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March 22, 2002

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

W. THOMAS KELLAHIN"

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HAND DELIVERED

Ms. Lori Wrotenbery, Director Oil Conservation Division 1220 South Saint Francis Drive Santa Fe, New Mexico 87505

Case /2848

Re: Application of SDX Resources, Inc.

for the creation of the Red Lake San Andres

Pool and the Corresponding Vertical Contraction of the

Red Lake Queen-Grayburg-San Andres Pool Eddy County, New Mexico.

Dear Ms. Wrotenbery:

On behalf of SDX Resources, Inc., please find enclosed our referenced application which we request be set for hearing on the next available Examiner's docket now scheduled for April 18, 2002.

Very truly yours,

W. Thomas Kellahin

FCX: SDX Resources, Inc.

Attn: Steve Sell

PROPOSED ADVERTISEMENT

CASE 1848 Application of SDX Resources, Inc. for the creation of the Red Lake San Andres Pool and the correspond contraction of the Red Lake Queen-Grayburg-San Andres Pool, Eddy County, New Mexico. Applicant seeks the creation of a Red Lake-San Andres Pool to include the SE/4 of Section 19, the E/2, SW/4, E/2NW/4 and SW/4NW/4 of Section 20, the SW/4, SW/4NW/4, W/2SE/4 of Section 21, NE/4 Section 30, N/2 Section 29, NW/4, NE/4SW/4 and NW/4NE/4 of Section 28, Townships 17 South, Range 28 East the vertical limits of which are all of the San Andres formations as shown from a depth 1925 feet to 3500 feet on the log of the SDX Welch RL State Well No. 1 locate in Unit (E) of Section 28, T17S, R28E and the corresponding contraction of the Red Lake Queen-Grayburg-San Andres Pool to delete said acreage from that pool. This acreage is located approximately 11-1/2 miles east of Artesia, New Mexico.

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:

APPLICATION OF SDX RESOURCES, INC FOR THE CREATION OF THE RED LAKE SAN ANDRES POOL AND THE CONTRACTION OF THE RED LAKE QUEEN -GRAYBURG-SAN ANDRES, POOL, EDDY COUNTY, NEW MEXICO.

CASE NO. 12848

APPLICATION

Comes now SDX RESOURCES, INC. ("SDX"), by its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation for an order create a Red Lake-San Andres Pool to include the SE/4 of Section 19, the E/2, SW/4, E/2NW/4 and SW/4NW/4 of Section 20, the SW/4, SW/4NW/4, W/2SE/4 of Section 21, NE/4 Section 30, N/2 Section 29, NW/4, NE/4SW/4 and NW/4NE/4 of Section 28, Townships 17 South, Range 28 East the vertical limits of which are all of the San Andres formations as shown from a depth 1925 feet to 3500 feet on the log of the SDX Welch RL State Well No. 1 locate in Unit (E) of Section 28, T17S, R28E and the corresponding contraction of the Red Lake Queen-Grayburg-San Andres Pool to delete said acreage from that pool.

and in support thereof states:

- 1. SDX owns all of the rights to develop the oil and gas interest in the San Andres Formation under the following described acreage: the SE/4 of Section 19, the E/2, SW/4, E/2NW/4 and SW/4NW/4 of Section 20, the SW/4, SW/4NW/4, W/2SE/4 of Section 21, NE/4 Section 30, N/2 Section 29, NW/4, NE/4SW/4 and NW/4NE/4 of Section 28, Townships 17 South, Range 28 East ("proposed new pool") See Exhibit "A"
- 2. The proposed new pool is currently include within the vertical and horizontal limits of the Red Lake Queen-Grayburg-San Andres Pool, an oil pool spacing of 40-acre spacing units.

NMOCD Application SDX Resources, Inc. Page 2.

- 3. Within the boundary of this proposed new pool area, Smith & Marrs, Incorporated is the operator of the "Red Lake Sand Unit" which has unitized the Premier formation which lies just above the San Andres formations,
- 4. Smith & Marrs, Incorporated is the operator of certain wells in the Premier Sand Formations.
- 5. With the exception of SDX's Welch RL State Well No. 1, located in Unit E of Section 28, T17S, R29E, there are no Red Lake Queen-Grayburg-San Andres wells competed within in the San Andres formation in the proposed new pool.
- 6. In accordance with Division Rule 104 which precludes more than one operator in a spacing per pool, SDX is precluded from drilling and operating a San Andres well within the proposed new pool area and as a result is precluded from developing it's property.
- 7. In order to afford SDX an opportunity to drill and produce wells in the San Andres formation it is necessary to have the San Andres formation exclude from the Red Lake Queen-Grayburg-San Andres Pool.
- 8. In order to prevent the drilling of unnecessary wells and to protect correlative rights and provide for the orderly development of the San Andres reservoir it is necessary to contract the Red Lake Queen-Grayburg-San Andre Pool has requested.
- 9. The granting of this Application will not adversely affect the opportunities of the owners of the shallower zones.
- 10. Notification of this application and request for hearing to be held on April 18, 2002 has been sent to those operators identified on Exhibit "B" attached.

Wherefore, Applicant requests that, after notice and hearing, this application be granted.

Respectfully submitted,

W. Thomas Kellahin

Kellahin & Kellahin

P. O. Box 2265

Santa Fe, New Mexico 87504

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