

KELLAHIN, KELLAHIN AND AUBREY

Attorneys at Law

W. Thomas Kellahin
Karen Aubrey

El Patio - 117 North Guadalupe

Telephone 982-4285
Area Code 505

Post Office Box 2265

Jason Kellahin
Of Counsel

Santa Fe, New Mexico 87504-2265

February 23, 1988

Mr. William J. LeMay
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

"Hand Delivered"

Re: OCD Case 9272; Order R-8579
In the matter of the
Application of
Mitchell Energy Corporation
for Compulsory Pooling and
Unorthodox Well Location
Lea County, New Mexico

RECEIVED

FEB 23 1988

OIL CONSERVATION DIVISION

Dear Mr. LeMay:

Our firm represents Mitchell Energy Corporation. On January 11, 1988, after notice and hearing, the Division entered compulsory pooling Order R-8579 in Case 9272 which requires Mitchell Energy Corporation to commence the subject well on or before March 1, 1988.

Arco Oil & Gas Company, one of the parties pooled by that order, has now filed a request with the Division to reopen that hearing so that it can now belatedly participate in a hearing that it voluntarily chose not participate in back on December 2, 1987.

On March 2, 1988, the Division Examiner will consider whether to grant Arco's application for another hearing. Mitchell is opposed to the granting of that request and submits the enclosed Response and Affidavit in support of the denial of the Arco's request.

As a result of Arcos action, Mitchell has been delayed in the commencement of the drilling of this well and requests that the Division Director extend the commencement date from March 1, 1988 to June 1, 1988.

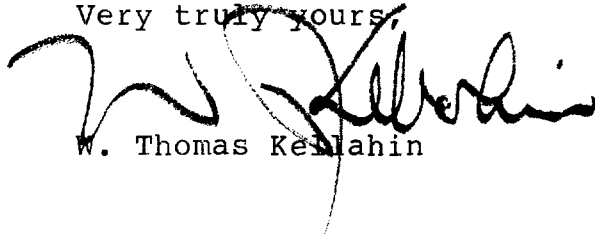
In addition, Arco's request for another hearing has been set on the Examiner's docket of March 2, 1988. With the concurrence of Mr. William F. Carr, attorney for Arco, we would request that the case be continued and

KELLAHIN, KELLAHIN & AUBREY

Mr. William J. LeMay
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that upon your return to Santa Fe, you set a date and time for Mr. Carr and I to appear before you and argue our respective positions based upon the briefs and affidavits submitted, thereby avoiding the expense of an evidentiary hearing on this preliminary matter.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over the typed name. The signature is fluid and cursive.

W. Thomas Kellahin

WTK:ca
Enc.

cc: Mr. Larry Cunningham ("Federal Express")
Mitchell Energy Corporation
200 N. Lorraine, Suite 1000
Midland, Texas 79701

William F. Carr, Esq.
Campbell & Black, P. A.
P. O. Box 2208
Santa Fe, New Mexico 87504

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF ARCO OIL & GAS COMPANY TO
REOPEN CASE 9272 AND RECONSIDER
THE PROVISIONS OF ORDER R-8579,
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

CASE: 9272

MITCHELL ENERGY CORPORATION'S
OPPOSITION TO ARCO OIL & GAS
COMPANY'S MOTION FOR A NEW HEARING

MITCHELL ENERGY CORPORATION, ("Mitchell"), by and through its attorneys, Kellahin, Kellahin & Aubrey, opposes Arco Oil & Gas Company's ("Arco") request for a new hearing in this compulsory pooling case. In support of its response, Mitchell submits as Exhibit 1 the sworn affidavit of Mr. Joe Lazenby and as Exhibit 2 the sworn affidavit of Mr. Larry Cunningham, and states as follows:

On January 11, 1988, the Division, after notice and hearing, granted Mitchell's application for compulsory pooling and entered Order R-8579 in Case 9272.

One of the parties pooled by this Order is Arco which has a mineral interest in the N/2NW/4 of Section 3, T15S, R35E, Lea County, New Mexico.

As provided in the Compulsory Pooling Order, Arco's interest in the subject well would change depending upon the spacing unit ultimately produced under the various combinations of the pooling order.

Prior to the December 2, 1987 hearing, Mitchell made a good faith effort to obtain a voluntary agreement with Arco for their acreage in the NW/4 of Section 3. By letter dated October 8, 1987 Arco offered to lease all of Arco's interest in the NW/4 of Section 3 to Mitchell. By letter dated October 14, 1987, Mitchell accepted the Arco proposal.

Thereafter however, on November 30, 1987, Arco proposed to alter the agreed upon terms by limiting the interest to be earned by Mitchell to only the interest included in the producing spacing unit instead of Arco's entire interest in the NW/4 of Section 3. The Arco proposed modification was rejected by Mitchell. In addition, the lease form submitted by Arco to Mitchell proposed new and additional terms that had not been agreed upon between the parties. This too was rejected by Mitchell.

Prior to the December 2, 1987 Examiner's hearing of Mitchell's compulsory pooling application, Mr. Lazenby of Mitchell advised Ms. Rita Buress of Arco that her proposed modification of the October 8, 1987 agreement was unacceptable. Even with that knowledge Ms. Buress

further advised Mr. Lazenby that Arco would not attend the hearing on December 2, 1987. The transcript of the testimony and evidence introduced at the hearing shows Arco had the required notice of the hearing and the opportunity to appear.

It is obvious from Arco's statements to Mr. Cunningham after the hearing (Exhibit 2) that Arco knows, understands, and admits that in the absence of an agreement with Mitchell, the compulsory pooling order stands. At no point was Arco induced by Mitchell not to participate in the hearing. All reasonable efforts, both before and after the hearing, to obtain a voluntary agreement with Arco have failed and there is no alternative but to proceed in accordance with the compulsory pooling order.

On January 15, 1988, as required by the order, Arco received the required documentation for making its election to participate in the well by paying its share of the AFE costs. Arco has failed to make timely payment of those costs within the thirty day election period.

In addition, Arco has not sought nor obtained a Stay of that order as required by Division directives.

Notwithstanding the foregoing, on February 5, 1988, Arco filed an application with the Division for a new

hearing so that it can belatedly appear and oppose the application of Mitchell.

The documentation submitted by Arco in support of its Motion fails to demonstrate that a new hearing will have any likelihood of reaching a different outcome. The proposed lease form and operating agreement submitted by Arco are not signed by Mitchell. There is an obvious lack of agreement by the parties.

The appropriate forum for a resolution of whether there is an agreement based upon the October 8, 1987 letter and whether Arco's proposed modification of that earlier proposal is binding upon Mitchell Energy is for the Court to determine and not the Division. Arco improperly seeks a determination from the Division that the Arco interest is not subject to the compulsory pooling order because of its allegation that the parties have entered into a binding contract. It is beyond the jurisdiction of the Division to determine the existence of a contract between the parties.

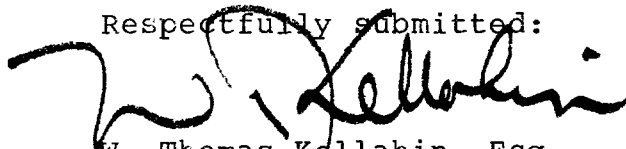
As an alternative request, Arco seeks another hearing to allow it to oppose Mitchell's application. Arco has failed to sustain its burden of justifying that it is entitled to another hearing and that another hearing, if granted, will result in an outcome any different from Order R-8579.

Mitchell Energy Corporation had agreed to lease the Arco interest in accordance with the Arco October 8, 1987 letter and in return Arco seeks to renegotiate the deal.

Mitchell Energy Corporation has provided Arco with the opportunity to pay its share of the costs of the well and to participate in the well. In return Arco seeks to use the Division as a device to extract further concessions from Mitchell Energy Corporation.

Accordingly, based upon the affidavit on file and the transcript and exhibits of the hearing held on December 2, 1987, Mitchell requests that the Arco Motion for a new Hearing be denied.

Respectfully submitted:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the typed name and address.

W. Thomas Kellahin, Esq.
Kellahin, Kellahin & Aubrey
P. O. Box 2265
Santa Fe, New Mexico 87504

Attorneys for Mitchell
Energy Corporation

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY, MINERALS
AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION OF
MITCHELL ENERGY CORPORATION FOR COMPULSORY
POOLING AND AN UNORTHODOX WELL LOCATION,
LEA COUNTY, NEW MEXICO.

CASE NO. 9272

AFFIDAVIT

STATE OF TEXAS)
)ss.
COUNTY OF MIDLAND)

I, Joe R. Lazenby, being first duly sworn, and upon oath, state:

1. I am employed by Mitchell Energy Corporation as District Landman in Midland, Texas.

2. By letter of October 2, 1987 I made initial contact with Ms. Rita Buress of Arco proposing a working interest unit and Arco participation in a Devonian test well in the NW/4 Section 3-T15S-R35E, Lea County, New Mexico. As an alternative to participation I requested Arco to lease their interest.

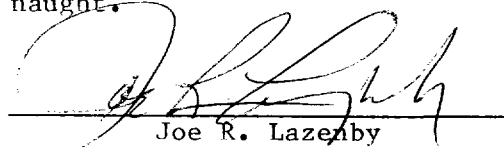
3. On October 9, 1987 I received a letter dated October 8, 1987 from Ms. Buress which advised Arco would evaluate joining the well or grant a lease agreement. The lease agreement would provide in part, that if the test well is completed as a commercial producer Mitchell would earn a lease from Arco covering 100% of Arco's mineral interest in the NW/4 Section 3, from the surface to 100' below total depth drilled.

4. Under letter of October 14, 1987 I advised Ms. Buress of Mitchell Management approval of the farmout terms set out in the October 8 letter.

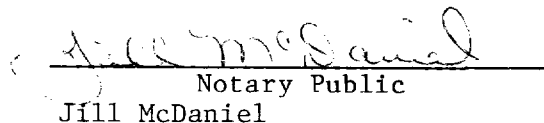
5. On or about December 1, 1987 I received a telephone call from Rita Buress advising Arco would not participate in our proposed Devonian test, however, would farmout their interest. During the conversation I agreed to no new terms that were not previously approved by Mitchell Management. This approval was stated in my letter of October 14, 1987 which was a confirmation of the terms of Arco letter of October 8, 1987. I inquired if Arco would attend the December 2, 1987 OCD compulsory pooling hearing. Ms. Buress advised Arco would not attend.

6. A letter was received from Ms. Buress on December 1, 1987 and a farmout/lease agreement received on December 28, 1987 and neither contained the terms as previously agreed upon.

WHEREFORE, Affiant sayeth naught.


Joe R. Lazenby

SUBSCRIBED AND SWORN to before this 10th day of February, 1988, by Joe R. Lazenby.


Notary Public
Jill McDaniel

My Commission Expires:
9/6/89

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY, MINERALS
AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION OF
MITCHELL ENERGY CORPORATION FOR COMPULSORY
POOLING AND AN UNORTHODOX WELL LOCATION,
LEA COUNTY, NEW MEXICO.

CASE NO. 9272

AFFIDAVIT

STATE OF TEXAS)
)ss.
COUNTY OF MIDLAND)

I, Larry D. Cunningham, being first duly sworn, and upon oath, state:

1. I am employed by Mitchell Energy Corporation as a landman in Midland, Texas.

2. In my job with Mitchell, I have been one of the two (2) contact persons for Mitchell in dealings with Arco Oil & Gas Company for the proposed operations to conduct drilling of a 14,700' Devonian test in the N/2 Section 3, Township 15 South, Range 35 East, N.M.P.M., Lea County, New Mexico.

3. Subsequent to prior correspondence concerning the above mentioned proposed operations and the January 12, 1988 letter from W. Thomas Kellahin to Arco, I contacted Ms. Rita Buress with Arco on January 26, 1988. I advised Ms. Buress that Mr. Kellahin had informed me that he had a conversation with an attorney representing Arco concerning why Mitchell force pooled Arco's interest rather than accepting a farmout if Arco and Mitchell had an agreement.

During this call, I advised Ms. Buress that Mitchell had not agreed to the same terms as appeared in the "Lease Agreement" received by Mitchell on December 28, 1987. I informed her that a farmout would have to be based upon the terms as outlined in her letter of October 8, 1987 and agreed to by Mitchell management. I advised Ms. Buress that the force pool order was better economically than the "Lease Agreement" that Arco finally delivered.

4. On January 27, 1988, I returned a phone call for Joe Lazenby to Mr. Doug Johnson with Arco. Mr. Johnson advised me that he was handling this matter now rather than Rita Buress. He also advised me that Arco was going to request a re-hearing and that Mitchell had not followed through on an agreement with Arco. I informed Mr. Johnson that there had not been an agreement between Arco and Mitchell as to the terms included in the "Lease Agreement" dated December 1, 1987.

During this call I advised Mr. Johnson that possibly Arco had a misunderstanding among its land department as to the terms offered in its October 8, 1987 letter but that Mitchell would still prefer to acquire a farmout on those terms per Joe Lazenby's letter of October 14, 1987 accepting ARCO's proposal of October 8, 1987. Mr. Johnson asked that should Arco and Mitchell not be able to work out a farmout agreement, would Mitchell stay with the force pool order. I advised him that Mitchell would more than likely go with the force pool order because it was better economically than their "Lease Agreement". Mr. Johnson said he would get together with his legal people and Arco management and get back with me. This was the last conversation with anyone from Arco.

WHEREFORE, Affiant sayeth naught.

Larry D. Cunningham
Larry D. Cunningham

SUBSCRIBED AND SWORN to before me this 10th day of February, 1988,
by Larry D. Cunningham.

Jill McDaniel

Notary Public
Jill McDaniel

My Commission Expires:

9/6/89