

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

OIL CONSERVATION DIVISION
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IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 10256

APPLICATION OF LBO New Mexico, Inc.
for Compulsory Pooling and Unorthodox
Location, Lea County, New Mexico

PRE-HEARING STATEMENT

This prehearing statement is submitted by R. J. Starrak
as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT

ATTORNEY

**name, address, phone and
contact person**

OPPOSITION OR OTHER PARTY

ATTORNEY

R. J. Starrak
2401 So. Co. Rd 1110
Midland, Texas 79701
(915) 686-0258
Contact R. J. Starrak

SELF

**name, address, phone and
contact person**

STATEMENT OF CASE

APPLICANT

(Please make a concise statement of what is being sought with this application and the reasons therefore.)

OPPOSITION OR OTHER PARTY

(Please make a concise statement of the basis for opposing this application or otherwise state the position of the party filing this statement.)

I am opposed to the LBO New Mexico, Inc., application for the compulsory pooling of the mineral interests in the Wolfcamp Formation; in particular, the proposed formation of an eighty-acre oil spacing and proration unit for the Wolfcamp Formation consisting of the W 1/2 of the SW 1/4 Section 9, TWP 11S, Rge, 33E N.M.P.M Lea County, New Mexico.

LBO New Mexico, Inc., has proposed the drilling of a Mississippian Test to 11,300 feet at a location in the NW 1/4 of the SW 1/4, which should also be an economic producer in the Wolfcamp Formation. LBO New Mexico, Inc., has given me, and other Working Interest Owners in the State OG oil spacing and proration unit, the option to join in the drilling of the deep test, farmout for 5% O.R.R.I. proportionally reduced, or sell our interest at \$1,000.00 per 1%. There is, however, no option to join in the drilling and/or completion of a Wolfcamp well. In fact, I have been denied this right as illustrated by the attached copies of our correspondence.

I do not feel that I should be forced to pay for a deep test merely to retain my interest in a potential forty-acre Wolfcamp completion.

I am not fully aware of the lease ownership in the S 1/2 of Section 9, TWP 11S Rge, 33E other than the N 1/2, SW 1/4 and the S 1/2, SE 1/4 which were the leases purchased by the group that had the first well, LBO OG State #1, drilled through farmout. I would have to assume that LBO either owns, or has options on, the remaining leases. Furthermore, allowing a change in the Wolfcamp spacing as requested by LBO New Mexico would dilute the interest at the Wolfcamp Potential Completion at the proposed site by 50%.

In addition, the Operating Agreement between LBO New Mexico and myself states in Article VI.B.2 as follows:

"Notwithstanding the provisions of this article VI.B.2, it is agreed that without the mutual consent of all parties no well shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then existing well spacing pattern for such source of supply."

The Contract Area specified by the Operating Agreement between LBO New Mexico, Inc. and myself as set out on Exhibit A of the Agreement are as follows:

"North 1/2 of the Southwest quarter and the South 1/2 of the Southeast quarter of Section 9, Township 11 South, Range 33 East consisting of 160 acres, more or less, and located in Lea County, New Mexico."

Were the Commission to grant LBO New Mexico, Inc.'s request for compulsory pooling of the Wolfcamp Formation, and the formation of a new eighty-acre oil spacing and proration unit different from those in effect, it would, in my opinion, override the protection now being afforded me in the Operating Agreement.

STARRAK OPERATING COMPANY

2401 So. Co. Rd. 1110
MIDLAND, TEXAS 79701
915/686-0258

Fax 915/686-2065

February 6, 1991

Strata Energy Resources Corporation
28202 Cabot Road, Suite 250
Laguna Niguel, Cal. 92677

Re: O.G. State No.2- NW/4 SW/4 of Section 9, Township 11S, Range 33E-Lea
County--- Notice to Drill Second Well

Dear Mr. Diaz:

We are in receipt of your January 18,1991 letter in which you propose the drilling of a deep test to the Mississippian formation at 11,300'. This letter is to advise that we do not wish to join in the drilling of this Mississippian test and agree to go under the agreement Article VI. We will expect however that if the Mississippian is non productive, that we will be offered the opportunity to participate in any completion attempt to be made in the Wolfcamp formation or correlative zones in the O.G. State No. 1 well.

Yours truly



R. J. Starrak



STRATA ENERGY RESOURCES CORPORATION

Subsidiaries

LBO ENERGY, INC.

LBO NEW MEXICO, INC.

STRATA PROGRAMS, INC.

February 8, 1991

Mr. R.J. Starrak
Starrak Operating Company
2401 So. County Road 1110
Midland, TX 79701

RE: Your February 6, 1991 letter -- O.G. State No. 2 well

Dear Mr. Starrak:

I am in receipt of your February 6, 1991 letter regarding the O.G. State No. 2 well, wherein you have elected to go non-consent under Article VI of the Operating Agreement, and thus we will proceed accordingly.

Your request for us to provide you with an opportunity to participate in the completion of the Wolfcamp formation in the event the deeper zones prove dry is not in keeping with the terms of the Operating Agreement, and thus cannot be honored.

Article VI of the Operating Agreement calls for a non-consenting party to either accept or reject in total the proposed operation as proposed by the proposing party. A nonconsenting party may not accept the proposed operation in part and reject the balance. Since you have elected to go nonconsent as to the proposed operation, namely the drilling of a well to the Mississippian, you will be treated as such for the entire well.

I also want to point out that there may be other potential productive zones between the Mississippian and the Wolfcamp where completions may be attempted.

We are sorry that we cannot honor your request for to do so would be contrary to the Operating Agreement.

If you have any questions or desire further information please let us know.

Sincerely,

STRATA ENERGY RESOURCES CORPORATION

Raymond A. Diaz
President

RAD/jaf

cc: Don Turner

PROPOSED EVIDENCE

APPLICANT

WITNESSES
(Name and expertise)

EST. TIME

EXHIBITS

OPPOSITION

WITNESSES
(Name and expertise)

EST. TIME

EXHIBITS

R. J. Starnak
B. S. Geology
40 Years Experience
in Oil Industry.
Engineering,
Drilling, and
Production

10-15 Minutes

Isopach Map
Wolfcamp Formation
Operating Agreement

PROCEDURAL MATTERS

(Please identify any procedural matters which
need to be resolved prior to the hearing)

I will probably wish to question the LBO New Mexico Inc.,
witness.



Signature