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June 18, 1998

Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Dear Mr. Stogner:

Pursuant to Division Rule 104.F.(2), Costilla Energy, Inc. ("Costilla") applies for administrative approval of an unorthodox gas well location for the following well:

Funk "49" Well No. 1
1650 feet FSL & 1080 feet FWL
S½ §33, Township 16 South, Range 26 East, NMPM
Eddy County, New Mexico

The well will be drilled to test the Morrow formation (POW-Morrow Gas Pool), at an approximate depth of 8500 feet. A Form C-102 for the well is attached as Exhibit A. Well spacing is 320 acres, with wells to be no closer than 1650 feet to the end boundary or 660 feet to the side boundary of the well unit, and no closer than 330 feet to a quarter-quarter section line.

The proposed location is based upon topographical reasons. Attached as Exhibit B are two plats of the area. As you can see, the well is located in Artesia. The well's original location was orthodox, 1650 feet FSL and 1980 feet FWL. However, that location is in the parking lot of the maintenance building of the Artesia city dump. The dump is located to the north and south of the proposed well; there is an industrial complex to the south of the well; and to the east of the dump and the proposed well are a number of mobile homes. As a result, Costilla moved the well to the west of its preferred location.

The working interest owners in the E½ §32-16S-26E and the N½ §5-17S-26E are listed on Exhibit C. Notice was given to the interest owners, as shown on Exhibit D.

This application is submitted in duplicate. Please call me if you need anything further regarding this matter.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James Bruce".

James Bruce

Attorney for Costilla Energy, Inc.