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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

JASON KELLAHIN (RETIRED 1991)

August 11, 1998

HAND DELIVERED

Ms. Lori Wrotenbery, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

OIL CONSERVATION DIV.
98 AUG 11 AM 10:25

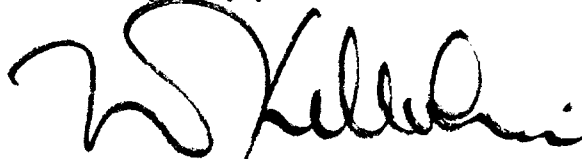
**Re: South Shoe Bar "10" State Com Well No. 1
S/2 Section 10, T17S, R35E
Application of Concho Resources Inc.
for Compulsory Pooling
Lea County, New Mexico**

12035

Dear Ms. Wrotenbery:

On behalf of Concho Resources Inc., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for September 3, 1998. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Concho Resources Inc.
Attn: Van Rodgers

OIL CONSERVATION DIV.

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12035

CASE ____ : Application of Concho Resources Inc. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Atoka formation underlying the S/2 of Section 10, T17S, R35E, NMPM, Lea County, New Mexico, forming a standard 320-acre gas 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 South Shoe Bar-Atoka Gas Pool. Said unit is to be dedicated to its South Shoe Bar "10" State Com Well No. 1 to be drilled and completed at a standard gas well location in Unit N of said Section 10. 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 9 miles southwest from Lovington, New Mexico.

OIL CONSERVATION DIV.

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

IN THE MATTER OF THE APPLICATION
OF CONCHO RESOURCES INC.
FOR COMPULSORY POOLING
LEA COUNTY, NEW MEXICO.

CASE NO. 12035

A P P L I C A T I O N

Comes now CONCHO RESOURCES INC. by its attorneys, Kellahin & Kellahin, and in accordance with NMSA 1978 Section 70-2-17(c) applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests from the surface to the base of the Atoka formation underlying the S/2 of Section 10, T17S, R35E, NMPM, Lea County, New Mexico, forming a standard 320-acre gas 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 South Shoe Bar-Atoka Gas Pool. Said unit is to be dedicated to its South Shoe Bar "10" State Com Well No 1 to be drilled and completed at a standard gas well location in Unit N of said Section 10. 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.

In support of its application, Concho Resources Inc. ("Concho") states:

1. Concho has the right to drill and develop the oil and gas minerals from the surface to the base of the Atoka formation underlying the SE/4 of Section 10, T17S, R35E, NMPM, Lea County, New Mexico, and proposes to form a standard 320-acre gas proration and spacing unit consisting of the S/2 of this section for any and all formations and/or pools spaced on 320-acre gas spacing.

2. The subject tract is located within one-mile of the current boundaries of the South Shoe Bar-Atoka Gas Pool.

3. Concho has proposed the subject well and its appropriate spacing unit to the working interest owners in the spacing unit as identified on Exhibit "A."

4. Despite its good faith efforts, Concho has been unable to obtain a written voluntary agreement from the party listed on Exhibit "A."

5. Pursuant to NMSA 1978 Section 70-2-17(c) and in order to obtain its just and equitable share of potential production underlying this spacing unit, the applicant needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

6. 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" 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 September 3, 1998.

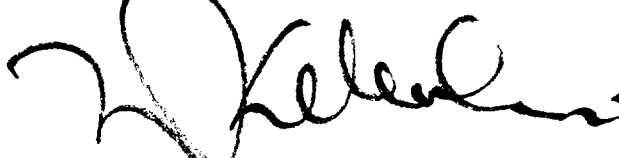
WHEREFORE, Concho, as applicant, requests that this application be set for hearing on September 3, 1998 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for the drilling of the subject well at a standard well location upon terms and conditions which include:

(1) Concho Resources Inc. be named operator;

(2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;

- (3) In the event a working 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;
- (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 over the typed name.

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

EXHIBIT "A"

Texaco Exploration and Production, Inc.
500 North Loraine
Midland, Texas 79701
Attn: Ron Lanning