
<u>Costilla</u>	<u>5.8</u>	<u>93,618</u>	<u>115,263</u>
<u>Misc.</u>	<u>6.4</u>	<u>103,302</u>	<u>127,187</u>
BURLINGTON RESOURCES:	<u>52.5%</u>	<u>847,402</u>	<u>1,043,333</u>
AFE TOTAL:	<u>100%</u>	<u>1,614,100</u>	<u>1,987,300</u>

BURLINGTON RESOURCES APPROVAL

Recommended: *[Signature]* Date: 5/15/97 Approved: MALSON Date: _____
Recommended: *[Signature]* Date: 5/15/97 Approved: *[Signature]* Date: _____
Recommended: *[Signature]* Date: _____ Approved: *[Signature]* Date: 5/15/97

PARTNER APPROVAL

Company Name: _____ Authorized By: _____
Date: _____ Title: _____

BURLINGTON RESOURCES

MID-CONTINENT DIVISION

July 21, 1997

El Paso "23" Federal No. 2
1120' FNL & 2630' FEL
Section 23, T26S-R30E
Eddy County, New Mexico

To: Working Interest Owners (List Attached)

By letter dated June 2, 1997, Burlington Resources (BR) proposed drilling the captioned well at a location of 1320' FNL & 2639' FEL. Subsequent to said proposal BR learned that a portion of the proposed wellsite covered an archeological site. Inasmuch as it would be very costly to mitigate the archeological site, BR hereby notifies you that the location of the captioned well will be moved 200 feet north and 9 feet east to a new location of 1120' FNL & 2630' FEL Section 23, T26S, R30E, Eddy County, New Mexico. The estimated costs of \$1,987,300 to drill, complete and equip the well shall remain the same at the new location.

For those working interest owners that have yet to elect to participate in the drilling of the well or go non-consent in accordance with Operating Agreement dated July 1, 1997, Burlington Resources hereby offers to either purchase or farmin your interest subject to the following terms and conditions:

- 1) PURCHASE - BR shall agree to purchase your interest in the N/2 of section 23, T26S, R30E, for \$250.00 per net acre, subject to existing burdens of record as of June 2, 1997.
- 2) FARMIN - BR shall agree to farmin your interest in the N/2 of section 23, T26S, R30E, subject to the delivery to BR of a seventy eight percent (78%) net revenue interest.

BR's offers to purchase or farmin hereinabove shall expire on October 1, 1997.

Should you have any questions regarding this matter or require additional information, please contact the undersigned at (915) 688-9044.

Sincerely,



Rick Gallegos
Senior Landman

