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August 25, 1998

HAND-DELIVERED

Ms. Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco
Santa Fe, New Mexico 87503

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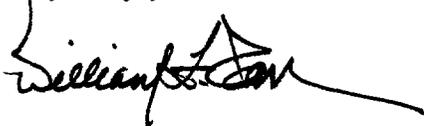
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OIL CONSERVATION DIV.

Re: Application of Strata Production Company to have the Division Order Exxon Company, U.S.A. to Remove an overriding royalty interest from acreage in Section 22, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico

Dear Ms. Wrotenbery:

Enclosed in triplicate is the Application of Strata Production Company in the above-referenced case as well as a draft of a legal advertisement for this case. Strata respectfully requests that this matter be placed on the docket for the September 17, 1998 Examiner hearings.

Very truly yours,



WILLIAM F. CARR

WFC:mlh
Enclosures

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

APPLICATION OF STRATA PRODUCTION COMPANY
FOR AN ORDER DIRECTING EXXON COMPANY, U.S.A.
TO REMOVE AN OVERRIDING ROYALTY
INTEREST FROM ACREAGE IN SECTION 22, TOWNSHIP
22 SOUTH, RANGE 32 EAST, NMPM, LEA COUNTY,
NEW MEXICO.

CASE NO. 12050

APPLICATION

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OIL CONSERVATION DIV.

STRATA PRODUCTION COMPANY ("Strata"), through its undersigned attorneys, hereby makes application to the Oil Conservation Division for an order requiring Exxon Company, U.S.A. ("Exxon") to appear and show cause why its should not remove an overriding royalty interest it placed on the NW/4 NW/4 and the SE/4 NW/4 (Exxon acreage) of Section 22, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico, and in support thereof states:

1. Strata owns a leasehold interest in the W/2 of Section 22 which is governed by a Lease Operating Agreement ("the Agreement") between it and Exxon. This Agreement contains a Continuous Drilling Provision which requires Strata to drill a well every 180 days or lose its rights under the Agreement as to all remaining undeveloped acreage.

2. Pursuant to the Agreement, Strata must commence the drilling of a well on the lease acreage by September 21, 1998 or Strata's rights under the Agreement terminate and all rights to undrilled lands covered by the Agreement will revert to Exxon.

3. To comply with the Lease Operating Agreement, in May 1998, Strata proposed

the drilling of a well in the W/2 of Section 22 to Exxon but was unable to reach agreement with Exxon for the voluntary development of this spacing and proration unit.

4. Under a Farmout Agreement with Exxon covering the Exxon acreage, (NW/4 NW/4, SE/4 NW/4) Strata acquired only shallow rights and, therefore, it has no secondary objectives in the well it proposes to drill to the Morrow formation. Because of its limited interest and the risk associated with the drilling of a Morrow well, Strata advised Exxon in their negotiations that, depending on other aspects of this agreement, it had to receive a Net Revenue Interest ("NRI") in the Exxon acreage of 81.25% to 82.5% or its economics would not justify the drilling of a well on this tract.

5. On June 30, 1998, unable to reach an agreement with Exxon and faced with the approaching deadline to drill under the Lease Operating Agreement with Exxon, Strata filed an application seeking the compulsory pooling of the W/2 of Section 22 to be dedicated to its Hill Federal Well No. 1 to be drilled at a standard location in the W/2 of Section 22. This application was docketed as Oil Conservation Division Case 12011 and set for hearing on July 23, 1998.

6. Exxon appeared at the hearing through legal counsel and requested an additional two weeks time for the parties to attempt to reach a voluntary agreement for the development of this spacing and proration unit. The Examiner granted Exxon's request for two additional weeks for negotiations.

7. Strata contacted Exxon on June 23, 1998, the day of the hearing, and invited it

to join in the well. The negotiations continued almost daily through July 31, 1998. In these negotiations the fact that Strata's economics required a NRI in excess of 80% was repeatedly discussed. No agreement was reached.

8. On August 4, 1998, Mr. Steve Deffenbaugh, a former Exxon land representative who was familiar with the Lease Operating Agreement, contacted Strata to advise that Exxon had assigned its interest in the lands in the W/2 (Exxon acreage) of Section 22 to Robert E. Landreth who might be willing to farmout to Strata. When Strata advised Mr. Deffenbaugh that this interest was subject to a compulsory pooling application, Mr. Deffenbaugh stated Mr. Landreth might want to participate. Strata then questioned whether Mr Landreth was a party to the compulsory pooling application and Mr. Deffenbaugh stated he would discuss this matter with Exxon.

9. Subsequent to this conversation, Strata discovered that Exxon reserved a 10% overriding royalty interest in the rights it assigned to Mr. Landreth.

10. Exxon created this overriding royalty interest out of its working interest knowing that its actions would (1) prevent Strata from drilling a well to the Morrow formation in the W/2 of Section 22, (2) defeat the Division's compulsory pooling order in Case 12011, (3) interfere with Strata's ability to receive the benefits of its Lease Operating Agreement with Exxon, and (4) cause a forfeiture of Strata's interest to Exxon.

11. Strata requests the Division require Exxon to appear and show cause why it should not remove this overriding royalty interest.

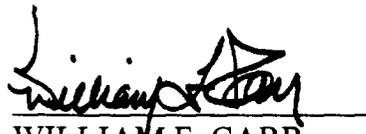
12. Unless this overriding royalty interest is removed, Strata will lose its opportunity to protect its correlative rights by drilling a well on the W/2 of Section 22 and a precedent will be set whereby the creation of an override can be used to defeat compulsory pooling orders of the Division.

WHEREFORE, STRATA PRODUCTION COMPANY, requests that this application be set for hearing before an Examiner of the Oil Conservation Division on September 17, 1998 and that Exxon Company, U.S.A. be ordered to appear and show cause why it should not be ordered to remove the overriding royalty burden it placed on the tracts it conveyed to Robert Landreth located in the W/2 of Section 22, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico.

Respectfully submitted,

CAMPBELL, CARR, BERGE
AND SHERIDAN, P. A.

By:



WILLIAM F. CARR

Post office Box 2208

Santa Fe, NM 87504-2208

ATTORNEYS FOR STRATA
PRODUCTION COMPANY

CASE j2056

Application of Strata Production Company for an order directing Exxon Company, U.S.A. to remove an overriding royalty interest from acreage in Section 22, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico. Applicant seeks an order directing Exxon Company, U.S.A. to remove an overriding interest it created on certain interests in Section 22, Township 22 South, Range 32 East, NMPM, that defeats Division Order No. R-12011 which compulsory pooled certain spacing and proration units in the W/2 of said Section 22. This acreage is located approximately 9 miles north-northeast of the intersection of Highway 128 and the border between Eddy and Lea Counties.

OIL CONSERVATION DIV.
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