

DELHI OIL CORPORATION

CORRIGAN TOWER

DALLAS 1, TEXAS

MAIN OFFICE CCC

1954 JUL 22 AM 9:26

P. T. BEE
EXECUTIVE VICE PRESIDENT

July 9, 1954

Oil Conservation Commission
Santa Fe, New Mexico

Re: Cases 330 and 330A, Blanco Mesaverde Gas
Pool Proration, San Juan and Rio Arriba,
New Mexico

Gentlemen:

Delhi Oil Corporation, owner and operator of 63 Mesaverde wells in the Blanco Mesaverde Pool located on 22,405 acres of land and owner of a substantial overriding royalty on approximately 100,000 acres of land owned and operated by El Paso Natural Gas Company, has actively participated in the various meetings of the San Juan Basin Operator's Committee Engineering Sub-committee hearings and in the recent hearing before the Oil Conservation Commission held in Santa Fe, New Mexico, commencing on June 21, 1954.

It is the opinion of Delhi Oil Corporation that the Oil Conservation Commission should adopt a proration formula that will enable each well to produce currently its allowable and to produce ultimately the amount of gas underlying the lease upon which it is located. Testimony at the recent hearing held by the Commission indicates that the factors which should be considered in arriving at a formula are as follows: Acreage, porosity, permeability, pressure, open-flow and net pay thickness.

Testimony before the Commission points up the absence of a convincing indication of drainage between wells as of this date and absence of accurate reserve data due to the non-uniformity of completion techniques and data, sand thicknesses throughout the field and porosity and permeability data in the field. Despite the fact that the Blanco Mesaverde Gas Pool has been producing for some time, it does not appear that there is sufficient production history to permit the compilation of accurate pressure decline data to determine economically recoverable reserves in the field. The deliverability of each well, however, is susceptible of definite proof and such deliverability takes into consideration and gives proper weight to pressures, open-flow, porosity and thickness of pay, all of which items along with a consideration of acreage are considered in determining recoverable reserves under a particular tract of land.

It is thus the position of Delhi Oil Corporation, based upon its knowledge and information garnered from many years of experience as an operator and producer in the Blanco Mesaverde Gas Pool, that the most fair and equitable proration formula is one which allocates to all non-marginal wells an allowable in the proportion that the product of each individual well's calculated deliverability and acreage bears to the sum of such products for all non-marginal wells. It is Delhi Oil Corporation's position that a well

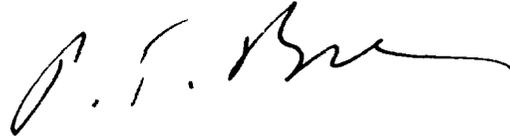
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which is not able to produce its allowable should be classified as a marginal well and given an allowable equal to its ability to produce; the allowable thus given to all marginal wells should be subtracted from the total pool allocation prior to allocation among the non-marginal wells.

Attached hereto is a copy of the proposed rules and regulations for the Blanco Mesaverde Gas Pool submitted by Delhi Oil Corporation for your perusal and consideration.

Yours very truly

A handwritten signature in black ink, appearing to read "P. T. Brown". The signature is fluid and cursive, with a long horizontal stroke at the end.

PTB:ab

DELTA OIL CORPORATION

PROPOSED RULES AND REGULATIONS
FOR THE BLANCO MESAVERDE GAS POOL
SAN JUAN AND RIO ARriba COUNTIES, NEW MEXICO

WELL SPACING AND ACREAGE REQUIREMENTS FOR DRILLING TRACTS.

RULE 1. Any well drilled a distance of one mile or more from the outer boundary of the Blanco Mesaverde Gas Pool shall be classified as a wildcat well. Any well drilled less than one mile from the outer boundary of the Blanco Mesaverde Gas Pool shall be spaced, drilled, operated and prorated in accordance with the Regulations in effect in the Blanco Mesaverde Gas Pool.

RULE 2. Each well drilled or recompleted within the Blanco Mesaverde Gas Pool shall be located on a tract consisting of not less than a half section of approximately 320 surface contiguous acres substantially in the form of a rectangle which shall be a legal subdivision (half section) of the U. S. Public Land Surveys.

RULE 3. Each well drilled within the Blanco Mesaverde Gas Pool shall be located in the northeast or southwest quarter of the section but shall not be drilled closer than 660 feet to any outer boundary line of such quarter section nor closer than 330 feet to a quarter-quarter section or subdivision inner boundary nor closer than 1320 feet to a well drilling to or capable of producing from the same pool.

RULE 4. The Secretary of the Commission shall have authority to grant exception to the requirements of Rules 2 and 3 where application has been filed in due form and such exception is required because of conditions resulting from previously drilled wells in the area or, in the case of Rule 3, the necessity of exception is based on topographic conditions.

Applicants shall furnish all operators of leases offsetting the lease containing subject well a copy of the application to the Commission, and applicant shall include with his application a list of names and addresses of all such operators, together with a written stipulation that all such operators have been properly notified. The Secretary of the Commission shall wait at least 20 days before approving any such exception and shall approve such exception only in the absence of objection of any offset operators. In the event an operator objects to the exception the Commission shall consider the matter only after proper notice and hearing.

RULE 5. The provision of Statewide Rule 104 Paragraph (k), shall not apply to the Blanco Mesaverde Gas Pool.

RULE 6. The Commission after notice and hearing, shall consider the nominations of gas purchasers from the Blanco Mesaverde Gas Pool and other relevant data and shall fix the allowable production of the Blanco Mesaverde Gas Pool, and shall allocate production among the gas wells in the Blanco Mesaverde Gas Pool upon a reasonable basis with due regard to correlative rights.

RULE 7. A. For the purpose of gas allocation in the Blanco Mesaverde Gas Pool a standard proration unit shall consist of approximately 320 contiguous surface acres consisting of the North, South, East or West half of a section and being a legal subdivision of the U. S. Public Land Surveys; provided, however, that a gas proration unit other than a legal half section may be formed after notice and hearing by the Commission, or as outlined in paragraph B. Any standard proration unit consisting of between 315 and 325 contiguous surface acres shall be considered as containing 320 acres for the purpose of gas allocation.

B. The Secretary of the Commission shall have authority to grant an exception to Rule 7 A without notice and hearing:

1. Where the unorthodox size or shape of the tract is due to a variation in legal subdivision of the U. S. Public Land Surveys; or

2. Where application has been filed in due form and where the following facts exist and the following provisions are complied with:

a. The acreage assigned the non-standard unit lies wholly within a legal section.

b. The acreage assigned the non-standard unit is adjacent to or contiguous with the acreage containing said well.

c. The operator making application for such exception to Rule 7 A includes with such application:

(1) waivers from (a) all operators owning interests in the half section in which any part of the non-standard gas proration unit is situated and which acreage is not included in said non-standard gas proration unit; and (b) all operators owning interests in acreage offsetting the non-standard proration unit; or

(2) a list of names and addresses of all operators outlined in paragraph (1), together with a stipulation that proper notice has been given said operators at the addresses given and no objection is received by the Commission from such operators within 20 days after the Commission receives such application.

d. The entire non-standard proration unit may reasonably be presumed to be productive of gas.

e. The length or width of the non-standard gas proration unit does not exceed 5280 feet.

C. The Secretary of the Commission shall have authority to grant an exception to Rule 7 A after notice and hearing, when the operator is unable to comply with the provisions of Rule 7 B.

GAS ALLOCATION

RULE 8. At least 30 days prior to the beginning of each gas proration period the Commission shall hold a hearing after due notice has been given. The Commission shall cause to be submitted by each gas purchaser its nominations of the amount of gas which each in good faith actually desires to purchase within the ensuing proration, by months, from the Blanco Mesaverde Gas Pool.

When a purchaser of gas, after filing its nominations for the proration period shall find that its requirements for gas have increased or decreased from the amount nominated for any month during the proration period, such purchaser shall indicate its revised estimated requirements during such month by filing supplemental nominations with the Commission at least three days prior to the regular hearing of the Commission for the month preceding such changed requirements.

All nominations shall be filed on a form prescribed by the Commission.

RULE 9. The Commission shall hold a public hearing between the 15th and 20th days of each month to determine the reasonable market demand for gas for the ensuing proration month, and shall issue a proration schedule setting out the amount of gas which each well may produce during the ensuing proration month. Included in the monthly proration schedule shall be a tabulation of allowable and production for the second preceding month, together with an adjusted allowable computation for the second preceding month, said adjusted allowable shall be computed by comparing the actual allowable assigned with the actual production. In the event the allowable assigned is greater than the actual production, the allowable assigned the non-marginal units shall be reduced proportionately; and in the event the allowable assigned is less than the production, then the allowable assigned the non-marginal units shall be increased proportionately.

The Commission shall include in the proration schedule the gas wells in the Blanco Mesaverde Gas Pool delivering to a gas transportation facility, or lease gathering system, and shall include in the proration schedule of the Blanco Mesaverde Gas Pool any well which it finds is being unreasonably discriminated against through denial of access to a gas transportation facility which is reasonably capable of handling the type of gas produced by such well. The total allowable to be allocated to the pool each month shall be equal to the sum of the nominations together with any adjustment which the Commission deems advisable. The allocation to a pool remaining after subtracting the capacities of marginal units shall be divided and allocated among the non-marginal units in the proportion that the product of each individual well's calculated deliverability and acreage bears to the sum of such products for all the non-marginal wells. The calculated deliverability mentioned above shall be that deliverability as determined by a test taken in accordance with the provisions of Order No. R-333 or Order No. R-333A of the New Mexico Oil Conservation Commission.

BALANCING OF PRODUCTION

RULE 10. Underproduction: The dates 7:00 A.M., March 1, and 7:00 A.M. September 1, shall be known as balancing dates and the periods of time bounded by these dates shall be known as gas proration periods. The amount of current gas allowable remaining unproduced at the end of each proration period shall be carried forward to and may be produced during the first succeeding proration period in addition to the normal gas allowable for such succeeding period. That portion of such cumulative underproduction carried forward into the first succeeding proration period, which