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March 14, 1995

11240

HAND DELIVERED

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MAR 14 1995

Oil Conservation Division

Mr. Michael E. Stogner
Chief Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87504

Re: *Application of CONOCO INC. to Reopen
Case Nos. 10471 and 10560 Pursuant
to Division Order R-9673-A and to
Vacate said Order and to Create two
Non-Standard 80-acre Proration and Spacing Units,
Eddy County, New Mexico*

Dear Mr. Stogner:

On behalf of Conoco 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 6, 1995.

By copy of this letter and application, sent certified mail, we are notifying all interested parties of their right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application and that failure to appear at the hearing may preclude them from any involvement in this case at a later date.

Mr. Michael E. Stogner

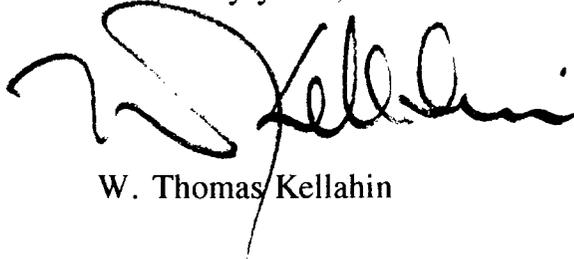
March 13, 1995

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Pursuant to the Division's Memorandum 2-90, all parties are hereby informed that if they appear in this case, then they are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, March 31, 1995, with a copy delivered to the undersigned.

Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,

A handwritten signature in black ink, appearing to read "W. Thomas Kellahin". The signature is fluid and cursive, with a large initial "W" and a long, sweeping underline.

W. Thomas Kellahin

WTK/wtk

Enclosure

cc: Conoco, Inc.

PROPOSED ADVERTISEMENT

CASE 11240 Application of Conoco Inc. to Reopen Case Nos. 10471 and 10560 pursuant to Division Order R-9673-A, to vacate the compulsory pooling provisions of said order and for the creation of two non-standard 80-acre spacing and proration units including the assignment of appropriate allowables, Eddy County, New Mexico. Applicant, in the above styled cause, seeks to Reopen case 10471 and 10560 and to vacate the compulsory pooling provision thereof and to create two non-standard 80-acre spacing and proration units consisting of the N/2NE/4 and the S/2NE/4 of Section 17, T19S, R25E, NMPM for production from the North Dagger Draw-Upper Pennsylvanian Pool including the assignment of appropriate allowables, designation of operators and other matters. These units are located 9 miles west-northwest of Lakewood, New Mexico

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Oil Conservation Division

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 CONOCO INC. TO
REOPEN CASE NOS. 10471 AND 10560
PURSUANT TO DIVISION ORDER R-9673-A,
TO VACATE THE COMPULSORY POOLING
PROVISIONS OF SAID ORDER, AND FOR THE
CREATION OF TWO NON-STANDARD 80-ACRE
SPACING AND PRORATION UNITS INCLUDING
THE ASSIGNMENT OF APPROPRIATE ALLOWABLES
EDDY COUNTY, NEW MEXICO.

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Oil Conservation Division

Case 11240

CASE NO. 10471 (Reopened)

CASE NO. 10560 (Reopened)

APPLICATION

Comes now CONOCO INC., by and through its attorneys,
KELLAHIN & KELLAHIN, and pursuant to certain provisions of
Division Order R-9673-A, applies to the New Mexico Oil Conservation
Division ("NMOCD") to Reopen NMOCD Case 10471 and Case 10560
and to vacate the compulsory pooling provisions of said Division Order
R-9673-A, to create two non-standard 80-acre spacing and proration
units consisting of the N/2NE/4 and the S/2NE/4 of Section 17, T19S,
R25E, NMPM for production from the North Dagger Draw-Upper
Pennsylvanian Pool including the assignment of appropriate allowables,
designation of operators and other matters,

And in support states:

(1) Case 10471 is a compulsory pooling application filed by
Southwest Royalty Inc. ("Southwest") involving the NE/4 of Section 17,
T19S, R25E, Eddy County, New Mexico.

(2) Case 10560 is a compulsory pooling application filed by Conoco Inc. ("Conoco") involving the same acreage.

(3) By stipulation of Southwest and Conoco, both Case 10471 and Case 10560 were consolidated.

(4) On May 6, 1992, when Order R-9673 (Case 10471) was issued pooling all of the NE/4 of said Section 17, the working interest ownership in the subject 160-acre spacing and proration unit consisted of the NE/4 of Section 17, Township 19 South, Range 25 East, NMPM as follows:

- (a) Conoco Inc 85.75 %
- (b) Southwest 12.5 %
- (c) Martha L. ("Scarlett") Nunes 1.75 %

(5) Order R-9763 pooled all mineral interests in the Canyon Formation of the North Dagger Draw-Upper Pennsylvanian Pool underlying a spacing and proration unit containing 160 acres, more or less, and consisting of the NE/4 of Section 17, T19S, R25E, NMPM, Eddy County, New Mexico, and named Southwest as operator for purposes of drilling and completing a well to be located in the SW/4NE/4 (Unit G) of said Section 17.

(6) Division Order R-9763 pooled the interests of Conoco and Nunes both of whom failed to join within the notice period and were deemed to have elected not to participate in the well.

(7) On July 17, 1992, Southwest commenced its Dagger Draw #1 Well in the NW/4NE/4 (Unit B) of Section 17 rather than in the SW/4NE/4 (Unit G).

(8) Conoco objected to the relocation of the well from Unit G to Unit B and filed a competing compulsory pooling application (NMOCD Case 10560) for the dedication of the same spacing unit for the well drilled in Unit B and sought, among other things to be designated the operator.

(9) On August 14, 1992, Southwest filed an application before the Division to reopen Case 10471 so that Order R-9673 could be amended to change the well location from Unit G to Unit B.

(10) On September 25, 1992, Southwest and Conoco signed a written settlement of the matters in dispute, which among other things, authorized Conoco to assume operations of the Southwest Dagger Draw #1 Well in Unit B and to proceed with completion and further authorized Southwest to commence the drilling of the Southwest Dagger Draw #2 Well in Unit G.

(11) On October 15, 1992, at the Hearing of Case Nos. 10471 and 10560, Conoco dismissed its pooling case (NMOCD Case 10560).

(12) In order to implement the terms of the Southwest-Conoco Settlement, Southwest amended its application to modify Order R-9673 so that the pooled spacing unit could be dedicated to a well to be drilled by Southwest at a location within Unit G of Section 17.

(13) The Settlement between Southwest and Conoco contemplated joint operators of the spacing unit with Conoco developing the N/2 of the spacing unit and Southwest operating the S/2 of the spacing unit.

(14) The Division held such a settlement would be inconsistent with the established practice of the Division to not have joint operators within a single spacing unit. Both Southwest and Conoco agreed that a satisfactory resolution of that issue can be postponed until both wells were drilled, completed and producing capabilities established for each well.

(15) Order R-9673-A issued on May 6, 1992, superseded Order R-9673 and then provided in Decretory Paragraph (16) that the following issues should be held in abeyance pending the completion and establishment of accurate producing rates for both wells:

(a) The assignment of an appropriate allowable to both the Dagger Draw #1 and #2 Wells;

(b) A determination of whether the spacing unit should be subdivided into two 80-acre non-standard spacing and proration units consisting of the N/2 and S/2 of the NE/4 of Section 17 and the appropriate allocation of the allowable;

(c) The rights, remedies and obligations to and from Scarlett Nunes;

(d) Designation of an operator and/or sub-operator(s) for the spacing unit and the subject wells;

(e) Appropriate amendments to the subject order to accommodate Conoco's operation of the spacing unit for the Unit B well; and

(f) If necessary, appropriate amendments to the subject order to modify the pooling to create two non-standard 80-acre spacing and proration units.

(16) Conoco and Southwest have each drilled, completed and produced their respective wells for sufficient period of time to now resolve the issues held in abeyance by Order R-9773-A.

(17) As a result of Conoco and Southwest signing a joint operating agreement for this spacing unit, Nunes was the only working interest owner in the NE/4 of said Section 17 who had not agreed to pool her interest. Thereafter Conoco acquired the Nunes interest and a compulsory pooling order is no longer needed in this case.

WHEREFORE Conoco seeks the following:

(1) Conoco now operates its Julie Well No 2 (API No. 30-015-27047) (formerly known as the Dagger Draw Well No. 1) located at a standard oil well location 660 feet from the North line and 1980 feet from the East line (Unit B) of said Section 17 for which it seeks:

(a) to dedicate the N/2NE/4 of said Section 17 retroactive to the date of its first production;

(b) the assignment of 50% of a standard 700 BOPD allowable; and

(c) to vacate the compulsory pooling provisions of Order R-9763-A.

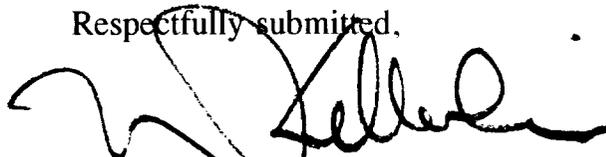
(2) Southwest now operates its Dagger Draw "A" Well No. 1 (API No. 30-015-27159) located at a standard oil well location 1650 feet from the North line and 1880 feet from the East line (Unit G) of said Section 17 which:

(a) should be dedicated to the S/2NE/4 of said Section 17 retroactive to the date of its first production;

(b) with the assignment of 50% of a standard 700 BOPD allowable; and

(c) with the compulsory pooling provisions of Order R-9763-A being vacated.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin
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