

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 10998

HALLWOOD PETROLEUM INC. FOR APPROVAL
OF AN UNORTHODOX OIL WELL LOCATION
AND A NON-STANDARD OIL PRORATION AND
SPACING UNIT, LEA COUNTY, NEW MEXICO

JUN 3 1998

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by HALLWOOD PETROLEUM CORPORATION as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANT

Hallwood Petroleum Inc.
4582 S. Ulster St #1700
Denver, Colorado 80237
Attn: Kevin O'Connell
(303) 850-6234

ATTORNEY

W. Thomas Kellahin
KELLAHIN AND KELLAHIN
P.O. Box 2265
Santa Fe, NM 87504
(505) 982-4285

STATEMENT OF CASE

APPLICANT

Applicant, Hallwood Petroleum Inc., ("Hallwood") is the lessee and operator of the proposed non-standard 80-acre oil spacing and proration unit consisting of the SW/4SE/4 (Unit O) and SE/4SE/4 (Unit P) of Section 30, T20S, R33E, NMPM, Lea County, New Mexico.

On January 15, 1974, the Commission issued Order R-4699 and approved an application by Belco Petroleum Corporation requesting approval to drill its Bass Federal Well No. 2 within the Potash Area established by Order R-111-A and at an unorthodox Morrow gas well location 660 feet FSL and 1300 feet FEL of said Section 30.

The Bass Federal Well No. 2 was drilled and produced from the Morrow formation in the South Salt Lake-Morrow Gas Pool and is now depleted in that pool.

On January 1, 1989, Hallwood (formerly Quinoco Petroleum) obtained ownership of the wellbore and in the fall of 1993 re-completed the Bass Federal Well No. 2 as an oil well capable of production from the Hat Mesa-Delaware Pool.

The Hat Mesa-Delaware Pool was established an oil pool by Division Order R-9095 issued January 1, 1990 and is subject to the Division's general statewide 40-acre oil spacing rules.

Because the Bass Federal Well No. 2 is located in Unit P but only 20 feet from the common governmental quarter-quarter section line with Unit O, Hallwood proposes to dedicate the well to a non-standard 80-acre oil proration and spacing unit consisting of the SW/4SE/4 and the SE/4SE/4 of Section 30.

The approval of the proposed non-standard 80-acre oil proration and spacing unit will afford the opportunity to share production from the well among the owners in both governmental quarter-quarter sections and thereby avoid the impairment of correlative rights which will occur if Unit O is excluded and is subject to drainage by the well.

The opportunity to use a previously drilled wellbore to obtain production from the Delaware formation instead of drilling of a new well at a standard well location substantially reduces the cost and thereby avoids the drilling of an unnecessary well and prevents waste.

Approval of the application will afford all interest owners in each of the two 40-acre tracts the opportunity to produce their just and equitable share of the hydrocarbons from the Hat Mesa-Delaware Pool and will otherwise prevent waste and protect correlative rights.

In accordance with Division Rule 1207, Applicant has notified those affected parties who operate spacing units adjoining the proposed unit AND those affected parties who have an interest in production within the proposed unit

PROPOSED EVIDENCE

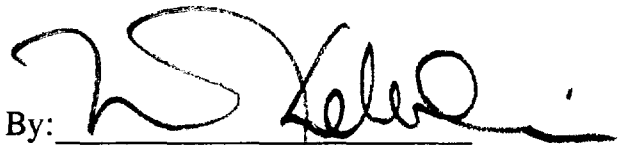
APPLICANT

WITNESSES	EST. TIME	EXHIBITS
Kevin O'Connell (Petroleum Engineer)	15-20 Min.	8 exhibits
Chris Wood (Landman)	10 Min.	6 exhibits

PROCEDURAL MATTERS

None applicable at this time.

KELLAHIN AND KELLAHIN

By: 

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