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RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

August 24, 1998

HAND DELIVERED

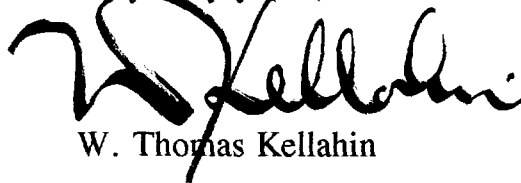
Ms. Lori Wrotenbery, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

**Re: OXY's PIB Federal Well No. 1
E/2 Section 21, T17S, R28E
Application of OXY USA INC.
for compulsory pooling and an
unorthodox gas well location
Eddy County, New Mexico**

Dear Ms. Wrotenbery:

On behalf of OXY USA INC., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for September 17, 1998. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,


W. Thomas Kellahin

cc: OXY USA INC.
Attn: Richard E. Foppiano

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OIL CONSERVATION DIV.

12042

CASE 15042 Application of OXY USA INC., for compulsory pooling and an unorthodox gas well location, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the top of the Wolfcamp to the base of the Morrow formation underlying the E/2 of Section 21, T17S, R28E, NMPM, Eddy County, New Mexico to form a standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent, which presently may include but is not necessarily limited to the Empire-Pennsylvanian Gas Pool or the Empire-Wolfcamp Gas Pool. Said unit is to be dedicated to its OXY's PIB Federal Well No. 1 to be drilled and completed at an unorthodox gas well location 2440 feet FNL and 1980 feet FEL (Unit G) of said Section 21. 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 the applicant as the operator of the well and a charge for risk involved in said well. Said unit is located approximately 16 miles southeast of Artesia, New Mexico.

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

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

CASE NO. 12042

A P P L I C A T I O N

Comes now OXY USA INC., by its attorneys, Kellahin & Kellahin and, in accordance with NMSA 1978, Section 70-2-17(c), applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests from the top of the Wolfcamp to the base of the Morrow formation underlying the E/2 of Section 21, T17S, R28E, NMPM, Eddy County, New Mexico to form a standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent, which presently may include but is not necessarily limited to the Empire-Pennsylvanian Gas Pool or the Empire-Wolfcamp Gas Pool. Said unit is to be dedicated to its OXY's PIB Federal Well No. 1 to be drilled and completed at an unorthodox gas well location 2440 feet FNL and 1980 feet FEL (Unit G) said Section 21. 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 the applicant as the operator of the well and a charge for risk involved in said well.

In support of its application, OXY USA INC., ("OXY") states:

1. OXY has a working interest ownership in the oil and gas minerals from 3,500 feet below the surface to the base of the Morrow formation underlying a portion of the E/2 of Section 21, T17S, R28E, NMPM, Eddy County, New Mexico.

2. The subject tract is located within one-mile of the current boundary of the Empire-Pennsylvanian Gas Pool, the special rules and regulations for which were terminated by Division Order R-5809 entered on September 20, 1978.

3. OXY has proposed a well to be drilled at an unorthodox gas well location in Unit G of said Section 21 and the dedication of the well to a standard gas proration and spacing unit consisting of the E/2 of said Section 21 for any and all production spaced on 320-acre spacing below the top of the Wolfcamp formation to all of the working interest owners in the spacing unit.

4. Despite its good faith efforts, OXY has been unable to obtain a written voluntary agreement from those remaining working interest owners or unleased mineral owners listed on Exhibit "A."

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, OXY needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

6. 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 "A" 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 September 17, 1998.

WHEREFORE, OXY, as applicant, requests that this application be set for hearing on September 17, 1998 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 interests described in the appropriate spacing unit for the drilling of the subject well at an unorthodox gas well location upon terms and conditions which include:

- (1) OXY USA INC. be named operator;
- (2) Provisions for applicant and all working interest and unleased mineral owners to participate in the costs of drilling, completing, equipping and operating the well;

- (3) In the event a working interest or unleased mineral 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:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written in a cursive style.

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

Exhibit "A"

Conoco, Inc.
10 Desta Drive, Suite 100W
Midland, Texas 79705
Attn: Carl Sherrill