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

JASON KELLAHIN (RETIRED 1991)

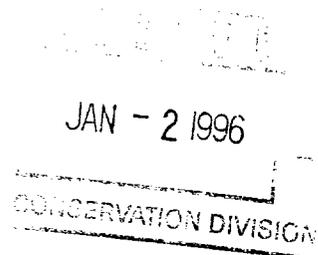
TELEPHONE (505) 982-4285  
TELEFAX (505) 982-2047

January 2, 1996

11455

**HAND DELIVERED**

Mr. William J. LeMay, Director  
Oil Conservation Division  
2040 South Pacheco  
Santa Fe, New Mexico 87505



Re: Government Nbfd Unit Well No. 1  
Application of Oxy USA Inc.  
for an Unorthodox Gas Well Location  
and Simultaneous Dedication,  
Eddy County, New Mexico

Dear Mr. LeMay:

On behalf of Oxy USA Inc., please find enclosed our application for an unorthodox gas well location for its Government Nbfd Unit Well No. 1 including simultaneous dedication which we request be set for hearing on the Examiner's docket now scheduled for January 25, 1996. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'W. Thomas Kellahin'. The signature is fluid and cursive.

W. Thomas Kellahin

cc: Oxy USA Inc.  
Attn: Richard Foppiano

RECEIVED

2 1996

Oil Conservation Division

Proposed notification/advertisement for OCD docket

Case 11455: Application of Oxy USA Inc. for an unorthodox gas well location and simultaneous dedication, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval to drill its Government Nbfd Unit Well No. 1 at an unorthodox gas well location 660 feet from the South line and 330 feet from the West line (Unit M) of Section 11, Township 20 South, Range 28 East, NMPM, as to all prospective pools or formations below the top of the Wolfcamp formation including but not limited to the North Burton Flat-Wolfcamp Gas Pool and the Burton Flat-Morrow Gas Pool. The W/2 of Section 11 is to be dedicated to this well forming a standard 320-acre gas spacing and proration unit for any and all production from the top of the Wolfcamp formation to the base of the Morrow formation. Applicant further requests approval to (a) simultaneously dedicate any Wolfcamp production from the subject well with Wolfcamp production from its existing Government AB Well No. 1 located 1980 feet from the West and South lines of said Section 11; and (b) simultaneously dedicate any Morrow production from the subject well with Morrow production from its existing Government AB Well No. 5 located 660 feet from the West line and 1980 feet from the North line of said Section 11. Said well is located approximately 13 miles southeast of Lakewood, New Mexico.

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

**RECEIVED**

IN THE MATTER OF THE APPLICATION OF  
OXY USA INC. FOR APPROVAL  
OF AN UNORTHODOX GAS WELL LOCATION,  
EDDY COUNTY, NEW MEXICO

APR 9 1996

Conservation Division

CASE: 11455

**APPLICATION**

Comes now OXY USA INC., by and through its attorneys, KELLAHIN and KELLAHIN, and applies to the New Mexico Oil Conservation Division for approval to drill its Government Nbfd Unit Well No. 1 at an unorthodox gas well location 660 feet from the South line and 330 feet from the West line (Unit M) of Section 11, Township 20 South, Range 28 East, NMPM, as to all prospective pools or formations below the top of the Wolfcamp including but not limited to the North Burton Flat-Wolfcamp Gas Pool and the Burton Flat-Morrow Gas Pool. The W/2 of Section 11 is to be dedicated to this well forming a standard 320-acre gas spacing and proration unit for any and all production from the top of the Wolfcamp formation to the base of the Morrow formation. Applicant further requests approval to (a) simultaneously dedicate any Wolfcamp production from the subject well with Wolfcamp production from its existing Government AB Well No. 1 located 1980 feet from the West and South lines of said Section 11; and (b) simultaneously dedicate any Morrow production from the subject well with Morrow production from its existing Government AB Well No. 5 located 660 feet from the West line and 1980 feet from the North line of said Section 11.

In support thereof, Applicant states:

1. Applicant, Oxy USA Inc. ("OXY"), is a working interest owner in the W/2 of Section 11, T20S, R28E and the proposed operator for the Government Nbfd Unit Well No. 1 to be drilled at an unorthodox gas well location 660 feet from the South line and 330 feet from the West line (Unit M) of said Section 11 as set forth on Exhibit "A" attached.

2. Based upon 3-D seismic analysis, Oxy has identified a structural feature the approximate center of which underlies the intersection of Sections 10, 11, 14 and 15 which is prospective as to some seven different hydrocarbon bearing formations below the top of the Wolfcamp and which is not capable of being produced by any existing wellbore in this area.

3. Oxy proposes to drill its Government NBFD Unit Well No. 1 to test for production from the top of the Wolfcamp formation including but not limited to the North Burton Flat-Wolfcamp Gas Pool, the Winchester-Morrow Gas Pool, the Winchester-Strawn Gas Pool, the North Burton Flat-Atoka Gas Pool and the Burton Flat-Morrow Gas Pool which provide for 320 acre gas spacing and proration units.

4. Geologic and engineering evaluations have concluded that the optimum location for drilling a well within this structural feature for all formations below the top of the Wolfcamp is at the approximate center of the intersection of Sections 10, 11, 14 and 15, T20S, R28E, NMPM.

5. Geologic and engineering evaluations have concluded that the proposed location is necessary in order to have the optimum location at which to drill this well in order to use a single wellbore to test all of these potential producing formations within this structural feature.

6. Oxy has concluded that it is reasonable to expect that if the subject well is capable of production below the top of the Wolfcamp formation, it may be the only well necessary in order to adequately and efficiently develop all of the formations within this structural feature.

7. The well will be located at a standard well location for any oil production from any formations but will be at an unorthodox gas well location for any gas production below the top of the Wolfcamp formation.

8. All of the potential "deep gas" productive formations in this structural feature are very risky and cannot be justified by drilling a separate well at a standard "deep gas" well location in Section 10, 11, 14 or 15.

9. Because of the unusual circumstance that the optimum geologic location for this well is at the approximate center of the intersection of Sections 10, 11, 14, and 15, it is necessary to drill the subject well at its proposed unorthodox well location in order to prevent waste.

10. In order to protect correlative rights, Oxy proposes to utilize an Equity Agreement in which all of the working interest, royalty interest and overriding royalty interest owners in the W/2 of Section 11, the E/2 of Section 10, the N/2 of Section 14 and the N/2 of Section 15 ("the Equity Area") will participate in the costs for the subject well and in any production below the top of the Wolfcamp despite the fact the well is actually located in and to be dedicated to a spacing unit contained within the W/2 of Section 11.

11. The Equity Agreement shall apply to any production below the top of the Wolfcamp formation from the subject well and any production below the top of the Wolfcamp formation from any future wells in the Equity Area. Oxy intends not to affect any existing well within the Equity Area or how the costs and revenues of those existing wells are managed. Oxy will obtain the consent of all necessary parties and the execution of The Equity Agreement (being a new operating agreement and such other agreements as are deemed necessary) applicable to the Equity Area including provisions for the exclusion of all existing wells therefrom.

12. All of the oil & gas leases within the Equity Area are federal leases subject to the jurisdiction of the Bureau of Land Management ("BLM") which has approved Oxy's Equity Agreement.

13. Because the subject well is to be located within the same gas spacing and proration unit (W/2 of Section 11) currently dedicated to two other existing gas wells currently capable of production from two non-prorated gas pools, it will be necessary for the Division to approve that this 320-acre spacing unit can be:

(a) simultaneously dedicated to any Wolfcamp production from the subject well with Wolfcamp production from its existing Government AB Well No. 1 located 1980 feet from the West and South lines of said Section 11; and

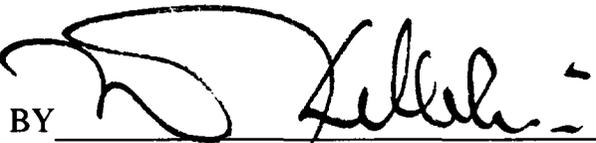
(b) simultaneously dedicated to any Morrow production from the subject well with Morrow production from its existing Government AB Well No. 5 located 660 feet from the West line and 1980 feet from the North line of said Section 11.

14. Approval of the application will afford the applicant and all affected interest owners the opportunity to produce its just and equitable share of the hydrocarbons in these formations and will otherwise prevent waste and protect correlative rights.

15. In accordance with Division Rule 1207, notification is being sent to those parties listed on Exhibit "B".

WHEREFORE, Applicant requests that, after notice and hearing, this Application be approved as requested.

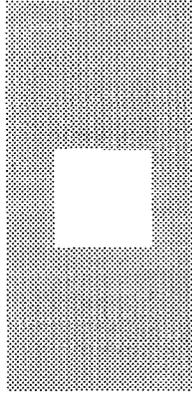
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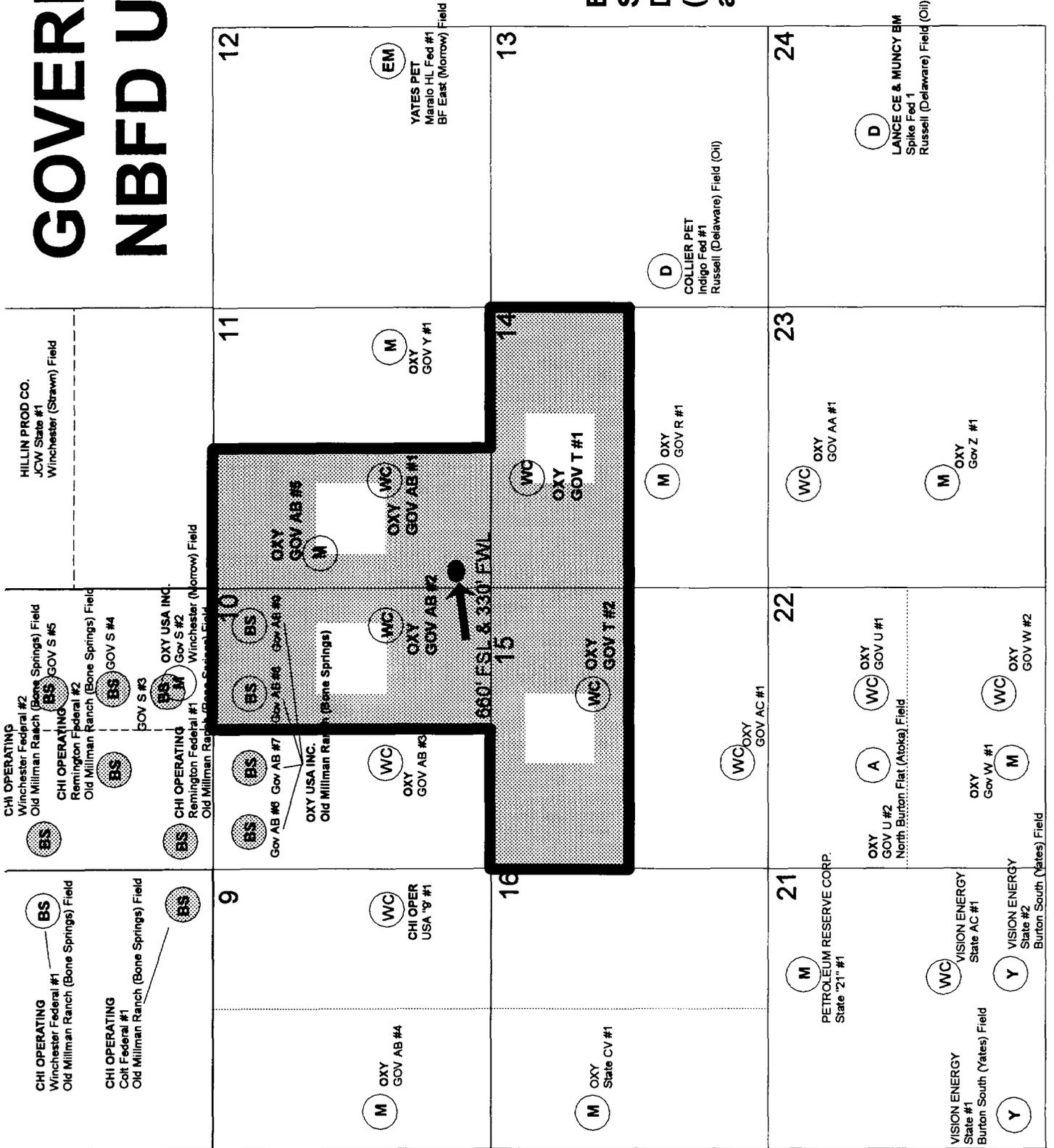
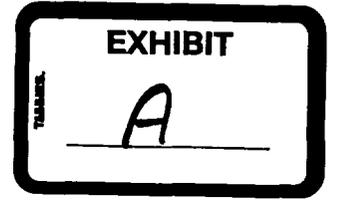
W. Thomas Kellahin  
P. O. Box 2265  
Santa Fe, New Mexico 87504  
(505) 982-4285  
Attorneys for Applicant

# GOVERNMENT NBFD UNIT #1

**OUTLINE OF NEW  
OPERATING AREA**



**EXISTING 320 ACRE  
SPACING UNITS FOR  
DEEP GAS**  
(Legal location area  
also shown)



**EXHIBIT "B"**

Davoil, Inc.  
PO Box 122269  
Fort Worth, Texas 76121

Great Western Drilling Co.  
PO Box 1659  
Midland, Texas 79701  
Attn: Michael Heathington

UMC Petroleum Corporation  
410 Building  
410 17th Street Ste. 1400  
Denver CO. 80202  
Attn: Joseph F Gavlick

Mrs. Joseph Dunigan  
c/o Pat Marr  
4024 La Adelita  
El Paso, Texas 79922

Kerr-McGee Corporation  
PO Box 25861  
Oklahoma City, OK 73125  
Attn: Dave Henke

Bureau of Land Management  
Roswell District Office  
1717 West Second Street  
Roswell, New Mexico 88202  
Attn: Amando Lopez