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JASON KELLAHIN (RETIRED 1991)

May 14, 1996

HAND DELIVERED



Mr. William J. LeMay, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87504

*Re: Exxon Fee Well No. 1 (Lot 7)
Lot 7 of Irregular Section 4, T21S, R37E, NMPM
Application of SDX Resources, Inc.
Company for Compulsory Pooling,
Lea County, New Mexico*

Dear Mr. LeMay:

On behalf of SDX Resources, Inc., please find enclosed our application for compulsory pooling which we request be set for hearing on the Examiner's docket now scheduled for June 13, 1996. Also enclosed is our proposed notice of publication for this case.

Very truly yours,

W. Thomas Kellahin

Enclosure

cc: SDX Resources, Inc.
Attn: Chuck Morgan

CASE 11544: Application of SDX Resources, Inc. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Drinkard formation underlying Lot 7 of Irregular Section 4, T21S, R37E, NMPM, Lea County, New Mexico, forming a standard 40.4-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the North Eunice Blinbry-Tubb-Drinkard Pool. Said unit is to be dedicated to its Exxon Fee Well No. 1 to be drilled and completed at a standard well location in Lot 7 of said Section 4. Also to be considered will be the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in said well. Said unit is located approximately 6 miles north from Eunice, New Mexico.

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

IN THE MATTER OF THE APPLICATION
OF SDX RESOURCES, INC.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

CASE NO. 11544

APPLICATION

Comes now SDX RESOURCES, INC., by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17(c) (1978) applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests from the surface to the base of the Drinkard formation underlying Lot 7 of Irregular Section 4, T21S, R37E, NMPM, Lea County, New Mexico, forming a standard 40.4-acre spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the North Eunice Blinebry-Tubb-Drinkard Pool. Applicant proposes to dedicate this pooled unit to its Exxon Fee Well No. 1 to be drilled and completed at a standard well location within Lot 7 of said Section 4. Also to be considered will be the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well.

In support of its application, SDX Resources, Inc. states:

1. SDX Resources Inc. has a working interest ownership in the oil and gas minerals from the surface to the base of the Drinkard formation underlying Lot 7 of Irregular Section 4, T21S, R37E, NMPM, Lea County, New Mexico.

2. SDX Resources, Inc. proposes to drill its Exxon Fee Well No. 1 at a standard well location in Lot 7 of Section 4 to test any and all formations in the pooled interval from the surface to the base of the Drinkard formation.

3. Based upon an oil & gas title opinion, SDX Resources, Inc. believes that Sadye Helen Johnston, a widow, or her successor are owners of an unleased mineral interest in the subject spacing unit.

4. Despite its good faith efforts, neither SDX Resources, Inc. nor its predecessors in interest has been unable to locate Sadye Helen Johnston or her successors.

5. Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, SDX Resources, Inc. needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

WHEREFORE, SDX Resources, Inc., as applicant, requests that this application be set for hearing on June 13, 1996 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in this spacing unit for the drilling of the subject well at a standard well location upon terms and conditions which include:

- (1) SDX Resources, Inc. be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) In the event a working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200 %;
- (4) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;
- (5) Provisions pooling any non-participating royalty interests owners; and
- (6) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over the typed name and address below.

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