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

JASON KELLAHIN (RETIRED 1991)

July 25, 2001

HAND DELIVERED

Ms. Lori Wrotenbery, Director
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Case 12716

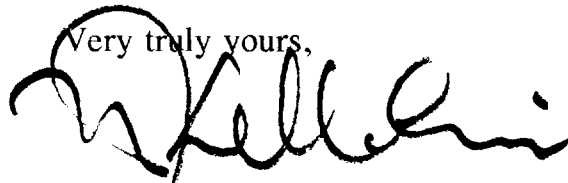
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**Re: Chardonnay Well No. 1
Application of Xeric Oil and Gas Corporation
for Compulsory Pooling
Lea County, New Mexico**

Dear Ms. Wrotenbery:

On behalf of Xeric Oil & Gas Corporation, please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for August 23, 2001. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Xeric Oil & Gas Corporation
Attn: Lisa Morris
cc: Rod J. MacDonald, Esq.

CASE 127:⁶ Application of Xeric Oil & Gas Corporation for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Abo formation underlying the SW/4NE/4 of Section 14, T19S, R38E, NMPM, Lea County, New Mexico, forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools spaced on 40-acre spacing, including but not limited to the DK-Abo Pool. Said unit is to be dedicated to its Chardonnay Well No. 1 to be drilled and completed at a standard well location in Unit G of this section. 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 this well. This unit is located approximately 2-1/2 miles south-southeast from the center of Hobbs, New Mexico.

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

**IN THE MATTER OF THE APPLICATION
OF XERIC OIL & GAS CORPORATION
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

CASE NO. 12716

A P P L I C A T I O N

XERIC OIL & GAS CORPORATION 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 surface to the base of the Abo formation underlying the SW/4NE/4 of Section 14, T19S, R38E, NMPM, Lea County, New Mexico, forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools spaced on 40-acre spacing units, including but not limited to the DK-Abo Pool. Said unit is to be dedicated to its Chardonnay Well No. 1 to be drilled and completed at a standard well location in Unit G of this section. 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 this well.

In support of its application, Xeric Oil & Gas Corporation, ("XERIC") states:

1. Xeric has a working interest ownership in the oil and gas minerals from the surface to the base of the Abo formation underlying the NE/4 of Section 14, T19S, R38E, NMPM, Lea County, New Mexico.

2. The subject tract is located within the DK-Abo Pool.

3. The subject well is to be drilled at a standard oil well location in the SW/4NE/4 (Unit G) of Section 14 to test any and all formations in the pooled interval from the surface to the base of the Abo formation.

4. Xeric has proposed the well to all working interest owners in this proposed spacing unit.

5. Xeric, despite its good faith effort, has been unable to obtain the voluntarily agreement of the working interest owners in the spacing unit as identified on Exhibit "A."

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

7. 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 August 23, 2001.

WHEREFORE, Xeric, as applicant, requests that this application be set for hearing on August 23, 2001 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) Xeric Oil & Gas Corporation 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:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', with a stylized, flowing script.

W. THOMAS KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87504