

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN*

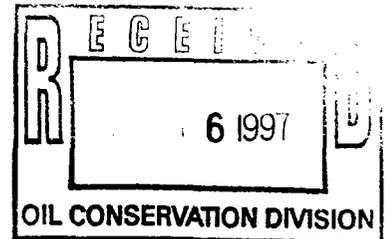
*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

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September 16, 1997

HAND DELIVERED



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

11859

**Re: McGruder "13" Federal Com Well No. 1
Application of Louis Dreyfus Natural Gas Corp.
for compulsory pooling and an unorthodox well location
Eddy County, New Mexico**

Dear Mr. LeMay:

On behalf of Louis Dreyfus Natural Gas Corp., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for October 9, 1997. 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".

W. Thomas Kellahin

cc: Louis Dreyfus Natural Gas Corp.
Attn: Russell R. Waters

CASE¹¹⁸⁵⁹: Application of Louis Dreyfus Natural Gas Corp. for compulsory pooling and an unorthodox well location, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the S/2 of Section 13, T22S, R25E, NMPM, Eddy County, New Mexico, to form a 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320-acre gas spacing, including but not limited to the Happy Valley-Morrow Gas Pool; to form a 160-acre gas proration and spacing unit underlying the SE/4 of said Section 13 for any and all formations and/or pools spaced on 160-acre gas spacing; and to form a 40-acre oil proration and spacing unit underlying the SW/4SE/4 of said Section 13 for any and all formations and/or pools spaced on 40-acre oil spacing and proration units below the base of the Delaware formation. Said unit(s) are to be dedicated to its McGruder Federal Com "13" Well No. 1 which will be a directional wellbore with a surface location 1930 feet FWL and 280 feet FSL and with a bottom hole location 710 feet FSL and 1650 feet FEL of said Section 13 and with the possibility of encountering the Bone Springs formation at a point not closer than 200 feet from the west side of the SW/4SE/4 of said Section 13. 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 southwest from Carlsbad, New Mexico.

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

IN THE MATTER OF THE APPLICATION
OF LOUIS DREYFUS NATURAL GAS CORP.
FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

CASE NO. 11859

A P P L I C A T I O N

Comes now LOUIS DREYFUS NATURAL GAS CORP. 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 Morrow formation underlying the S/2 of Section 13, T22S, R25E, NMPM, Eddy County, New Mexico, to form a 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320-acre gas spacing, including but not limited to the Happy Valley-Morrow as Pool; to form a 160-acre gas proration and spacing unit underlying the SE/4 of said Section 13 for any and all formations and/or pools spaced on 160-acre gas spacing; and to form a 40-acre oil proration and spacing unit underlying the SW/4SE/4 of said Section 13 for any and all formations and/or pools spaced on 40-acre oil spacing and proration units below the base of the Delaware formation. Said unit(s) are to be dedicated to its McGruder Federal Com "13" Well No. 1 which will be a directional wellbore with a surface location 1930 feet FWL and 280 feet FSL and with a bottom hole location 710 feet FSL and 1650 feet FEL of said Section 13 and with the possibility of encountering the Bone Springs formation at a point not closer than 200 feet from the west side of the SW/4SE/4 of said Section 13. 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.

In support of its application, Louis Dreyfus Natural Gas Corp., ("Dreyfus") states:

1. Dreyfus has a working interest ownership in the oil and gas minerals from the surface to the base of the Delaware formation underlying the S/2 of Section 13, T22S, R25E, NMPM, Eddy County, New Mexico.

2. The subject tract is located near the Happy Valley-Morrow Pool.
3. The subject well is to be drilled at a surface location 280 feet FSL and 1650 feet FEL (Unit O) of Section 13 to a bottom hole location at approximately 660 feet FSL and 1650 feet FEL of said Section 13 test any and all formations in the pooled interval from the surface to the base of the Morrow formation. See Exhibits A, B and C.
4. The subject well is a directional wellbore which may encounter the Bone Springs formation at a point approximately 200 feet from the western boundary of the SW/4SE/4 of said Section 13 which is closer than the standard 330 foot setback.
5. Accordingly, Dreyfus seek an unorthodox well location not closer than 200 feet to the west side boundary of the SW/4SE/4 of Section 13 for any and all oil production from the Bone Springs formations.
6. Dreyfus has proposed the subject well and its appropriate spacing unit to the only other working interest owner in the spacing unit(s) as identified on Exhibit "D"
7. Despite its good faith efforts, Dreyfus has been unable to obtain a written voluntary agreement from all of the party listed on Exhibit "D"
8. 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, Dreyfus needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.
9. In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "D" notifying each of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for October 9, 1997.

WHEREFORE, Dreyfus, as applicant, requests that this application be set for hearing on October 9, 1997 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 the appropriate spacing unit for the drilling of the subject well at a standard well location upon terms and conditions which include:

- (1) Louis Dreyfus Natural Gas Corp. 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) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:



W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285

ORIG.

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
PO Drawer DD, Artesia, NM 88211-0719
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Form C-102
Revised February 10, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number		Pool Code	Pool Name
		78060	HAPPY VALLEY MORROW GAS
Property Code	Property Name		Well Number
	McGRUDER 13 FEDERAL COM		1
OGZED No.	Operator Name		Elevation
25773	LOUIS DREYFUS NATURAL GAS CORPORATION		3399.

10 Surface Location

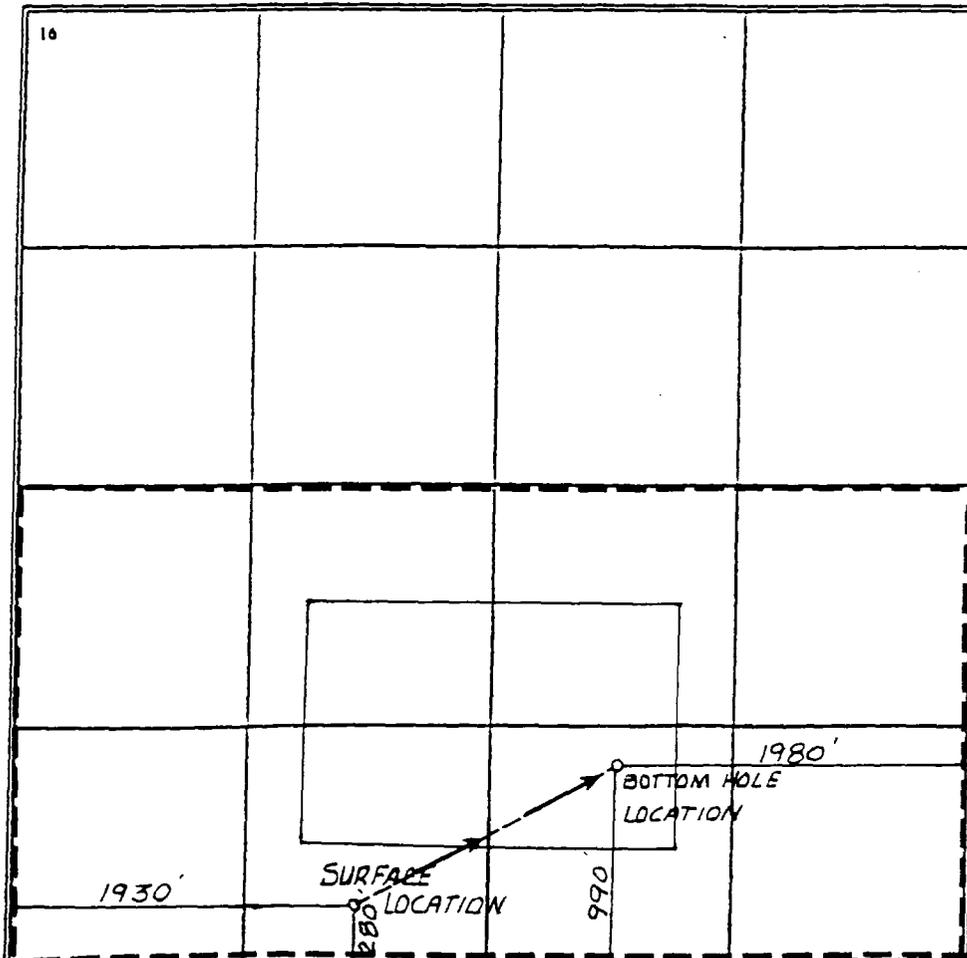
UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
N	13	22-S	25-E		280	SOUTH	1930	WEST	EDDY

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
0	13	22-S	25-E		990	SOUTH	1980	EAST	EDDY

12 Dedicated Acres	13 Joint or Infill	14 Consolidation Code	15 Order No.
320			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



17 OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Joe T. Janica
Signature
Joe T. Janica
Printed Name
Agent
Title
08/26/97
Date

18 SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

APR 26 1997
Date of Survey
NEW MEXICO
5412
REGISTERED PROFESSIONAL LAND SURVEYOR
Certificate Number
NM PR&PS

EXHIBIT
A

Halliburton Energy Services

Proposal Report

Date: 9/9/97
 Time: 10:44 am
 Wellpath ID: PROPOSAL
 Last Revision: 9/9/97

*Calculated using the Minimum Curvature Method
 Computed using WIN-CADDS REV2.2.2
 Vertical Section Plane: N 75.80 E*

Survey Reference: WELLHEAD
 Vertical Section Reference: WELLHEAD
 Closure Reference: WELLHEAD
 TVD Reference: WELLHEAD

LOUIS DREYFUS NATURAL GAS
 McGRUDER "13" FED COM #1
 EDDY COUNTY, NEW MEXICO
 SEC. 13 - T22S - R25E

SHL: 280' FSL, 1930' FWL

Measured Depth (ft)	Incl (deg.)	Drift Dir. (deg.)	Course Length (ft)	TVD (ft)	Vertical Section (ft)	TOTAL Rectangular Offsets (ft)		DLS (dg/100ft)
TIE IN								
0.00	0.00	N 0.00 E	0.00	0.00	0.00	0.00 N	0.00 E	0.00
KOP / START OF BUILD @ 2.50 deg/100 ft								
5000.00	0.00	N 0.00 E	5000.00	5000.00	0.00	0.00 N	0.00 E	0.00
5200.00	5.00	N 66.90 E	200.00	5199.75	8.62	3.42 N	8.02 E	2.50
5400.00	10.00	N 66.90 E	200.00	5397.97	34.40	13.66 N	32.03 E	2.50
5600.00	15.00	N 66.90 E	200.00	5593.17	77.15	30.64 N	71.83 E	2.50
5800.00	20.00	N 66.90 E	200.00	5783.85	136.55	54.24 N	127.13 E	2.50
5971.57	24.29	N 66.90 E	171.57	5942.73	200.43	79.61 N	186.60 E	2.50
START OF CURVE @ 2.00 deg/100 ft								
7899.31	24.29	N 66.90 E	1927.74	7699.82	983.84	390.78 N	915.96 E	0.00
8099.31	22.04	N 75.31 E	200.00	7883.74	1062.03	416.44 N	990.11 E	2.00
8299.31	20.30	N 85.31 E	200.00	8070.30	1133.78	428.80 N	1061.01 E	2.00
WOLFCAMP 8150' TVD								
8384.12	19.75	N 90.00 E	84.82	8150.00	1162.19	430.00 N	1090.00 E	2.00
8386.20	19.71	N 90.00 E	2.08	8151.96	1162.87	430.00 N	1090.70 E	2.00
START OF CURVE @ 2.00 deg/100 ft								
9695.99	19.71	N 90.00 E	1309.78	9385.02	1591.07	430.00 N	1532.40 E	0.00
9895.99	15.71	S 90.00 E	200.00	9575.50	1650.03	430.00 N	1593.23 E	2.00
STRAWN 9600' TVD 1750' FEL START OF CURVE @ 2.00 deg/100 ft								
9921.41	15.20	S 90.00 E	25.42	9600.00	1656.60	430.00 N	1600.00 E	2.00
10121.41	11.20	S 90.00 E	200.00	9794.68	1700.86	430.00 N	1645.66 E	2.00
10321.41	7.20	N 90.00 E	200.00	9992.06	1731.85	430.00 N	1677.63 E	2.00
10521.41	3.20	N 90.00 E	200.00	10191.20	1749.42	430.00 N	1695.75 E	2.00
10682.15	0.01	N 0.00 E	160.74	10351.86	1753.78	430.02 N	1700.24 E	1.99
TARGET 11200' TVD 1650' FEL								
11530.29	0.01	N 0.00 E	848.14	11200.00	1753.83	430.24 N	1700.24 E	0.00
TD 11600' TVD								
11930.29	0.01	N 0.00 E	400.00	11600.00	1753.86	430.34 N	1700.24 E	0.00

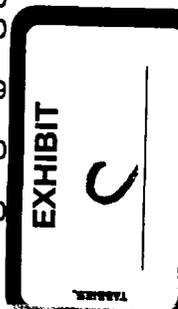


EXHIBIT "D"

Penwell Energy, Inc.
600 N. Marienfeld Ste 1100
Midland, Texas 79701-4362