

ONE OIL
POURING

CASE No.

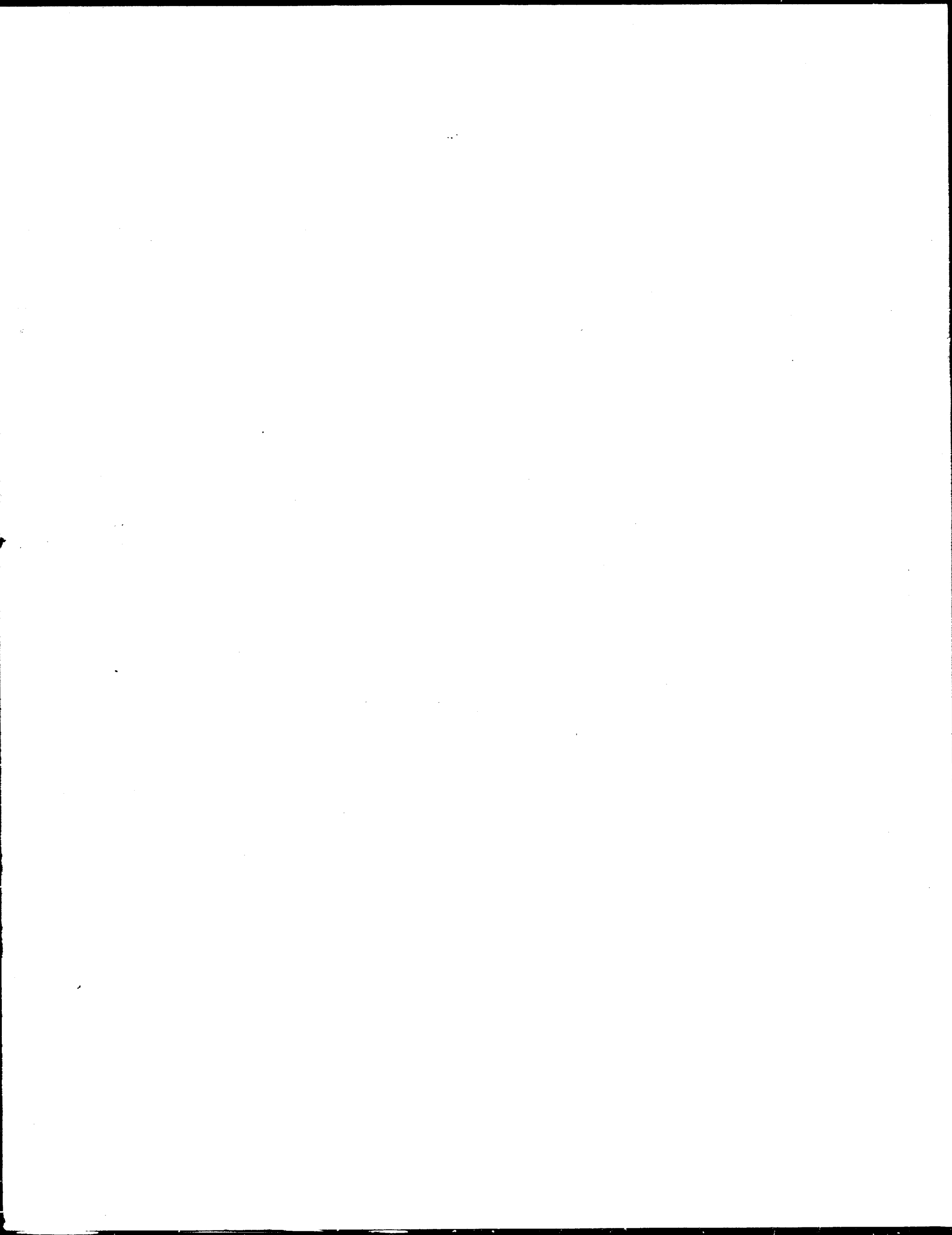
5092

Application,

Transcripts,

Small Exhibits

ETC.



dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-0691 • ALBUQUERQUE, NEW MEXICO 87103
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
OIL CONSERVATION COMMISSION CONFERENCE ROOM
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO
Wednesday, October 31, 1973

IN THE MATTER OF:

Application of Gulf Oil Corporation
for compulsory pooling, Lea County,
New Mexico. Applicant, in the above-
styled cause, seeks an order pooling
all mineral interests from the base of
the Wolfcamp formation to the base of
the Morrow formation underlying the E/2
of Section 9, Township 16 South, Range
35 East, Townsend-Morrow Gas Pool, Lea
County, New Mexico, to be dedicated to its
Hulda Townsend Well No. 2 located in Unit
I of said Section 9.

) Case No. 5092

BEFORE: RICHARD L. STAMETS,
Examiner

TRANSCRIPT OF EXAMINER HEARING

1 MR. STAMETS: Call next Case 5092.

2 MR. DERRYBERRY: Case 5092, Application of Gulf
3 Corporation for compulsory pooling, Lea County, New
4 Mexico.

5 MR. STAMETS: Call for appearances in Case 5092.

6 MR. McALLEN: I'm Mr. McAllen from Midland, Texas,
7 appearing on behalf of Gulf Oil Corporation together
8 with James Sperling of Albuquerque, New Mexico, and I
9 have two witnesses to be sworn.

10 MR. STAMETS: Are there any other appearances
11 in this case?

12 MR. KELLAHIN: Tom Kellahin, Kellahin and Fox,
13 Santa Fe, New Mexico, appearing on behalf of V-F
14 Petroleum Company, I have one witness.

15 MR. McALLEN: I call my first witness, Mr. C. F.
16 Kalteyer.

17 C. F. KALTEYER,
18 a witness, having been first duly sworn according to law,
19 upon his oath testified as follows:

20 DIRECT EXAMINATION

21 BY MR. McALLEN:

22 Q Would you state your full name, please?

23 A Charles F. Kalteyer.

24 Q By whom are you employed, Mr. Kalteyer, and in what
25 capacity are you employed?

dearnley, meier & associates

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87108
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 A I am employed by Gulf Oil Corporation, and I am employed
2 as the district proration engineer in Midland, Texas.

3 Q Mr. Kalteyer, have you previously testified before the
4 New Mexico Oil Conservation Commission and had your
5 qualifications as an expert accepted by that body?

6 A Yes, sir.

7 MR. McALLEN: Are there any questions about his
8 qualifications?

9 MR. STAMETS: His qualifications are acceptable.

10 Q (By Mr. McAllen) Mr. Kalteyer, what is Gulf seeking in
11 its application?

12 A Gulf is seeking compulsory pooling of all of the mineral
13 interests from the base of the Wolfcamp to the base of
14 the Morrow formation underlying the East half of
15 Section 9, Township 16 South, Range 35 East, Lea County,
16 New Mexico, adjacent to the Townsend-Morrow Gas Pool
17 and directly offsetting it.

18 Q Do you have an exhibit or a plat of the proposed unit
19 and the surrounding area?

20 A Yes. Exhibit 1 delineates the proposed standard 320-
21 acre unit outlined in the East half of Section 9 in
22 red. Gulf has a lease on the 160-acre Hulda Townsend
23 Tract in the Southeast quarter of Section 9, which is
24 outlined in yellow. Exxon Corporation has 80 acres in
25 the West half of the Northeast quarter of Section 9,

1 which is outlined in blue, and V-F Petroleum Corporation
2 has the East half of the Northeast quarter of Section
3 9, which is outlined in green.

4 You will note five wells circled in green, which are
5 producing or have produced from the Townsend-Morrow
6 Gas Pool. These wells are located as follows; in
7 Section 8, the Advance Oil and Gas Company, Incorporated,
8 State NTA Number 2 with an accumulative production
9 through August of 1973 of 3,379,269 Mcf. The average
10 daily rate of production for August of '73 was 2100
11 Mcf per day.

12 In Section 9, V-F Petroleum, Incorporated, Humble
13 Townsend Number 1, adjacent to and directly offsetting
14 the proposed unit, has a cumulative production of
15 1, 592,142 Mcf. Its average daily production in August
16 of '73 was approximately 3,000 Mcf P.D.

17 In Section 6 to the South of the V-F Well is Tom
18 Brown, Incorporated, Humble "A" State Number 1 with
19 a cumulative production of 93,140 Mcf and an average
20 daily production of 440 Mcf per day.

21 To the West in Section 17, Great Western Drilling
22 Company State Communitized Well Number 1 has a
23 cumulative production of 1,119,054 Mcf. Its August
24 daily average was 2400 Mcf per day.

25 In Section 10 to the East is V-F Petroleum,

1 Incorporated, Dangle Communitized Well Number 1 with
2 a cumulative of 48,216 Mcf, and is now indicated to be
3 off production. Cumulative production created to the
4 field as of August '73 is approximately 6.2 billion
5 cubic feet.

6 Q Mr. Kalteyer, does Gulf have any operations on its
7 160-acre Hulda Townsend tract at present?

8 A Yes, our Well Number 1 is presently producing from the
9 Townsend-Wolfcamp Pool, and on the recent gas-oil ratio
10 test dated October 8, 1973, the well produced at the
11 rate of 19 barrels of oil per day. Well Number 2,
12 which is circled in red on Exhibit 1, is presently
13 closed-in as uneconomical to produce in the Townsend-
14 Wolfcamp Pool. The well last produced in March of '72.

15 Q Mr. Kalteyer, what is the history of Gulf's Hulda
16 Townsend Number 2 Well?

17 A The Number 2 Well was drilled and completed in the
18 Wolfcamp December 16, 1955, and potentialized for 188
19 barrels of oil per day, four barrels of water, and a
20 GOR of 1997 to 1. Cumulative production is 83,952
21 barrels.

22 Q Now, how does Gulf propose to protect its correlative
23 rights and insure recovery of hydrocarbons in this
24 area?

25 A By deepening its Hulda Townsend Number 2 situated at a

1 standard location 2310 feet from the South line and
2 660 feet from the East line in Unit I of Section 9,
3 Township 16 South, Range 35 East.

4 Q Do you have an exhibit reflecting that?

5 A As Exhibit 2, I have a subsurface diagram of the
6 proposed deepening of this well, and as Exhibit 2
7 I have a general plan of producing for the deepening.
8 5 and 1/2-inch casing has been set at the depth of
9 10,533. Gulf proposes to deepen from 10,650 to 11,900
10 with a 4 and 5/8-inch hole. We further propose to
11 cement an OD flushline from a new total depth of
12 11,900 up to approximately 10,000 feet. A permanent-
13 type production packer will be set, and 2 and 3/8-inch
14 tubing run, and the well perforated in selected intervals
15 in the Pennsylvanian through a tubing gun.

16 Q Are there any mineral-interest owners in the proposed
17 proration unit who have not agreed to join or agreed to
18 pool?

19 A Yes, sir, as Exhibit 4, which they have three sets down
20 there, I did not have another set of the letters, this
21 file contains correspondence between Gulf, Exxon, and
22 V-F Petroleum.

23 By letter dated June 1, 1972, V-F Petroleum asked
24 Gulf to sell or farm out Gulf interests in the 160-acre
25 Bulda Townsend tract in order that they might form a

dearnley, meier & associates

209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

PAGE 7

1 standard unit and reenter our Well Number 1 and deepen
2 it to the Atoka sand. By letter of June 29th, Gulf
3 advised that we were not interested in selling or
4 farming out, but would consider a proposal for joint
5 operations under our acreage in the latter part of '72.

6 By letter dated October 5, '72, V-F Petroleum
7 requested a farm out of the deep rights under the
8 Gulf 160-acre Hulda Townsend tract in order to form a
9 unit and reenter and deepen Gulf's Well Number 2. By
10 letter dated November 2, 1972, Gulf advised that they
11 were not interested in farming out the acreage, but were
12 still interested in considering the formation of a unit
13 and jointly deepening our Well Number 2 to the Atoka-
14 Morrow section.

15 In our letter of April 2 to Exxon and V-F
16 Petroleum, Gulf proposed to communitize the East half
17 of Section 9 from the base of the Wolfcamp to the base
18 of the Morrow for the purpose of entering and deepening
19 Gulf's Number 2 Hulda Townsend. Gulf further proposed
20 that should Exxon and V-F Petroleum not desire to
21 participate, we would be willing to negotiate a farm out
22 with them covering their lease holdings.

23 By our letter of April 5, 1973, an A.F.F. was
24 submitted to Exxon proposing the deepening of Gulf's
25 Well Number 2. On May 9, after Exxon had elected to

1 participate in the deepening of Well Number 2, we also
2 submitted an A.F.E. to V-F Petroleum.

3 In our letter of July 17th to Exxon Corporation,
4 Gulf inquired as to Exxon's willingness to carry one-
5 third of the proportionate share of the non-consent
6 party's interest in deepening of Well Number 2, since
7 V-F was apparently not interested in the deepening of
8 this well. By a letter dated August 10, Exxon Corporation
9 approved entering into this deepening project with Gulf
10 and bearing 8 and 1/3 percent in addition to work
11 interest as their share of the non-consenting party's
12 interest.

13 By letter dated August 24, an invitation was again
14 stated to V-F Petroleum to join in the communitization
15 and to assume their proportionate share, and inquiry
16 was also made as to the sale of their interest in the
17 East half of the Northeast quarter of Section 9 to Gulf.

18 V-F Petroleum, by their letter of August 29, again
19 declined to participate in the reentry of Well Number 2.
20 They further advised they would entertain an offer by
21 Gulf and/or Exxon for the purchase of their leasehold
22 interest. Gulf's letter of September 12 confirmed a
23 refusal by V-F Petroleum of Gulf's offer to purchase
24 their seven-eighths working interest for \$250 per acre.
25 An invitation was again extended to V-F Petroleum to

1 participate as a working interest owner in the Number
2 2 Hulda Townsend.

3 In their letter of September 26, 1973, V-F
4 Petroleum offered to sell their leasehold rights below
5 the Wolfcamp on either of two bases, a cash consideration
6 with an option to convert to 50 percent working interest
7 after payout, or straight cash consideration.

8 Gulf's letter of September 27th advised V-F that
9 they were not interested in acquiring said leasehold
10 rights under the terms as set out in their letter.

11 Q Okay. Mr. Walteyer, are the Gulf offers exhibited
12 in these communications to V-F Petroleum still open for
13 acceptance by V-F Petroleum and will they remain open
14 until we undertake our deepening operation?

15 A Yes, sir.

16 Q Do you have a reasonable estimate of the present value
17 of Well Number 2?

18 A Yes, as Exhibit 5, we have itemized certain major items
19 to be considered in the present value of Number 2.

20 Gulf proposes that a value of 38,700 be set as the
21 present value of the Hulda Townsend Number 2, based on
22 a Class 3 value.

23 Well-head and associated equipment, \$4500; 5 and
24 1/2 inch casing to a depth of 10,220 feet in the amount
25 of \$27,400, the 10,220 feet being the depth to the top

1 of the present perforations in the Wolfcamp. The value
2 of usable tubing, 2 and 3/8 tubing, has been estimated
3 at \$6800.

4 Gulf believes this to be a reasonable estimate of
5 the present value of Well Number 2, since no charge has
6 been made for the 13 and 3/8 surface casing or the 8
7 and 5/8 intermediate casing set at 4599, or the
8 intangible drilling costs from the surface of the ground
9 to the total depth of 10,650.

10 Q Okay. Mr. Kalteyer, do you have a reasonable estimate
11 of the cost required to deepen the Number 2 Hulda
12 Townsend?

13 A Yes, sir, as Exhibit 6 we have a reasonable cost estimate
14 to deepen the Number 2 Well from its current depth,
15 10,650, to a proposed total depth of 11,900. The
16 drilling cost has been estimated at approximately
17 \$142,000. It was a revised upward from our estimate
18 of December 22, 1972, of \$130,310, primarily due to the
19 increased drilling rig rates.

20 Q And will you repeat once again the total drilling cost
21 for this deepening operation?

22 A The deepening has been estimated as \$142,000. Our
23 primary figure was approximately \$130,000.

24 Q How do these figures compare to the cost of drilling a
25 new well from the surface to an equivalent total depth?

1 A We have estimated the cost of a new well to this depth
2 to be approximately \$300,000. The cost to deepen Number
3 2 represents approximately 47 percent of the cost of a
4 new well. The cost of deepening Number 2, plus the
5 present value of the well, amounts to \$180,700, or it's
6 approximately 60 percent of the cost of a new well or
7 savings of \$120,000 by deepening.

8 Q What is your estimate of a reasonable, fixed fee charge
9 for supervision of the proposed well?

10 A Gulf would propose that the property be handled under
11 COPAS 1968 accounting procedure for joint operations.
12 For indirect charges under the combined rate well basis,
13 Gulf would propose a figure of \$1,639 per month drilling
14 well rate, during the deepening and completion operations,
15 and \$182 per month producing well rate. These figures
16 represent Gulf's current standard charges for indirect
17 overhead on joint operated properties.

18 Q In your opinion, Mr. Kalteyer, is this proposed
19 compulsory pooling of the East half of Section 9,
20 Township 16 South, Range 35 East, and the deepening of
21 the Hulda Well to a depth of 11,900 feet, in the interest
22 of preventing waste and protecting correlative rights?

23 A Yes, it is. Gulf has an offset obligation to itself
24 and to its royalty owners to fulfill, and we believe
25 this request should be granted to allow us to recover

1 hydrocarbons which would otherwise be left unrecovered
2 in the reservoir.

3 Q Let me ask you whether Exhibits 1 through 8 were
4 prepared by you or under your supervision?

5 A Yes, sir, they were under my direction or prepared by
6 me.

7 MR. McALLEN: I move that Exhibits 1 through 6 be
8 admitted into evidence in this case.

9 MR. STAMETS: Without objection, Applicant's
10 Exhibits 1 through 6 will be admitted.

11 MR. McALLEN: I have no more direct testimony of
12 Mr. Kalteyer. I have a geological witness to present,
13 but at this time we are open to any questions.

14 MR. STAMETS: Are there any questions of this
15 witness?

16 CROSS-EXAMINATION

17 BY MR. STAMETS:

18 Q Mr. Kalteyer, why does Gulf feel that it should be
19 remunerated for the value of the well in question here
20 in excess of the cost of recompleting the well as a
21 Morrow Well?

22 A In excess of the cost?

23 Q Right. Now, we are talking about the cost you have in
24 the A.F.E. here of \$140,000. Why is it Gulf's
25 contention that you should also be reimbursed another

1 \$40,000 or you should have a value of \$40,000 and be
2 reimbursed proportionately for that?

3 A Because we feel we are offering something to this effort,
4 to any participant that would join in this project. We
5 feel like it's a reasonable request. We have a hole of
6 10,600 feet to offer.

7 Q Has Exxon agreed to this?

8 A Yes, sir. They have not agreed to this figure, they
9 have agreed to enter in with a prior figure, or had
10 entered into a figure and we have had to revise the
11 figure.

12 Q Is it in this \$40,000 range?

13 A Yes, it is.

14 Q Is the figure that Gulf is eventually going to agree to
15 with Exxon the same one we are talking about here?

16 A Restate that, please.

17 Q Is Exxon going to agree that Gulf should receive a dollar
18 amount out of production for the current value of the
19 well, based on the figure that you have given us here?

20 A No, they have not seen this figure here. In our
21 correspondence, you will see a figure based on total
22 value of \$18,000, which was erroneously calculated on
23 a 50 percent Class B value rather than a 75 percent
24 value.

25 Q So at this point, you don't know that they will or not?

1 A No, sir, we do not.

2 CROSS-EXAMINATION

3 BY MR. KELLAHIN:

4 Q It is indicated on Exhibit 5 the present well value of
5 \$38,700. Is not this figure computed by taking 75
6 percent of the new cost under the COPAS accounting?

7 A Yes, sir.

8 Q What, then, would be the present value of the well
9 itself? This, then, cannot represent the present
10 value of the well, could it, the \$38,700?

11 A No, the Class B value -- this is the 75 percent value.

12 Q That's correct, of the new cost?

13 A Right.

14 Q How would you adjust this, now, to arrive at a fair
15 salvage value?

16 A If we were talking about salvaging the well at this
17 time?

18 Q Yes, sir. What could you get out of this well if you
19 sold the well now?

20 A Well, it would have to be negotiated; but, if we were
21 selling it for junk, now, that would be a different
22 matter.

23 Q Well, what would you get for it if you sold it for junk,
24 for salvage?

25 A We would take bids on the well to see what it was. We

1 don't know exactly what it would be.

2 Q Do you have any estimates at all as to what the value
3 would be?

4 A No, sir, I don't believe I could give you an estimate
5 on as far as prices being obtained on salvage casing
6 at this time or salvage tubing, as far as bids.

7 Q What relevance, then, is this particular figure to us?
8 It appears to me that it's rather meaningless. Perhaps
9 you can explain it to me, I don't understand what
10 relevance this figure has.

11 A Well, we figure that we are actually going to use the
12 pipe, it's not salvage pipe. We actually have pipe
13 from 10,533 feet, and it will be used in this well.

14 Q I want to refer to what has been marked as Exhibit
15 4-E, it's a letter signed by R. E. Griffith, District
16 Land Man, and indicates in there a sentence that,
17 "In addition, the participating parties will be expected
18 to pay their proportionate part of the salvage value
19 of the well, which is estimated at \$18,000."

20 A That's correct, that's what I testified to.

21 Q What other wells has Gulf drilled in this area?
22 That's the last well Gulf drilled in this area, Mr.
23 Walteyer?

24 A We have no Morrow completions in this area, and I
25 would assume that our last well drilled would be the

1 Number 2 Hulda. We might be able to develop that better
2 from our geological witness.

3 MR. KELLAHIN: No further questions, thank you.

4 MR. McALLEN: I have one question on redirect.

5 REDIRECT EXAMINATION

6 BY MR. McALLEN:

7 Q Mr. Kalteyer, is there a difference between salvage
8 value of a well and the value of this well as you now
9 propose to deepen it? What's in the hole now?

10 A Yes, sir, we consider it different.

11 Q What is that difference based on?

12 A If there was no further use for the wellbore or for
13 the pipe, we would salvage it and it would have a
14 certain saleable value as junk, or possibly Class B.

15 Q So, because this wellbore is usable in its present
16 condition, then it's worth more than salvage value,
17 is that right?

18 A Yes, sir, that was another consideration.

19 RECROSS-EXAMINATION

20 BY MR. STAMETS:

21 Q As a matter of information, if V-F Petroleum did join
22 and did pay their share of the estimated well cost and
23 did pay you their share of the value of the existing
24 casing and well-head and whatnot, and this well turned
25 out to be a dry hole, and the well were plugged back and

1 abandoned, would they receive a portion of their money
2 back from the salvage of this equipment?

3 A I would believe they would.

4 MR. STAMETS: Are there any other questions of the
5 witness?

6 (No response.)

7 MR. STAMETS: He may be excused. You may call
8 your next witness.

9 MR. McALLEN: I call Mr. J. L. Hutchison.

10 J. L. HUTCHISON,

11 a witness, having been first duly sworn according to law,
12 upon his oath testified as follows:

13 MR. STAMETS: You may proceed, Mr. McAllen.

14 DIRECT EXAMINATION

15 BY MR. McALLEN:

16 Q Would you state your full name, please?

17 A J. L. Hutchison.

18 Q Mr. Hutchison, by whom are you employed and at what
19 capacity are you employed?

20 A I am employed by Gulf Oil Corporation as a staff
21 geologist.

22 Q Mr. Hutchison, have you ever previously testified
23 before the New Mexico Oil Conservation Commission?

24 A Yes, sir, I have.

25 Q And have your qualifications been accepted by that body?

1 A Yes, they have.

2 MR. McALLEN: Are there any questions regarding
3 the witness's qualifications?

4 MR. STAMETS: The witness is qualified.

5 Q (By Mr. McAllen) Mr. Hutchison, do you have a map
6 depicting the structure of the deeper horizons in the
7 vicinity of the Gulf Hulda Townsend Number 2?

8 A Yes, sir, I have.

9 Q And do you have that marked as an exhibit?

10 A Yes, sir, that is marked as Exhibit Number 7.

11 Q Will you please explain your interpretation of that
12 exhibit to the examiner?

13 A Exhibit Number 7 is a structure map in the Townsend-
14 Morrow field on the top of the Barnett Shale Section,
15 or the base of the Pennsylvanian Sand Sequence. The
16 contour interval on this particular map is 100 feet,
17 and you can see the wells designated in yellow are wells
18 that are producing from the Morrow Section in the
19 Morrow-Townsend Pool. The only exception to that is
20 the Mesa Number 1 Skelly State in Section 14, and by the
21 Commission that is carried as an undesignated Morrow
22 Gas Pool.

23 There are five wells that are showing as being in
24 the Townsend-Morrow field.

25 The structures, as you can see, we have outlined

1 there, is a Northwest-Southeast anticline, plunging
2 to the Northwest, the higher portion being down in the
3 vicinity of Section 15, what I think was classed as the
4 Old Shoeboard, Old Devonian, and Pennsylvanian Field,
5 and plunging Northeastward to where the more recent
6 Morrow Gas Wells are completed. The well circled in
7 red there denotes Gulf's Number 2 Hulda Townsend, the
8 proposed well to be deepened.

9 Q Do you also have an exhibit depicting a cross section
10 of the Pennsylvanian Section?

11 A Yes, sir, I have. That is Exhibit Number 8, and a
12 Cross Section A-A Prime is denoted on Exhibit Number 7.
13 The well to the left on the cross section is the most
14 Westward well, and in Section 8 there, the Advance Oil
15 and Gas Number 2 State ETA, and it progresses through
16 the V-F Petroleum Humble-Townsend, through the
17 proposed deepening of the Gulf Oil Number 2 Hulda
18 Townsend, and down to the TP Number 3 Lea State J
19 located in the Southwest, Southwest of Section 10.

20 On this cross section, we have the logs here on a
21 datum basis, along a sea level datum basis, so it would
22 reflect structure at the top of the Strawn as we have
23 denoted on the cross section, and the bottom of the
24 Barnett Shale, or the base of the Pennsylvanian Sand
25 Sequence, in the area.

1 Now, referring to the Advance Oil and Gas Number 2
2 ETA State in the center column of the log, the drill
3 stem tests are marked and noted at the bottom of the
4 column there, and the perforations are colored in red
5 where the well is presently completed. So, as you can
6 see in this particular cross section, they had gas on
7 Drill Stem Test Number 3, that interval was from 11,653
8 to 722, gas surfaced in 12 minutes at the rate of 260,
9 decreasing to 216 Mcf P.D. They recovered 270 feet of
10 gas-cut mud. Then they had a drill stem test which
11 overlapped the perforated interval, an interval from
12 11,653 to 795. The maximum gas rate on that drill stem
13 test was 14.2 Mcf P.D., and the perforations on the
14 completion of the well, the well was perforated through
15 perforations from 11,770 feet to 11,786 feet. The well
16 was completed for a calculated open flow of 6891 Mcf P.D.

17 Now, moving eastward to the V-F Petroleum Humble
18 Number 1 Townsend, our indications show there were no
19 drill stem tests in the well and that the well was
20 completed in the lower portion through perforations
21 from 11,800 to 11,810. This well had a calculated open
22 flow of 2350 Mcf P.D., and this well was complete, I
23 think, started producing, in March of 1973, if I am not
24 mistaken.

25 The next well is just the well showing the total

1 depth and where the well was originally completed on
2 the Gulf Oil Number 2 Hulda Townsend. A total depth
3 there indicates that, well, on the log there, it shows
4 a total depth of 10,647. I think our records indicate
5 10,650.

6 Now, progressing on down to the well in the
7 Southwest, Southwest of Section 10, the TP Oil
8 Corporation Lea J State Number 3, this well was drilled
9 to a Devonian and the well drill stem tested one time
10 in an interval from the base of the Wolfcamp down to the
11 base of the Morrow Sequence in the interval that we
12 propose to unitize. They had a drill stem test from
13 11,296 to 359, and on that particular drill stem test
14 they recovered 35 feet of gas-cut mud.

15 These are the nearest wells to the proposed
16 deepening. The nearest producer, by scaling off, is
17 4,000 feet West of the proposed location. The nearest
18 penetration of the section is 2,000 feet Southeast from
19 the TP Well. I would like to call note to the fact
20 that the top of the Barnett Shale Section there, and
21 where the well, the Advance Oil and Gas Well is
22 perforated, where the V-F Petroleum Well is perforated,
23 and going over to the TP Lea State J, noting there
24 does not appear to be any indicated porosity in the
25 equivalent of where they are completed in that particular

1 well, we consider this a high risk well; but knowing
2 the lenticular nature of the Morrow-Atoka Section, we
3 feel like for more deepening in this well, we should
4 evaluate our acreage due to the fact that we have a
5 direct West offset to it.

6 Q Mr. Hutchison, you testified that you thought the V-P
7 Humble Well, the direct offset there in the West half
8 of the Section, went on string in March of '73. Is it
9 possible that was March of '72?

10 A March of '72, I'm sorry.

11 Q What is your recognition for the handling of well costs
12 involving non-consenting working interest owners?

13 A Any non-consenting working interest owner who does not
14 pay his share after 30 days within the completion should
15 have withheld from production his share of the
16 reasonable well cost, from an additional 150 percent
17 thereof for the reasonable charge of the risk involved
18 in the deepening of the well.

19 Q You testified a minute ago as to why you regarded this
20 as a high risk venture. Will you elaborate on that
21 testimony again for us?

22 A Yes, sir, I will. Because the sand within the Atoka-
23 Morrow Section is very erratic and lenticular, and the
24 nearest producer, the V-P Petroleum Number 1 is 4,000
25 feet removed with only one producing sand. Also, the

1 nearest penetration to the proposed Gulf Number 2
2 Hulda Townsend deepening, the T and P State J Number
3 3, drilled through this section, was only one drill
4 stem test, recovery of 35 feet of slightly gas mud.
5 From observing the electric logs, there appears to be
6 only one sand that might contain hydrocarbons in the
7 basal portion of the Pennsylvanian within this well.

8 I think these facts, coupled with the well-known
9 industry knowledge of the lenticular nature of these
10 sands, make this deepening a very high risk project.

11 Q Mr. Hutchison, were Exhibits 7 and 8, testified to by
12 you, prepared by you or under your direction and
13 supervision?

14 A Yes, sir, they were.

15 MR. McALLEN: I move that Exhibits 7 and 8 be
16 moved into evidence.

17 MR. STAMETS: Without objection, they will be so
18 admitted.

19 MR. McALLEN: I have no more direct testimony of
20 this witness.

21 CROSS-EXAMINATION

22 BY MR. STAMETS:

23 Q Mr. Hutchison, has there been any discussion as to
24 whether the risk factor should apply to the well value
25 or only to the actual cost involved in drilling the

1 well deeper?

2 A I would think the risk factor should only be incurred
3 as far as deepening the well, not as to the value of
4 the well at the present time.

5 Q Were you present during the previous case?

6 A Yes, sir, I was.

7 Q Would you rate the overall risk involved in this well
8 as greater or lesser than the well involved in the
9 last case, in your opinion?

10 A Well, I didn't have access to exhibits, I don't know
11 how far we were removed from other wells and so forth.
12 Of course, I realize this isn't the highest risk
13 venture in the world in that we have a producing well
14 4,000 feet removed. I mean, I couldn't say like it was
15 10 miles removed; but I do think that due to the nature
16 of the sands within it, any time you drill a Morrow
17 Well with a well 2,000 feet from it appearing to be a
18 dry hole or with very little indication that it would
19 produce, then, I consider this a high risk venture.

20 Q This is a typical situation in the Morrow?

21 A Yes, sir.

22 Q And the sort of thing that happens every time you drill
23 a Morrow Well?

24 A That is correct.

25 MR. STAMETS: Mr. Kellahin, do you have some

1 questions?

2 CROSS-EXAMINATION

3 BY MR. KELLAHIN:

4 Q Mr. Hutchison, I would like to have you clarify something
5 for me. I'm not sure I understand the correlation on
6 this TP Lea State J Number 3. Your testimony with
7 regard to your basis of your opinion on the risk was
8 based in part upon this drill stem test that's labeled
9 as Number 4?

10 A Yes, sir.

11 Q How does that correlate with the open interval in the
12 V-F Petroleum Well?

13 A I didn't say that it did. See, I indicated that at that
14 interval where they drill stem tested would be in the
15 interval that we are proposing to unitize in the
16 deepening of the Gulf Hulda Townsend Number 2. See,
17 the proposal is from the base of the Wolfcamp down to
18 anything in the Pennsylvanian Section encountered would
19 be included in the proposed unitization.

20 Q It's not, then, equivalent to the producing intervals
21 in the other two wells?

22 A No, sir.

23 Q If you will note on this log here, right above your
24 pick at the top of the Barnett, is this the zone that
25 you feel to be productive of hydrocarbons?

- 1 A I would say that zone has the best chance of producing.
- 2 Q Would you pick that interval for me, please?
- 3 A The interval looks like it's about 11,738 to 58, that's
- 4 a gross interval.
- 5 Q Has that interval ever been tested, to your knowledge?
- 6 A No, sir, it has not.
- 7 Q Would you consider it Morrow in age?
- 8 A Well, the Commission considers this as being -- they
- 9 call it the Townsend-Morrow Pool. Speaking of a certain
- 10 geologist and so forth, now, I've noticed on some
- 11 of V- cards and so forth they consider it as Atoka.
- 12 I would say that our general belief is that actually
- 13 there isn't actually Morrow deposition this high on
- 14 the structure and I would say, really -- and you noticed
- 15 I didn't make any Morrow calls on this section. We
- 16 feel that probably it may be Atoka in age, but the
- 17 Commission has so designated it as Morrow.
- 18 Q And it is the same interval that is open in these other
- 19 two intervals?
- 20 A What interval?
- 21 Q Same age?
- 22 A Same age, I don't think it's the same intervals.
- 23 I do not think that it falls in the same stratographic
- 24 position as those in the producing wells to the West,
- 25 but in the same period of Pennsylvanian age.

1 Q Based upon your analysis of this, refresh my memory,
2 please, what was your recommendation as to risk factor?
3 A 150 percent strictly on the cost of the deepening.

4 Q I would like to refer you to Exhibit 4-J, it's a letter
5 from R. E. Griffith to V-F Petroleum. "In the event
6 you are not interested in joining the communitization
7 of the East half of Section 9, please consider this as
8 a final invitation as we expect to request a hearing
9 October 3, 1973, to consider force pooling and proceed
10 with a cost plus 100 percent penalty."

11 Now, Mr. Hutchison, this letter was written on the
12 24th of August, 1973. Has the risk factor of 100 percent
13 increased since then to now?

14 A No, it has not.

15 MR. KELLAHIN: No further questions.

16 MR. STAMETS: If there are no further questions,
17 the witness may be excused.

18 MR. STAMETS: Do you have anything further to
19 present?

20 MR. McALLEN: No, I have no further testimony.

21 MR. STAMETS: Mr. Kellahin, do you have a witness
22 at this time?

23 MR. KELLAHIN: Yes, sir.

24 J. N. FULLINWIDER,
25 a witness, having been first duly sworn according to law,

1 upon his oath testified as follows:

2 DIRECT EXAMINATION

3 BY MR. KELLAMIN:

4 Q Would you please state your name, by whom you are
5 employed, and in what capacity?

6 A I'm J. N. Fullwinder, Vice President of V-F Petroleum,
7 Inc., Midland, Texas.

8 Q Mr. Fullwinder, have you previously testified before this
9 Commission?

10 A Yes, sir.

11 Q What is your educational background?

12 A Graduated from Southern Methodist University in
13 accounting and law, minor in geology.

14 Q What experience have you had in Lea County, New Mexico?

15 A Leasings and seismographic and drilling production over
16 the past 15 or 20 years off and on, with various
17 companies.

18 Q Would you please refer to Applicant's Exhibit Number 1
19 and locate on that plat the particular wells that V-F
20 Petroleum Company has in the area?

21 A We have either drilled ourselves, deepened, or
22 participated in; but, in all cases, we have been the
23 progenitor of all the drilling and completion activities
24 for five wells. They are shown on this plat in Section
25 9, V-F Petroleum Marble Township Well has already been

1 alluded to by a location, so I won't go through that
2 again. Section 16, the Tom Brown Humble State Well in
3 which we have an interest. Section 15, the Tom Brown
4 State Gas Unit Well, dry hole, on the West half in which
5 we had an interest. Section 15, the V-F Petroleum
6 Danglade Number 1, which is a producing well, and the
7 Harding Oil Company Number 1 Edison which is located in
8 the Northwest quarter of Section 15, and projected
9 1,600 feet Devonian test which is now drilling. A total
10 of five wells, four of them have been completed, three
11 as producers, one still drilling.

12 Q Are you familiar with the facts surrounding this case?

13 A Yes.

14 MR. KELLAHIN: We submit the qualifications of the
15 witness.

16 MR. STAMETS: They are acceptable.

17 Q (By Mr. Kellahin) Mr. Fullwinder, let me direct your
18 attention to several of the Applicant's Exhibits. Let me
19 again, by referring you to Exhibit Number 5, show you a
20 copy of Exhibit Number 5.

21 A Yes, sir.

22 Q I would like to have your comments concerning this
23 exhibit and the facts surrounding it.

24 A Well, from the testimony of the previous witness on
25 behalf of Gulf Oil Corporation, this figure of \$38,700

1 is developed under the provisions of a COPAS 1968
2 accounting exhibit, which provide for transfer by the
3 operator of lease equipment to a joint account and to be
4 charged to the joint account by a certain class. In
5 this class, they used Class B, which is used equipment
6 that may be utilized for its original intention without
7 any refurbishing or reconstruction. The COPAS 1968
8 provides for a 75 percent of new to be the value
9 attached in a case of equipment transferred to Class B
10 material. That's where this figure came from, according
11 to the previous witness.

12 Of course, there is no COPAS agreement covering
13 this property in existence, and so this is a fictitious
14 value from that standpoint. The value of the well as it
15 now stands is what can you get for it? That's the best
16 way to establish value of it. There is no question but
17 what the well with the casing does have some value to the
18 force pooling and to the utilization of the borehole.
19 We are not contending that at all. What we are contesting
20 is that \$38,700 is an inappropriate value, it's a
21 fictitious value, derived under an instrument that
22 doesn't exist.

23 Our estimate of the salvage value of the well is
24 \$9,000, but we are willing to settle for the estimate
25 that was provided by Gulf's District Land Man Mr. P. P.

1 Griffith of some months ago in which he quoted \$18,000.

2 Q That's Applicant's Exhibit 4-E?

3 A Yes. We think it's twice as high, but we'll accept it.

4 Q Do you have any comments with regard to Exhibit 6?

5 It's an A.F.E. that's furnished by the applicant.

6 A No comment except we did the same thing on our reentry
7 of the V-F Petroleum Humble Townsend, exact same thing,
8 except our well had been plugged and it was full of
9 junk and we spent \$45,000 just to get into the well and
10 we completed the whole well for \$140,000. So, you know,
11 I would hope that we could do it cheaper, but if that's
12 their best estimate, we'd better not criticize it.

13 Q Mr. Kalteyer provided testimony in the form of exhibits
14 marked 4 in all its parts that provides a chronology of
15 the efforts by Gulf Oil Corporation to obtain a
16 voluntary agreement whereby this unit could be formed.
17 I would like for you to go through that, your
18 correspondence, and your recollection of the events
19 as they transpired, and tell the examiner, briefly,
20 V-F Petroleum's position with regard to the force
21 pooling and why they have not voluntarily joined.

22 A We accept and don't object at all to the exhibits. I
23 think they rather accurately portray the written
24 correspondence between the two companies. There is, of
25 course, a good bit of verbal correspondence that has

1 occurred, or verbal communications, I should say, which
2 has not been alluded to and I think it would be helpful
3 to bring it out. We, of course brought this up to Gulf
4 as early as early as -- our first letter was --

5 Q May 23, 1971.

6 A Yes, asking for a farm out in here, which is the time
7 we were putting all these together and causing all this
8 activity to happen at the time. They were not interested
9 in the farm out, which is fine, and we continued to try
10 to put this tract together. We had talked to Humble,
11 now Exxon, concerning their acreage which Gulf has
12 already talked about in this unit, and Humble told us
13 that we could have that on a farm out and we were trying
14 to get the Gulf acreage on a farm out to put this deal
15 together and drill a well or maybe reenter the Gulf
16 Well; so this was our idea in the first place, and they
17 said this is the case.

18 Now, this went on for two and a half years, as a
19 matter of fact, and we never could get any definite
20 statement out of Gulf, or they didn't want to do it at
21 the time, they might want to join later. So we decided
22 on working on another tract in the area, which we did;
23 and we have several wells that have resulted, and we
24 were also working on the West half of Section 15 to get
25 this Devonian test drilling which is now drilled by

1 Harding Oil Company in the Northwest quarter. Now,
2 at the time that Gulf actually came back to us with
3 the firm proposal for this joint operation, we were at
4 that time in the middle of trying to see what would
5 happen on this Devonian thing, and before we had a chance
6 to completely evaluate the Gulf request for us to join,
7 our Devonian deal gelled. I went to Gulf Oil
8 Corporation and visited with Bob Griffith, their District
9 Land Man. I sat down with him with a map. I said,
10 "Look, Bob, we've got a Devonian deal. We are going to
11 drill a diagonal offset down through the South, it's
12 not going to cost Gulf a nickel to get this information."

13 Q You are referring, now, to which well?

14 A Harding Company Number 1 Edison, which is located in
15 the Northwest quarter of Section 15 and now drilling.

16 Q What is the status of that well?

17 A It's drilling, it's around 500 feet in depth, and Harding
18 Oil Company is running it.

19 Q When do you expect completion on it?

20 A It depends on when the big rig is available. Completion
21 of that, I would estimate, would be approximately 18
22 days plus, say, six weeks. So we are talking about
23 roughly two months, maybe nine weeks, before that well
24 is completed. And we suggested to Bob, Mr. Griffith,
25 over at Gulf that if he would just allow us to go ahead

1 and get that Devonian test drilled, not only would we
2 give him all the information from the well, but
3 immediately upon completion of that well we would
4 either join in this reentry and pay our way or we would
5 make them an appropriate farm out commitment. His
6 response to me was, "That sounds fine, let me talk to
7 the boys here and see what they say."

8 Q Obviously, the answer was no to that particular situation.
9 May I summarize your testimony, and am I correct in
10 saying that because of you drilling this offset well,
11 you were not in a position to voluntarily join Gulf at
12 this point?

13 A Well, I wouldn't say it's exactly true. Of course, we
14 could join Gulf at this point, but we had a working
15 interest in this Devonian and we've got money riding
16 on that particular thing, and we would like to see that
17 down before we commit or not commit on this new location.
18 I can't tell you how many times I've been to Gulf and
19 other majors to see if they would join, and they'd say,
20 "We've got something else in the area and we can't join."
21 Well, we are in the same situation and all we wanted is
22 a little time. I've gone over this with them I can't
23 tell you how many times, and the working people with
24 these 3 companies, and they say, "We understand, but,
25 additionally, as far as drilling, we can join the company."

1 go ahead."

2 Q You then have no objection to Gulf Oil Corporation
3 being operator of this particular unit?

4 A No, none whatsoever.

5 Q Do you have any objections to the compulsory pooling
6 of the unit?

7 A I object to the fact that Gulf thinks they can't hold
8 their water until we complete this Devonian; but, from
9 the legalities, the law itself, no, I don't object to it.

10 Q Do you have any comments with regard to the risk factor,
11 based upon your experience in this area, Mr. Fullwinder?

12 A Well, we've caused five wells to be drilled, four of
13 which have been completed, three as producers and one is
14 a dry hole. That certainly says there is some risk in
15 the area, indeed there is.

16 Q What, in your opinion, would be an appropriate risk
17 factor to be played upon in the deepening of this
18 particular well?

19 A That's pretty touchy. I've never seen this cross
20 section of Gulf's until today, and you've got a
21 producer on one side and we've got another sand from
22 an electric log that appears to be a potential producer
23 of hydrocarbons, most likely gas, on the other side.

24 It is a Morrow formation, or, as we have already heard
25 from Gulf's geologist, it may be a bad name, it may be

1 Atoka; that's what we call it. But, there is a risk
2 here, we are not trying to say there isn't. As to what
3 the risk should be, our experience so far is in the
4 area it has been a 25 percent risk. In other words,
5 risk of dry hole. I should say somewhere between 25
6 and 50 percent, somewhere, the risk of a dry hole.

7 MR. KELLAMIN: I have nothing further on direct
8 examination.

9 MR. STAMETS: Are there questions of this witness?

10 MR. MCALLEN: Yes, I have some questions, Mr.
11 Examiner.

12 CROSS-EXAMINATION

13 BY MR. MCALLEN:

14 Q Mr. Fullwinder, you said that you went in and deepened
15 one of your wells in this area and it cost you
16 \$140,000. Which well was that, sir?

17 A That was the V-F Petroleum Humble Townsend.

18 Q Where is that?

19 A It's located in the West half of Section 9.

20 Q When did you undertake those deepening operations?

21 A Approximately the first part of 1972, I think, or
22 perhaps the latter part of '71, right in there.

23 Q Would you suggest the drilling costs may have increased
24 since the first of '72?

25 A Yes, sir, they sure have.

1 Q Okay. What is the cumulative production from your
2 V-F Humble Townsend Number 1?

3 A Well, Gulf says it's one and a half billion cubic feet,
4 and I'm impressed with all the research you've done,
5 so I am going to take that figure.

6 Q That is a direct offset well, is it not?

7 A Yes, sir.

8 Q Might that explain to you why we are in such a hurry to
9 drill one in the East half of that section?

10 A Well, I asked that same question to one of your
11 geologists. I said, "Why can't you wait until we get
12 down on this well before we make this reentry?"
13 And he said, "We are afraid you are going to drain all
14 the gas out from under us." And, if we are going to
15 drain all the gas from under there in three or four
16 months, we ain't got any business spending any money on
17 a reentry. So, no, I can't see what your hurry is.

18 Q When did you start drilling your Harding Edison Number 1
19 there?

20 A It was completed actually on the 29th -- excuse me, the
21 30th -- of September, 1973.

22 Q Do you remember when you got a rig contract for that well?

23 A I did not make the rig contract, Mr. McAllen, so I can't
24 testify to that. It was made by Harding Oil Company
25 out of Dallas with HSE Drilling Corporation.

1 Q But it was sometime after numerous correspondence had
2 changed hands between Gulf and V-F with regard to the
3 deepening operations in the East half of Section 9;
4 is that right?

5 A Well, I have already stated that I have no knowledge
6 of the actual rig contract, if you are speaking of the
7 drilling contract. Now, we had a deal with Harding
8 Oil Company whereby they would drill that well. They
9 have committed to drill that well, they have paid certain
10 monies to guarantee the drilling of that well, long
11 before the calling of this force pool hearing, and I
12 explained all that to Gulf in great detail.

13 Q I believe you testified that on May 25, 1971, you asked
14 Gulf for a farm out of the East half of Section 9; is
15 that correct?

16 A Yes, sir.

17 Q Did you enter a rig contract sometime after May 25, 1971,
18 to drill your Harding Edison Number 1 in the Northwest
19 quarter?

20 A Well, as I said, sir, we haven't entered into a rig
21 contract, if I know what you are talking about there.
22 But, yes, we made a deal with Harding to drill that
23 well subsequent to requesting the farm out from Gulf,
24 yes.

25 Q You testified that Gulf is some way politically

1 committed to drill this well on the East half of the
2 section. What do you mean?

3 A That was probably a bad term, I'm sure it didn't have
4 anything to do with politics in the sense of government.
5 The point is, when I discussed this with your District
6 Land Man, Mr. Griffith, who I consider to be a topnotch
7 oil man, he indicated to me he understood our situation,
8 that we wouldn't want to have two things going at the
9 same time, and he would speak to his people. That was
10 kind of his phrase, "his people," and he thought it
11 would work out. I said, "Fine, all we are asking you
12 to do is sit still until we finish this well."

13 He called me later and said, "I talked to the
14 production geological department and said 'I want you
15 to call Mr. Fullwinder.' I think you will find them
16 receptive to this situation." But, that wasn't the
17 story, they wouldn't even cooperate in any way, shape,
18 or form. And, the same thing happened at Humble when I
19 talked to Mr. Lively, the production geologist, and when
20 I talked to the land man over there. His name escapes
21 me right now, but it's somewhere in the file. Mr.
22 Lively said to me, "Why, we are not going to join in
23 that reentry if you are going to drill a Devonian over
24 there." I said, "Fine, that's all we are asking you to
25 do." And when the upshot of all this came to a head,

1 though, it was, "We are going to force pool you anyway."
2 I said, "I thought you were going to wait." He said,
3 "Well, it's a political deal, a commitment to Gulf
4 had already been made, and the brass thinks we ought
5 to go ahead." That's why I used the political, it's
6 a bad word, but you maybe understand what I mean.

7 Q Do you dispute the communication dated August 10, 1973,
8 from Exxon to Gulf, part of our Exhibit 4, wherein
9 Exxon agreed to commit their interest to this unit?

10 A Sir, I have no way to dispute that, I didn't write the
11 letter and I didn't receive the letter. How should I
12 dispute it, Mr. McAllen?

13 Q The point is, Exxon has agreed to go along with Gulf
14 even though you did have a well drilling in the
15 Northwest quarter of Section 15?

16 A This particular letter was written prior to my
17 conversation with Mr. Lively, and Mr. Lively, who had
18 a very responsible position over there, he's been
19 promoted since to New Orleans, indicated that, in his
20 opinion, that Exxon would not join in such a thing,
21 they had no idea that we were going to drill the offset.

22 Now, as I mentioned earlier, they changed their
23 mind about going up the line. I do note, Mr. McAllen,
24 that Hunble's approval in this letter is contingent
25 upon your obtaining a penalty of 200 percent. Now,

1 that's the maximum allowed penalty under the rules
2 of the State of New Mexico and this Commission and,
3 frankly, it seems rather a tenuous commitment on my
4 part to think that you could expect a 200 percent
5 penalty when you are drilling an offset.

6 Q I believe, Mr. Fullwinder, that subsequent conversation
7 with Exxon by Gulf has corrected that 200 percent.
8 That was a misunderstanding on their part; cost plus
9 100 percent came up to then to be 200.

10 A I was just reading what it says here.

11 Q Mr. Fullwinder, let me ask you this. With regard to
12 our correspondence here and the risk factor involved in
13 this well, refer to our letter of October 5, 1972, and
14 I believe that's 4-C. On the second page thereof,
15 will you begin reading with "some" in that last
16 paragraph?

17 A "Some of our information is not yet available in normal
18 industry channels. For example, the V-F Petroleum
19 Number 1 Manglade Gas Unit had a potential of 15 and
20 1/2 Mcfg per day; but, after being on the stream two
21 weeks and producing about 60 Mcfg, it has depleted and
22 suffered a BHP drop that will not allow it to produce
23 against line pressure. Limited reservoirs, apparently."

24 Q Was this recognition by you that this was a high risk
25 well?

- 1 A No, sir. It was recognition by us of what happened
2 to the Danglade Gas Unit. It had nothing to do with this
3 location.
- 4 Q How far is the Harding Number 1 to the Danglade Gas
5 Unit?
- 6 A Looking at the map, Mr. McAllen, I would guess about
7 1400 feet.
- 8 Q What is the distance between the Harding Number 1 Edison
9 and Gulf's Hulda Number 2 Townsend?
- 10 A Again, looking at the map, it looks like three-quarters
11 of a mile, maybe a mile. Say a mile, three-quarters
12 of a mile.
- 13 Q Will you tell me what the relationship is between the
14 Harding Number 1, the Harding Edison Number 1 there
15 that you are drilling in the Northwest quarter of
16 15, and Gulf's proposed deepening operations in the
17 East half of 9?
- 18 A Yes, sir, I surely will. If you will refer to your
19 Exhibit Number 7, you will notice the structural
20 confirmation of this producing area prepared by your
21 geological department. Both your proposed reentry and
22 the current drilling Harding Number 1 Edison are located
23 right on the structural axis of this map that your people
24 have prepared, and certainly any well drilled on this
25 structural axis is going to have a good deal of

1 information for the next tract or the next two tracts
2 or anything else. There is no question about that.

3 Q Okay. If the V-F Petroleum Humble Townsend there in
4 the West half, the producing well in Section 9, on that
5 same structural axis or approximately that same structure?

6 A It is, yes, sir.

7 Q It is. If a well, Mr. Fullwinder, can go bad in a
8 distance of approximately 1,000 feet, that is between
9 your Danglade there in the Southeast quarter of 15,
10 and the well you are drilling in the Northwest quarter
11 of that section, is it not also true that a well can
12 be bad 5,000 feet away?

13 A Yes, sir, it sure can.

14 Q From the Southeast quarter of 9 to the North quarter of
15 15?

16 A With God, all things are possible.

17 MR. McALLEN: That's all I have.

18 MR. KELLAMIN: Nothing on redirect, if the
19 examiner please.

20 CROSS-EXAMINATION

21 BY MR. STANETS:

22 Q Mr. Fullwinder, I believe you stated that Gulf's figure
23 of \$38,700 was based on this COPAS book, regulations?

24 A Yes, sir.

25 Q And you said that is not applicable here. I wonder if

1 you could expand on that a little bit?

2 A The COPAS 1968 accounting exhibit is an exhibit that
3 is normally in the industry attached to an operating
4 ~~exhibit~~ ^{agreement} between parties that plan to develop property
5 jointly. It is a part of an agreement that is
6 accepted voluntarily between the parties and it provides
7 for many things, one of which is the transfer of
8 materials and tubular goods by the operator from one
9 lease to another and charging the joint account under
10 a certain schedule. Now, my comments were that there
11 presently exists no such operating agreement between
12 Gulf and V-F Petroleum. Therefore, no COPAS 1968
13 attachment thereto and so the use of that to come up
14 with some kind of figure is completely fictitious.

15 Now, had we entered into an agreement with Gulf
16 and agreed to have this, then, yes, that agreement
17 would be in effect and this is the way Gulf could
18 transfer this pipe, is what it amounts to, to this
19 property. However, I might add, Mr. Examiner, that I
20 don't have a COPAS, but I think it might be quite
21 improper to transfer pipe in a well that has been
22 submitted and therefore is not usable again at least
23 in the same form that it was originally submitted in
24 under the terms of that agreement. I mean, there is
25 probably some value that can be worked out, but usually

1 this is talking about tubular and material goods that
2 are transferred from operator stocks. Now, these are
3 the exact words of the COPAS 1968, this is obviously
4 not operator stocks, this stuff is submitted in an
5 11,000 foot hole in the ground and you cannot get it out
6 of the ground, and you can hardly call that operator
7 stock.

8 Now, I might question the propriety of Gulf trying
9 to transfer that long string of casing under the
10 auspices of the COPAS account, specifically. Now, the
11 transfer of the well-head and the transfer of the
12 loose tubular goods that can be recovered under the well,
13 under that exhibit, if such exhibit was in force, and
14 isn't, I think would be proper.

15 Q You are saying this is a voluntary agreement between the
16 parties?

17 A Which we don't have between us. That's like saying,
18 Mr. Examiner, I might have an agreement with Gulf to
19 say that they can charge us \$20 a foot for pipe they
20 put in a well, and it's worth \$20 a foot; but we don't
21 have any such agreement.

22 Q Would this be similar to the Blue Book that the used
23 car dealers use in evaluating automobiles?

24 A Not really, sir, because the Blue Book fluctuates with
25 the date and the condition and the market of the

1 automobiles whereas the COPAS agreement says Condition
2 B equipment may be transferred at 75 percent of current
3 new cost, whatever they may be. The Blue Book actually
4 sets a new cost, you see, so it's kind of like apples
5 and oranges.

6 MR. STAMETS: Any other questions of this witness?

7 (No response.)

8 MR. STAMETS: He may be excused. Do you have
9 anything further, Mr. Kellahin?

10 MR. McALLEN: I'd like to make a statement.

11 I'd like to say at the outset that communications
12 have been carried out between Mr. Fullwinder and Gulf
13 Corporation since approximately May 25, 1971. One year
14 later, a firm proposal was made to him with regard to
15 pooling his interest. We told him immediately that we
16 were not interested in farming out and asked him to join
17 in the deepening operations, which he has consistently
18 refused to do, and I would submit that when he has a
19 direct offset well producing 3 million cubic feet of gas
20 per day that a continued delay on his part is obviously
21 to his advantage, and that is why we are here today,
22 to see to it that that injustice is rectified.

23 In summing his testimony, I want to point out that
24 I think our order requesting that all mineral interests
25 be pooled is the only fair way to proceed at this point.

1 I fail to see the relevance of the facts that he is
2 drilling a well in the Northwest quarter of Section
3 15, and therefore is not interested in committing his
4 interest. As a matter of fact, the proposals to
5 commit his interest to this unit were made long before
6 he ever had a rig contract to drill a well in the
7 Northwest quarter of Section 15. We contend that we
8 have a right to deepen our hole in the Hulda Townsend
9 Well, that it is a standard location 2310 feet from the
10 South line and 660 feet from the East line in Unit
11 I, Section 9, that the 80-acre tract controlled by Mr.
12 Fullwinder, V-F Petroleum, is the only interest that is
13 not committed to this unit.

14 We feel it is necessary to avoid the drilling of
15 unnecessary wells and to protect the correlative rights
16 of everyone, and in view of the fact that he has an
17 opportunity to recovery and receive his fair share of
18 the gas in this project, we feel that this application
19 should be granted and we believe that we should be
20 designated the operator of this subject well and unit.

21 We are agreeable that any non-consenting interest
22 owner should be afforded the opportunity to object to
23 actual well costs. We feel, also, that the actual well
24 costs presented should be adopted as reasonable and
25 necessary, and I would say that in lieu of an OCC order

1 resulting from this hearing, Gulf is agreeable to
2 actually inventorying the usable tubing and the well-head
3 equipment at the time of the deepening operations and
4 placing a Class B 75 percent of new value on it and the
5 5 and 1/2 I.O.D. casing to a depth of 10,020 feet.

6 It is our position that the ~~6939~~^{\$1639} per month should
7 be fixed as a reasonable charge, combined fixed rate
8 during the deepening and completion of this well, and
9 that \$182 should be fixed as a reasonable charge for
10 supervision of the producing well, and in addition
11 thereto, the operator should be authorized to withhold
12 from production the proportionate share of production
13 required for operating the subject well, not in excess
14 of what is reasonably attributed to each of the non-
15 consenting working interest owners. And, those are
16 uncontested figures.

17 MR. KELLAMIN: Just a brief statement, if the
18 examiner please. Obviously, we have very few issues
19 in which we are at disagreement, most of the testimony
20 with regard to the negotiations with the parties is
21 really irrelevant.

22 The Commission has seen from the testimony that
23 we are unable to agree, we are going to have to force
24 pool. We have no question in our mind that Gulf is a
25 competent operator, its equipment is fully able to do

1 a competent operator. We object to very few things.
2 One is the 75 percent of the new value used on the
3 equipment in the hole; that's a point in issue. Another
4 point in issue is the risk factor to be charged
5 against any non-consenting participant, and I think
6 those are the only real issues you would have to decide,
7 and we submit the evidence as presented.

8 MR. STAMETS: If there is nothing further in this
9 case, we will take it under advisement.

10 * * * * *

11 I, JOHN DE LA ROSA, a Court Reporter, in and for
12 the County of Bernalillo, State of New Mexico, do hereby
13 certify that the foregoing and attached Transcript of Hearing
14 before the New Mexico Oil Conservation Commission was
15 reported by me; and that the same is a true and correct
16 record of the said proceedings to the best of my knowledge,
17 skill and ability.

18
19 *John De La Rosa*
20 COURT REPORTER

21
22 I do hereby certify that the Court Report
23 was made by me on *October 31, 1973*
24 *Richard L. Stamets*, Examiner
25 New Mexico Oil Conservation Commission

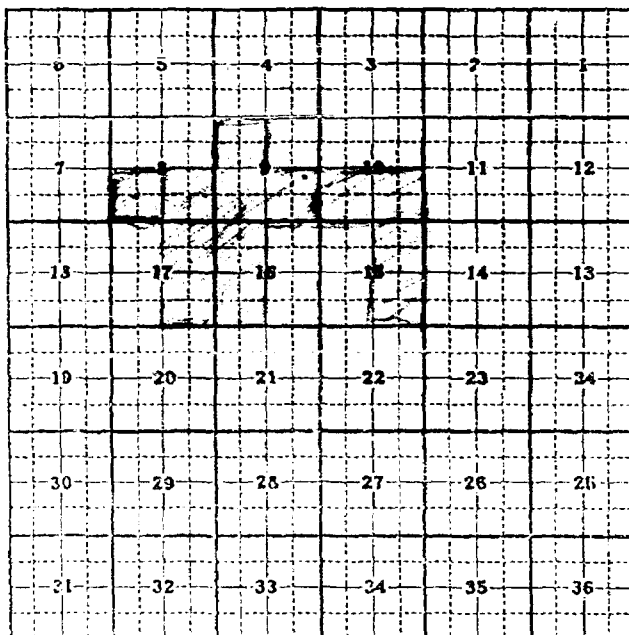
1	<u>I N D E X</u>		
2	<u>WITNESS</u>		<u>PAGE</u>
3	C. F. KALTEYER		
4	Direct Examination by Mr. McAllen		2
5	Cross-Examination by Mr. Stamets		12
6	Cross-Examination by Mr. Kellahin		14
7	Redirect Examination by Mr. McAllen		16
8	Recross-Examination by Mr. Stamets		16
9	J. L. HUTCHISON		
10	Direct Examination by Mr. McAllen		17
11	Cross-Examination by Mr. Stamets		23
12	Cross-Examination by Mr. Kellahin		25
13	J. N. FULLWINDER		
14	Direct Examination by Mr. Kellahin		28
15	Cross-Examination by Mr. McAllen		36
16	Cross-Examination by Mr. Stamets		43
17	<u>E X H I B I T S</u>		
18		<u>OFFERED</u>	<u>ADMITTED</u>
19	Applicant's Exhibit 1	12	12
20	Applicant's Exhibit 2	12	12
21	Applicant's Exhibit 3	12	12
22	Applicant's Exhibit 4	12	12
23	Applicant's Exhibit 5	12	12
24	Applicant's Exhibit 6	12	12
25	Applicant's Exhibit 7	22	22
	Applicant's Exhibit 8	22	22

Name

Address

Remarks:

Thomas L. Dwyer
Ph.
163-2-56



T R State
or County

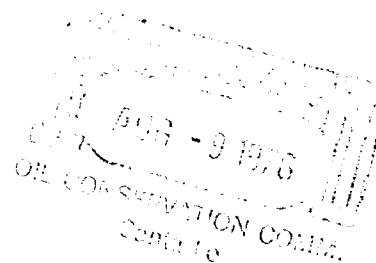
LEWIS B. BURLESON

JACK HUFF

BURLESON & HUFF

OIL PROPERTIES
BOX 2479 - PHONE 683-4747
MIDLAND, TEXAS 79701

August 6, 1976



Mr. Dan Nutter
Chief Engineer
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Dan:

Enclosed is transcript of hearing in Case No. 5092 which you sent to me. Thank you very much for loaning this to me. It was very helpful in getting a settlement of our differences.

Sincerely yours,

BURLESON & HUFF

A handwritten signature in cursive script, appearing to read "J. Huff".

Jack Huff

JH/sw

Enc:

OIL CONSERVATION COMMISSION
P. O. BOX 2028
SANTA FE, NEW MEXICO 87501

February 11, 1974

C
O
P
Y

Gulf Oil Company
P. O. Drawer 1150
Midland, Texas 79701

Attention: Mr. J. L. Pike

Re: Case No. 5092, Order No.
R-4669

Dear Mr. Pike:

Referring to your letter of February 5, 1974, the commencement of operations on the Hulda Townsend Well No. 2, Unit I, Section 9, Township 16 South, Range 35 East, by a well servicing unit on or before February 15, 1974, will satisfy the initial activity requirements of the subject Commission Order.

Please note the further requirement of the order that "should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof," the operator, Gulf Oil Company, will be required to appear and show cause why the compulsory pooling order should not be rescinded.

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/RLS/dr

Gulf Oil Company - U.S.

PRODUCTION DEPARTMENT

MIDLAND DISTRICT

February 5, 1974

W. B. Hopkins
DISTRICT PRODUCTION MANAGER
J. L. Pike
DISTRICT OPERATIONS MANAGER
M. B. Moseley
DISTRICT SERVICES MANAGER
A. J. Evans, Jr.
DISTRICT ENVIRONMENTAL & SAFETY MANAGER
J. C. Howard
DISTRICT EMPLOYEE RELATIONS MANAGER

P. O. Drawer 1150
Midland, Texas 79701

Mr. A. L. Porter
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 5092
Order No. R-4669

Dear Mr. Porter:

On November 16, 1973, the Commission in the above case ordered the pooling of the E/2 of Section 9, T16-S, R-35E NMPM, Townsend-Morrow Gas Pool, Lea County with a 320 acre proration unit to be dedicated to Gulf Oil Corporation's Hulda Townsend Well No. 2 located in Unit I. The order further provided that Gulf shall commence the deepening of said well on or before the 15th day of February 1974.

Due to the acute shortage of drilling rigs, we have been unable to obtain a firm commitment for a drilling rig suitable for deepening this well before February 15, 1974. We do, however, have a firm commitment for one near the end of February. We do plan to move in a well servicing unit prior to February 15 to cement squeeze the present perforations preparatory to actual deepening operations. There may be some lapse in time, however, in well work between using the service unit and the drilling rig.

We believe that the above plan conforms to the intent of the Oil Conservation Commission's Order No. R-4669, Case No. 5092.

Gulf Oil Corporation respectfully requests that the Commission advise by letter of your approval of this plan or in the alternative extend the compliance date for commencement of deepening of the Hulda Townsend Well No. 2 to March 15, 1974.

Yours very truly,

J. L. PIKE

CFK:al

cc: Exxon Company - U.S.A.
V-F Petroleum Inc.

GULF OIL CORPORATION

120 days

OIL CONSERVATION COMMISSION
P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

February 5, 1974

W. Thomas Kellahin, Esq.
P. O. Box 1769
Santa Fe, New Mexico 87501

Re: Commission Case No. R-5092
Order No. R-4669

Dear Tom:

Your letter of January 14, 1974, concerning amendment of Order No. R-4469 has been referred to me for response.

In my opinion, this is not a proper situation for a nunc pro tunc since there appears to be nothing in the record to support changing the risk factor from 150% to 100%.

This case file includes copies of letters from you for V-F Petroleum and Daniel W. McAllen for Gulf which note the agreement between the parties and request this amendment. Even after the Oil Conservation Commission has established a risk factor in a Commission order, I believe the parties may agree between themselves to a different figure. Should a dispute arise at a later date as to the risk factor, the parties may enforce their agreement.

It is, therefore, our intention to not issue a nunc pro tunc in this case. If you have any questions, please let me know.

Very truly yours,

WILLIAM F. CARR
General Counsel

WFC/dr
cc: Daniel W. McAllen III
P. O. Box 1150
Midland, Texas 79701

ack *Hand Out 3/1/74*

Gulf Oil Company - U.S.

PRODUCTION DEPARTMENT
MIDLAND DISTRICT

W. B. Hopkins
DISTRICT PRODUCTION MANAGER
J. L. Pike
DISTRICT OPERATIONS MANAGER
M. B. Moseley
DISTRICT SERVICES MANAGER
A. J. Evans, Jr.
DISTRICT ENVIRONMENTAL & SAFETY MANAGER
J. C. Howard
DISTRICT EMPLOYEE RELATIONS MANAGER

January 2, 1974

6382

P. O. Drawer 1150
Midland, Texas 79701

A. L. Porter, Jr.
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 5092, Order No. R-4669
E/2, Section 9, T-16S, R-35E,
Townsend Morrow Gas Pool
Lea County, New Mexico

Gentlemen:

Under the above referenced case, the Oil Conservation Commission directed "that after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission and each working interest owner in the subject unit an itemized schedule of estimated well cost, and an itemized schedule of the used value, independently determined by third party, all of salvageable surface and subsurface equipment and casing extant which are in the subject well which is to be utilized in the completion of the well as a Morrow Gas Producer".

Transmitted herewith is: 1) An updated itemized schedule of estimated well cost for deepening the subject well and, 2) An itemized schedule from the Bovaird Supply Company of the used value on all salvageable surface and subsurface equipment and casing extant in the subject well down to the top of present perforations in the 5-1/2" casing at 10,220' which is to be used in the completion of the well as a Morrow gas producer.

For your convenience, tabulated below is the extension of the per unit value of the used equipment to be utilized in completion of this well which amounts to a total used value of \$38,515.12.



A DIVISION OF GULF OIL CORPORATION

A. L. Porter, Jr.
January 2, 1974
Page 2

RECEIVED
JAN 15 1974
OIL COMPANY

9,500'	2-3/8" OD 4.70# J-55 EUE 8-RT Tubing	\$.86/ft.	\$ 8,170.00
15'	5-1/2" OD 20# N-80 8-RT Casing	3.78/ft.	56.70
4,406'	5-1/2" OD 17# N-80 8-RT Casing	3.15/ft.	13,878.90
2,492'	5-1/2" OD 17# J-55 8-RT Casing	2.70/ft.	6,728.40
3,306'	5-1/2" OD 15.50# J-55 8-RT Casing	2.52/ft.	8,331.12
			<u>37,165.12</u>

1 Well head consisting of: 13-3/8" OD 8-RT
x 8-5/8" x 5-1/2" National Type B Series
900 well head, with 8-5/8" x 5-1/2" slips
with 1-2" #3607-X Crane gate valve and
1-2" #2344 Nordstrom plug valve; with
Series 600-700 National Type E tubing head
complete with studs, nuts and ring gaskets

1,350.00

TOTAL

\$38,515.12

Yours very truly,

J. L. Pike
J. L. PIKE

CFK:jm
Attachment

cc: Exxon Company - U.S.A.
Attn: John K. Folks
P. O. Box 1600
Midland, Texas 79701

V-F Petroleum Inc.
1212 Vaughn Building
Midland, Texas 79701



December 26, 1973

Mr. C. F. Kalteyer
Gulf Oil Company - U.S.
Post Office Box 1150
Midland, Texas

Dear Sir:

The Bovaird Supply Company is pleased to submit the salvage appraisal values to the following equipment:

9,500'	2-3/3" OD 4.70# J-55 EUE 8-RT Tubing	\$.86/ft
15'	5-1/2" OD 20# N-80 8-RT Casing	\$ 3.78/ft
4,406'	5-1/2" OD 17# N-80 8-RT Casing	\$ 3.15/ft
2,492'	5-1/2" OD 17# J-55 8-RT Casing	\$ 2.70/ft
3,306'	5-1/2" OD 15.50# J-55 8-RT Casing	\$ 2.52/ft
1	Well head consisting of: 13-3/8" OD 8-RT x 8-5/8" x 5 1/2" National type B Series 900 well head, with 8-5/8" x 5 1/2" slips with 1-2" #3607-X Crane gate valve and 1-2" #2344 Nordstrom plug valve; with Series 600-900 National type E tubing head, complete with studs, nuts and ring gaskets. \$1,350.00	

Please accept our apology for the delay in handling this transaction.

Yours very truly,

Jerry W. McLelland
Jerry W. McLelland, Coordinator
Used Equipment

cc: Mr. K. J. Breazeale
Gulf Oil Company - U.S.
P. O. Box 670
Hobbs, New Mexico

jc

GULF OIL COMPANY - U. S.

AREA Hobbs

DATE 12-12-73

DRILL & COMPLETE Hulda Townsend No. 2 - DEEPEN 1250'

LOCATED 2310' FSL and 660' FEL Section 9-16S-35E, Lea County, N.M.

INTANGIBLE		DRILL	COMPLETE	EXPENDED	OVER/ UNDER
ELEMENT	ITEM				
	101 Location & Access	2,000			
	102 Rig Contract	-			
	103 Rig Contract - Footage				
	@ \$ _____ per ft.	-			
	104 Rig Contract - Day Work				
	33 days @ \$ 1800.00 per ftx day	59,400			
	105 Rig Contract - Rig Up & Down	15,000			
111 -	106 Fuel (Gas)	-			
	106 Drilling Fluids	8,000			
	107 Rentals - Equipment & Tools	12,100			
	108 Cement & Cementing Service	2,200			
	109 Logging, Perforating & Testing	-			
	110 Formation Treating	-			
	111 Miscellaneous Items	4,000			
164 -	111 Bits & Reamers	9,730			
232 -	111 Water Well, Lay Water Lines, etc.	2,000			
	122 Rig Contract	-			
	123 Rig Contract - Footage				
	@ \$ _____ per ft.	-			
	124 Rig Contract - Day Work				
	7 days @ \$ 500.00 per ftx day		3,500		
	125 Rig Contract - Rig Up & Down	-			
111 -	126 Fuel (Gas)	-			
	126 Drilling & Fluids	-			
	127 Rentals - Equipment & Tools		130		
	128 Cement & Cementing Service		3,500		
	129 Logging, Perforating & Testing		4,600		
	130 Formation Treating		500		
	131 Miscellaneous Items		2,200		
	192 Allocation of FOE - Other		-		
	193 Billings to Outsiders		-		
	195 Billings from Outsiders		-		
	196 Tangible Material for Temp. Use		-		
	198 Transfer between AFEs		-		
	Miscellaneous-COPAS 1968 Accounting Procedure drilling well rate @ \$1639/ft.	1,800	400		
	TOTAL INTANGIBLE DRILLING COSTS	116,230	14,830		
	GRAND TOTAL INTANGIBLE DRILLING COSTS		131,060		

TANGIBLE PRODUCING EQUIPMENT

ESTIMATED COSTS

<u>ELEMENT</u>	<u>ITEM</u>	<u>DRILL</u>	<u>COMPLETE</u>	<u>EXPENDED</u>	<u>OVER/ UNDER</u>
21X	Casing				
	Surface _____' of _____"				
	Intermediate _____' of _____"				
22X	Casing (Oil String)				
	1900 _____' of 4" @ \$3.10/ft		5,900		
23X	Other Subsurface Prod. Eqpt.		1,390		
	Tubing 2300 _____' of 2-3/8"		2,650		
24X	Subsurface Artificial Lift Eqpt.		-		
25X	Surface Producing Equipment				
26X	Christmas Tree		2,060		
	Miscellaneous				

	TOTAL TANGIBLE PRODUCING EQUIPT.		11,940		
<u>INTANGIBLE COSTS CAPITALIZED</u>					
27X	Billing to Outsiders				
28X	Billings from Outsiders				
29X	Misc'l. Items, Transfers & Other Expense				
	TOTAL INTANGIBLE & TANGIBLE COSTS CAPITALIZED				
	TOTAL ESTIMATE	116,230	26,770		
	GRAND TOTAL		\$143,000		


AREA PRODUCTION MANAGER

APPROVED:

BY _____

DATE _____

Gulf Oil Company - U.S.

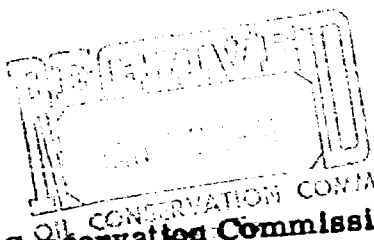
LAW DEPARTMENT

P. O. Box 1150
Midland, Texas 79701

Daniel W. McAllen III
ATTORNEY

January 10, 1974

Mr. J. M. Fullinwider
V - F Petroleum, Inc.
1212 Vaughn Building
Midland, Texas 79701



Re: New Mexico Oil Conservation Commission
Case No. 5092, Order No. R-4669
Application of Gulf Oil Corporation for Compulsory Pooling
E/2, Section 9, T-16-S, R-35-E,
Townsend Morrow Gas Pool Lea County, New Mexico

Dear Mr. Fullinwider:

This will confirm the negotiated settlement between Gulf Oil Corporation and V-F Petroleum in the captioned case whereby Gulf has agreed to accept a reduction in the risk factor from 150% to 100% for all non-consenting working interest owners that do not pay their share of estimated costs and tangible values in re-completing the well in consideration for V-F's promise to dismiss its application for a hearing de novo.

You may regard this letter as authority from Gulf Oil Corporation to request the New Mexico Oil Conservation Commission to amend its Order R-4669 to conform to the terms of our agreement.

Very truly yours,


Daniel W. McAllen III

cc: W. Thomas Kellahin
54-1/2 East San Francisco St.
P. O. Box 1769
Santa Fe, N. M. 87501



A DIVISION OF GULF OIL CORPORATION

JASON W. KELLAHIN
ROBERT E. FOX
W. THOMAS KELLAHIN

KELLAHIN AND FOX
ATTORNEYS AT LAW
500 DON GASPAR AVENUE
POST OFFICE BOX 1769
SANTA FE, NEW MEXICO 87501

TELEPHONE 982-4315
AREA CODE 505

January 14, 1974

Mr. A. L. Porter
New Mexico Oil Conservation Commission
P. O. Box 2008
Santa Fe, New Mexico 87501

Re: Commission Case No. 5092
Order No. R-4669

Dear Mr. Porter:

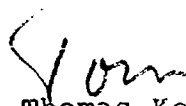
On December 14, 1973, V-F Petroleum filed an application for a hearing de novo in the above referenced case which was an application by Gulf Oil Company for compulsory pooling.

As indicated in the Gulf Oil Company letter of January 10, 1974, a copy of which is enclosed, Gulf and V-F Petroleum have entered into an agreement whereby Gulf accepted a reduction in the risk factor from 150% to 100% in return for V-F Petroleum's promise to dismiss its hearing de novo application.

On behalf of V-F Petroleum, I am withdrawing their application for a hearing de novo.

I would appreciate the Commission amending its order R-4669 to conform to the terms of the V-F Petroleum-Gulf agreement.

Very truly yours,


W. Thomas Kellahin

WTK:ks

Enclosure

cc: V-F Petroleum
Gulf Oil Company



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE

67508

**GOVERNOR
BRUCE KING
CHAIRMAN
LAND COMMISSIONER
ALEX J. ARMUJO
MEMBER
STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR**

November 16, 1973

Mr. Dan McAllen
Gulf Oil Corporation
Post Office Box 1150
Midland, Texas

Re: Case No. 5092
Order No. R-4669
Applicant:
Gulf Oil Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC _____ x
Artesia OCC _____
Aztec OCC _____

Other Mr. Tom Kellahin

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5092
Order No. R-4669

APPLICATION OF GULF OIL CORPORATION
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 31, 1973,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 16th day of November, 1973, the Commission,
a quorum being present, having considered the testimony, the
record, and the recommendations of the Examiner, and being fully
advised in the premises,

FINDS:

(1) That due public notice having been given as required by
law, the Commission has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, Gulf Oil Corporation, seeks an order
pooling all mineral interests from the base of the Wolfcamp
formation to the base of the Morrow formation underlying the
E/2 of Section 9, Township 16 South, Range 35 East, NMPM,
Townsend-Morrow Gas Pool, Lea County, New Mexico.

(3) That the above-described acreage is to be dedicated to
applicant's Hulda Townsend Well No. 2 located in Unit I of said
Section 9 which is to be deepened to test the Morrow formation.

(4) That there are interest owners in the proposed proration
unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to
protect correlative rights, and to afford to the owner of each
interest in said unit the opportunity to recover or receive
without unnecessary expense his just and fair share of the gas
in said pool, the subject application should be approved by
pooling all mineral interests, whatever they may be, within said
unit.

(6) That the applicant should be designated the operator of
the subject well and unit.

(7) That the used value of all salvageable surface and subsurface equipment and casing extant at or in the subject well, which is utilized in the completion of the well as a Morrow gas producer, should be independently determined by a third party.

(8) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well recompletion costs and his share of casing and equipment value, as determined under Finding No. (7) above, to the operator in lieu of paying his share of reasonable recompletion costs and tangible values out of production.

(9) That any non-consenting working interest owner that does not pay his share of estimated well recompletion costs and tangible values should have withheld from production his share of the reasonable well recompletion costs plus an additional 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well and his share of the tangible values as determined in accordance with Finding No. (7) above.

(10) That any non-consenting interest owner should be afforded the opportunity to object to the actual well recompletion costs and casing and equipment value but that actual well recompletion costs and tangible values should be adopted as the reasonable well costs and values in the absence of such objection.

(11) That following determination of reasonable well recompletion costs and tangible values, any non-consenting working interest owner that has paid his share of estimated costs and tangible values should pay to the operator any amount that reasonable well recompletion costs and tangible values exceed estimated well costs and values and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs and values.

(12) That \$182.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(13) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(14) That upon the failure of the operator of said pooled unit to commence deepening of the well to which said unit is dedicated on or before February 15, 1974, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interest, whatever they may be, from the base of the Wolfcamp formation to the base of the Morrow formation underlying the E/2 of Section 9, Township 16 South, Range 35 East, NMPM, Townsend-Morrow Gas Pool, Lea County, New Mexico, are hereby pooled to form a standard 320 acre gas spacing and proration unit to be dedicated to applicant's Hulda Townsend Well No. 2 located in Unit I of said Section 9.

PROVIDED HOWEVER, that the operator of said unit shall commence the deepening of said well on or before the 15th day of February, 1974, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the deepening of said well on or before the 15th day of February, 1974, Order (1) of this order shall be null and void and of no effect whatsoever;

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Gulf Oil Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs, and an itemized schedule of the used value, independently determined by a third party, of all salvageable surface and subsurface equipment and casing extant at or in the subject well which is to be utilized in the completion of the well as a Morrow gas producer.

(4) That within 30 days from the date the schedule of estimated well costs, recompletion costs and tangible equipment value is furnished to him, any non-consenting working interest owner shall have the right to pay his share of said estimated well costs and tangible values to the operator in lieu of paying his share of reasonable well recompletion costs and tangible equipment value out of production, and that any such owner who pays his share of estimated well costs and tangible values as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Commission and each known working interest owner an itemized schedule of actual well recompletion costs and salvageable tangible equipment value within 90 days following completion of the well; that if no objection to the actual well costs and values is received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs and values shall be the reasonable well costs and values; provided however, that if there is an objection to actual well costs and values within said 45-day period the Commission will determine reasonable well costs and values after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs and values, any non-consenting working interest owner that has paid his share of estimated costs and values in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs and values exceed estimated well costs and values and shall receive from the operator his pro rata share of the amount that estimated well costs and values exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs and salvageable tangible equipment values attributable to each non-consenting working interest owner who has not paid his share of estimated well costs and values within 30 days from the date the schedule of estimated well costs and itemized well equipment and casing values schedule are furnished to him.

(B) As a charge for the risk involved in the recompletion of the well, 150 percent of the pro rata share of reasonable well recompletion costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs and salvageable tangible equipment values within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$182.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting

-5-

Case No. 5092

Order No. R-4669

working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

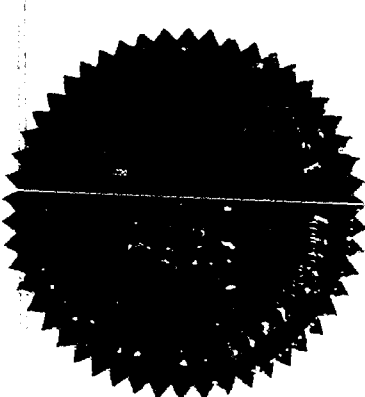
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



I. R. Trujillo
I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member

A. L. Porter, Jr.
A. L. PORTER, Jr., Member & Secretary

S E A L

Gr/

DOCKET: EXAMINER HEARING - WEDNESDAY - OCTOBER 31, 1973

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

CASE 5076: (Continued from the October 17, 1973, Examiner Hearing)

Application of David Fasken for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill a well at an unorthodox location 1980 feet from the North line and 660 feet from the West line of Section 7, Township 18 South, Range 26 East, West Atoka-Morrow Gas Pool, Eddy County, New Mexico, the N/2 of said Section 7 to be dedicated to the well.

CASE 5086: Application of Skelly Oil Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Myers Langlie-Mattix Unit Area comprising 9924 acres, more or less, of Federal, State, and Fee lands in Townships 23 and 24 South, Ranges 36 and 37 East, Lea County, New Mexico.

CASE 5087: Application of Skelly Oil Company for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in its Myers Langlie-Mattix Unit Area, Langlie-Mattix Pool, Lea County, New Mexico, by the injection of water into the Queen formation through 84 injection wells in said unit area.

CASE 5088: Application of Amini Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface of the ground down to and including the Pennsylvanian formation underlying the S/2 of Section 32, Township 20 South, Range 33 East, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location in Unit N of said Section 32. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5089: (This case will be dismissed)

Application of Coquina Oil Corporation for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill its proposed Cities Service State Well No. 3, at an unorthodox location 1325 feet from the South line and 660 feet from the East line of Section 27, Township 14 South, Range 34 East, High Plains-Pennsylvanian Pool, Lea County, New Mexico.

- CASE 5090: Application of Atlantic Richfield Company for lease commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Commission Rule 309-A to permit the commingling of unitized and non-unitized production within applicant's Seven Rivers-Queen Unit Area, Langlie-Mattix Pool, Lea County, New Mexico.
- CASE 5091: Application of Superior Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying the E/2 of Section 2, Township 18 South, Range 25 East, West Atoka-Morrow Gas Pool, Eddy County, New Mexico, to be dedicated to a well presently being drilled at a point 2080 feet from the South line and 660 feet from the East line of said Section 2. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 5092: Application of Gulf Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the base of the Wolfcamp formation to the base of the Morrow formation underlying the E/2 of Section 9, Township 16 South, Range 35 East, Townsend-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to its Hulda Townsend Well No. 2 located in Unit 1 of said Section 9. Also to be considered will be the present value of said well and the cost of deepening and completing same and the allocation of such values and costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in deepening said well.
- CASE 5093: Application of Morris R. Antweil for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying the N/2 of Section 17, Township 22 South, Range 27 East, South Carlsbad Field, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location in Unit B of said Section 17. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 5094: Application of Cities Service Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Azotea Mesa Unit Area comprising 5686 acres, more or less, of Federal and State lands in Township 23 South, Range 24 East, Eddy County, New Mexico.
- CASE 5095: Application of Cities Service Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Loafer Draw Unit Area comprising 5844 acres, more or less, of Federal, Fee, and State lands in Township 21 South, Ranges 21 and 22 East, Eddy County, New Mexico.

CASE 5096: Application of H. L. Brown, Jr. for a non-standard gas proration unit and unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 320-acre non-standard gas proration unit comprising the SE/4 of Section 15 and the E/2 NE/4, SW/4 NE/4, and NE/4 SE/4 of Section 22, all in Township 17 South, Range 29 East, Grayburg-Morrow Gas Pool, Eddy County, New Mexico, to be dedicated to a well to be drilled at an unorthodox gas well location 330 feet from the South and East lines of said Section 15.

CASE 5097: Application of Dorchester Exploration Company for pool creation and special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new gas pool for Wolfcamp production for its well located in Unit F of Section 35, Township 19 South, Range 28 East, and the promulgation of special rules therefor including a provision for 320-acre spacing and standard 320-acre well locations.

CASE 5073: (Continued and Readvertised)

Application of Belco Petroleum Corporation for a non-standard gas proration unit and unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 320-acre non-standard gas proration unit comprising the E/2 SW/4 and SE/4 of Section 30 and the N/2 NE/4 of Section 31, all in Township 20 South, Range 33 East, South Salt Lake Field, Lea County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 660 feet from the South line and 1300 feet from the East line of said Section 30.

J. R. MODRALL
JAMES E. SPERLING
JOSEPH E. ROEHL
GEORGE T. HARRIS, JR.
DANIEL A. SISK
LELAND S. SEDBERRY, JR.
ALLEN C. DEWEY, JR.
FRANK H. ALLEN, JR.
JAMES P. SAUNDERS, JR.
JAMES A. PARKER
JOHN R. COONEY
KENNETH L. HARRIGAN
PETER J. ADAMS
DALE W. EK
DENNIS J. FALK
ARTHUR D. MELENDRES
BRUCE D. BLACK
CHARLES J. NOYA

LAW OFFICES OF
MODRALL, SPERLING, ROEHL, HARRIS & SISK

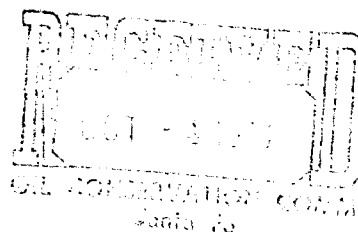
PUBLIC SERVICE BUILDING
P. O. BOX 2168
ALBUQUERQUE, NEW MEXICO 87103

JOHN F. SIMMS (1885-1954)
AUGUSTUS T. SEYMOUR
(1907-1965)

TELEPHONE 243-4511
AREA CODE 505

October 3, 1973

Case 5092



Mr. A. L. Porter
Secretary-Director
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Application of Gulf Oil Corporation
for an Order Pooling All Mineral
Interests from the Base of the
Wolfcamp Formation to the Base of
the Morrow Formation, E/2 of Sec. 9,
T 16 S, R 35 E, Lea County, New
Mexico

Dear Mr. Porter:

Enclosed is Entry of Appearance on behalf of the Applicant, Gulf Oil Corporation, in the above-captioned application, which has been requested for docketing at the Examiner's Hearing on October 31, 1973.

Very truly yours,

James E. Sperling
James E. Sperling

JES:jv

Enclosure

cc: Mr. J. L. Pike, w/encl.
District Operations Manager
Gulf Oil Company - U.S.
P. O. Drawer 1150
Midland, Texas 79701

RECEIVED

10/13/73

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF GULF OIL CORPORATION FOR AN
ORDER POOLING ALL MINERAL INTERESTS
FROM THE BASE OF THE WOLFCAMP
FORMATION TO THE BASE OF THE
MORROW FORMATION, E/2 of SECTION 9,
TOWNSHIP 16 SOUTH, RANGE 35 EAST,
LEA COUNTY, NEW MEXICO

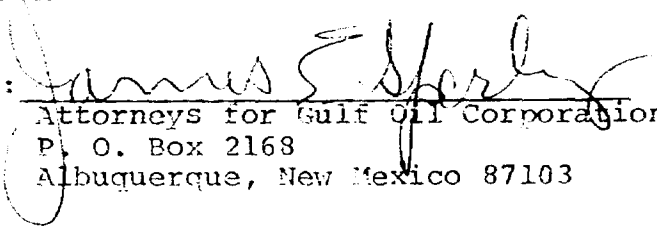
Case No. Case 5092

ENTRY OF APPEARANCE

The undersigned, Modrall, Sperling, Roehl, Harris & Sisk,
of Albuquerque, New Mexico, hereby enter their appearance here-
in for the Applicant, Gulf Oil Corporation, with its house
counsel of Midland, Texas.

MODRALL SPERLING ROEHL HARRIS & SISK

By:


Attorneys for Gulf Oil Corporation
P. O. Box 2168
Albuquerque, New Mexico 87103

R-34-E

T-16-S

R-35

Scabot Carbon

Gulf

Exxon

Exxon

J.R. Conn

Gulf

Hulda Townsend

T-16-S

R-35-E

PROPOSED HULDA TOWNSEND UNIT
E/2 SECTION 9 T-16-S, R-35-E
LEA COUNTY, NEW MEXICO



Proposed Unit Outline



Proposed Pennsylvania Test



Townsend Morrow (Gas) Completion

Submitted by Gulf Oil
Hearing Date 10-31-73

Exhibit No. 1
Gulf Oil Corporation
Case No. 5092
October 31, 1973

— Proposed Completion —
HULDA TOWNSEND WELL NO. 2
 2310' FSL & 660' FEL, Unit I, Sec. 9, T-16-S, R-35-E
 Townsend (Morrow) Gas Pool
 Lea County, New Mexico
 Gr. Elev. 4009' Tbg. H. = 7.51

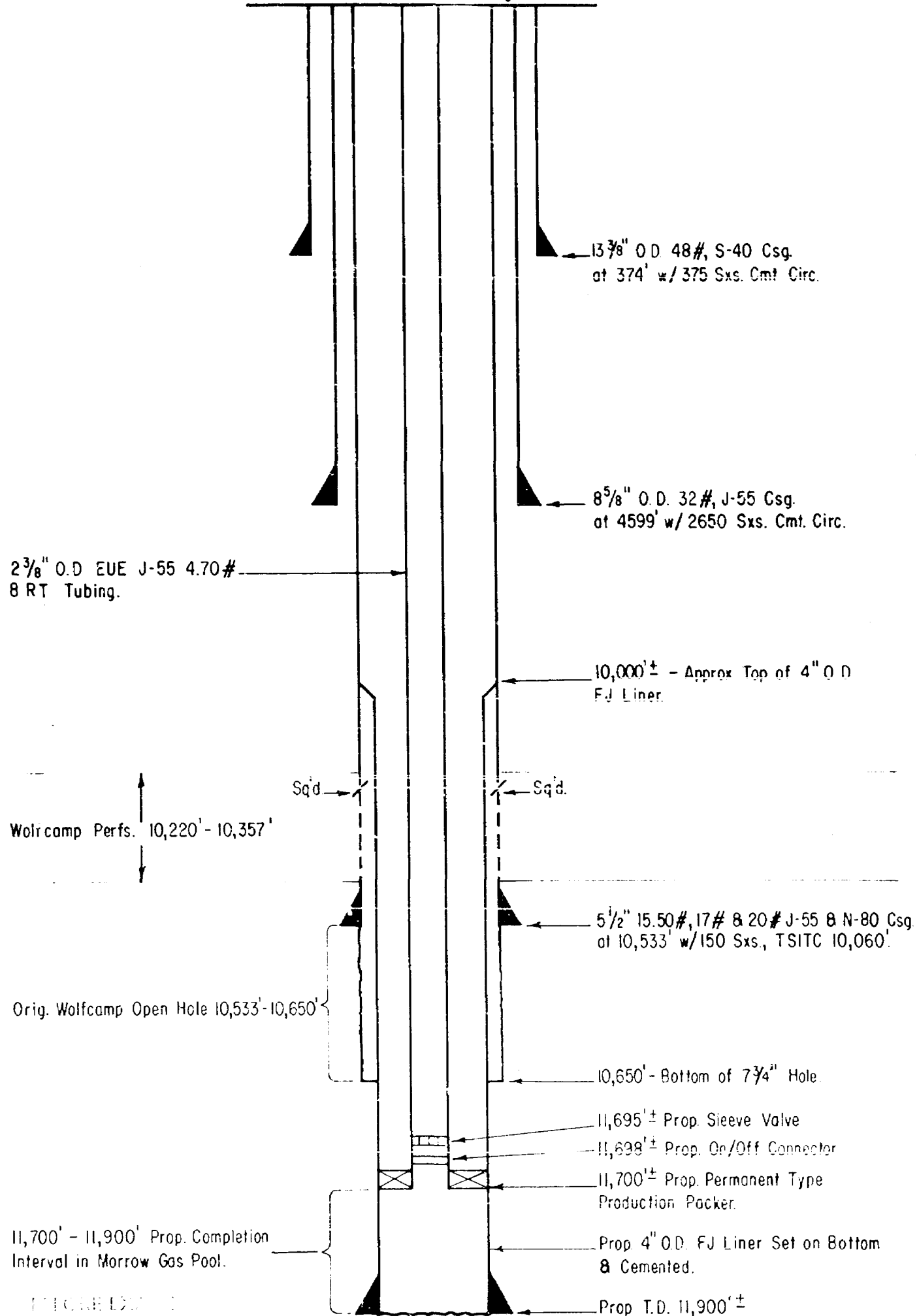


FIGURE 12-1
 CH. 12-1
 DATE NO. 5092
 PREPARED BY CH. 12-1
 DATE 10-31-73

EXHIBIT NO. 2
 CASE NO. 5092
 OCTOBER 31, 1973

PLAN OF PROCEDURE
DRILL DEEPER

HULDA TOWNSEND WELL NO. 2
2310' FSL & 660' FEL
UNIT I- SEC. 9 - T-16S - R-35E
TOWNSEND MORROW (GAS) POOL
LEA COUNTY, NEW MEXICO

1. Move in rotary tools and rig up.
2. Clean out to 10,650'.
3. Deepen well by drilling with 4-5/8" OD rock bit from 10,650' to 11,900'.
4. Run open hole logs as required.
5. Run, set and cement 4" OD flush joint liner from 11,900' up to 10,000' \pm .
6. Rig down and move out rotary tools.
7. Move-in pulling unit and rig up.
8. Run cased hole logs as required.
9. Run and set permanent type production packer at 11,700' \pm .
10. Run tubing and nipple up tree.
11. Run thru-tubing gun and perforate selected intervals in the Pennsylvanian formation.
12. Clean up and place well on production.
13. Rig down and move out pulling unit.
14. Conduct and report well tests as required.

EXHIBIT NO. 3
GULF OIL CORPORATION
CASE NO. 5092
OCTOBER 31, 1973

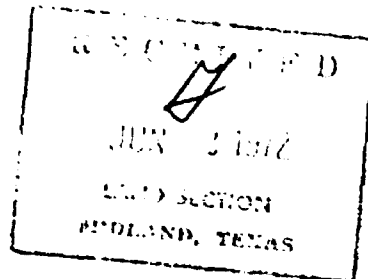
EXAMINED
5092
10-3-13

Handwritten signatures and initials at top left.

V. F. VASICEK

V-F PETROLEUM
1212 VAUGHN BUILDING
MIDLAND, TEXAS 79701
915 683-3344

June 1, 1972



J. M. FULLINWIDER

Gulf Oil Company
P. O. Box 1150
Midland, Texas

Referto Prod. Dept. GKH 6-5-72
RECEIVED
JUN 3 1972
EXPLORATION GEOLOGY
R-22
3509-A
HBP
Free Land

Attention: Mr. Robert E. Griffith

Townsend Area
SE/4 Section 9
T 16 S R 35 E
Lea County, New Mexico

Gentlemen:

We understand that Gulf has one marginal oil well in the Townsend pay located on the subject 160-acre tract. We own or control the balance of the acreage in Section 9 and would like to make some kind of a deal with Gulf on the subject 160-acre tract.

We would be willing to purchase for cash the old oil well and equipment and thereby gain an outright assignment of the leasehold rights. Our figures would indicate that the lease is barely profitable, if at all, and since Gulf has no other production or acreage in the immediate area, a sale might be attractive to you.

If Gulf does not wish to sell the lease, then we would like to make some sort of farmout arrangement whereby we could re-enter the #1 Townsend and drill deeper to the Atoka Sand at about 11,900'. We plan to unitize your tract with the acreage in the NE/4 of Section 9 to satisfy the NMOCC spacing regulations.

If you could give us some indication of which route you would rather pursue - a sale or farmout - we shall be pleased to submit to you a firm proposition right away.

Thank you for your attention to this request.

Yours very truly,

V-F PETROLEUM and

TOM BROWN, INC.

6-8-72 Reply to H&H
6-28-72 - 167 in same or sublease
MAY consider some joint operation
JMF:jw in later part of year
Wade
Exhibit No. 4
4a

June 29, 1972

Re: Townsend Area
SE/4 Section 9,
T-16S, R-35E,
LEA COUNTY, New Mexico
Gulf Lease No. 0-33509-A

V-F Petroleum
1212 Vaughn Building
Midland, TX 79701

Attention: Mr. J. M. Fullinwider

Gentlemen:

Thank you for your letter of June 1, 1972 in which you requested to purchase the captioned acreage or obtain a sublease of same for the purpose of reentering the No. 1 Townsend and drilling it to the Atoka Sand at about 11,900 feet.

Gulf is not interested in selling or subleasing its acreage in this area at this time. We would, however, consider a proposal for joint operations on our acreage in the latter part of this year.

Yours very truly,

R. E. GRIFFITH
District Landman

SSE/dch

V-F Petroleum Inc.

oil & gas operations 1212 vaughn building midland, texas 79701 915 683-3344

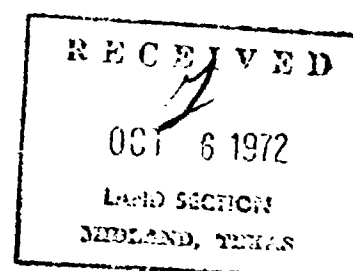
L. L. Fuller
Secretary

October 5, 1972

Gulf Oil Corporation
P. O. Drawer 1150
Midland, Texas 79701

Attention: Mr. Robert E. Griffith

See attached
letter of 6-29-72



Your No. 0-33509-A
SE/4 Section 9
T-16-S, R-35-E
Lea County, New Mexico

Gentlemen:

Further to our correspondence on this area, we are writing to request a farmout on the deep rights under this 160-acre tract for the re-entry and deepening of the Gulf #2 Townsend (an abandoned oil well in the Townsend Field) to the Atoka-Morrow sand at about 11,900 feet.

We propose that Gulf retain 1/16 x 8/8 ORRI until we have recovered from the proceeds of production 100% of the costs of drilling, testing, completing, equipping and operating said well, at which time Gulf would have the option to convert its ORRI to a 1/4 WI.

We own leases in the NE/4 Section 9 and would propose to unitize the E/2 of said section to comply with NMOCC spacing regulations. We already have a favorable contract with Northern Natural Gas covering our acreage in this section providing for a price of 31¢ per mcf, which with BTU adjustment brings the price currently being received for gas from our #1 Humble-Townsend (W/2 Section 9) to 34¢ per mcf. We think there are certain obvious benefits to be derived by Gulf in working with us on this acreage as we could bring it under our gas contract at a price which Gulf, as a large producer, could not negotiate and receive by itself.

TD #1 Townsend is 10641 - 5 1/2' OP 4c
10-16-72 - would consider forming unit on E/2 Sec.
suggest unitizing
share for unitized 9 and jointly drill a well (to be paid)

Gulf Oil Corporation

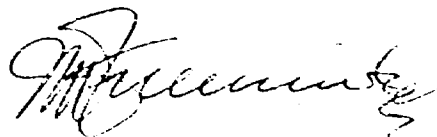
- 2 -

October 5, 1972

We have all of the completion and production information on the nearby wells and would welcome the opportunity to sit down with your personnel and go over this data in detail. Some of our information is not yet available in normal industry channels; e.g. the V-F Petroleum #1 Danglade Gas Unit (E/2 Section 15) had a potential of 15.5 mmcfcpd, but after being on stream 2 weeks and producing about 60 mmcfcpd, it has depleted and suffered a BHP drop that will not allow it to produce against line pressure. Limited reservoir, apparently.

We shall look forward to hearing from you at your earliest convenience.

Yours very truly,



J. M. Fullinwider
Vice President

JMF:jw

November 2, 1972

Re: SE/4 Section 9-16S-35E
LEA COUNTY, New Mexico

R-22

V-F Petroleum Inc.
1212 Vaughn Building
Midland, TX 79701

Attention: Mr. J. M. Fullinwider

Gentlemen:

Reference is made to your letter dated October 5, 1972, in which you requested a farmout of the deep rights covering the captioned acreage for the purpose of reentering and deepening the Gulf No. 2 Townsend to the Atoka-Morrow sand.

We have carefully considered your proposal and it has been decided that we would not be interested in subleasing this acreage. We would, however, be willing to consider the formation of a unit covering the E/2 of Section 9 and jointly deepen subject well to the Atoka-Morrow section.

If our proposal for joint operations is acceptable, please let us know and we will proceed with working out the necessary details.

Yours very truly,

R. E. GRIFFITH
District Landman

SSS/dch

4d

April 2, 1973

Re: E/2 Section 9, T-16-S, R-35-E
LEA COUNTY, New Mexico

Exxon Company, U.S.A.
P. O. Box 1600
Midland, TX 79701
Attention: Mr. William H. Leifeste

V-F Petroleum, Inc.
1212 Vaughn Building
Midland, TX 79701
Attention: Mr. J. M. Fullinwider

Gentlemen:

Gulf Oil Corporation proposes to communitize the E/2 of Section 9, T-16-S, R-35-E, from the base of the Wolfcamp to the base of the Morrow formation for the purpose of reentering and deepening the Gulf No. 2 Townsend, located in NE/4 SE/4 Section 9, from a depth of 10,650 feet to the Morrow Sand at approximately 11,900 feet. The re-entry and completion cost is estimated to be \$132,000.00. In addition the participating parties will be expected to pay their proportionate part of the salvage value of the well, which is estimated at \$18,000.00.

According to our records the ownership of this unit would be as follows:

Company	Acreage	Percentage
Gulf Oil Corporation	160 Ac. (SE/4)	50.00%
Exxon Company, U.S.A.	80 Ac. (W/2 NE/4)	25.00%
V-F Petroleum, Inc.	80 Ac. (E/2 NE/4)	25.00%
	320	100.00%

Please consider the above proposal and advise as to whether or not you will participate. If you do not desire to participate, Gulf would be willing to negotiate farmout terms covering your leasehold.

Yours very truly,

R. E. GRIFFITH
District Landman

SSS/dch

4e

April 5, 1973

Re: E/2 Section 9, T-16-S, R-35-E,
LEA COUNTY, New Mexico

Exxon Company, U.S.A.
P. O. Box 1600
Midland, TX 79701

Attention: Mr. William H. Leifeste

Gentlemen:

In connection with our proposed reentry operation of the
No. 2 Townsend Well, we are enclosing two copies of our AFE for your
consideration. Should you elect to join with us in this project, we
request that you execute and return one copy to us.

We plan to commence operations on this well as soon as
possible after receiving favorable responses from you. and V-F
Petroleum, Inc. We would estimate commencing within 30 to 60 days
from the date of our contract or agreement.

Yours very truly,

R. E. GRIFFITH
District Landman

Enclosure
SSS/dch

5-1-73 - Humble advised they would join!

AF

May 9, 1973

Re: E/2 Section 9, T-16S, R-35E,
LEA COUNTY, New Mexico

V-F Petroleum, Inc.
1212 Vaughn Building
Midland, TX 79701

Attention: Mr. J. M. Fullinwider

Gentlemen:

By letter dated April 2, 1972, Gulf proposed to communitize the E/2 Section 9, T-16S, R-35E, from the base of the Wolfcamp to the base of the Morrow formation for the purpose of reentering and deepening the Gulf No. 2 Townsend to test the Morrow Sand.

Considerable time has now elapsed and we would appreciate being advised as to whether or not you will participate in our operations or desire to farm out your acreage. We wish to advise that Exxon Company, U.S.A. has elected to participate in our operations.

We are enclosing two copies of our AFE and should you elect to join, we request that you execute and return one copy to us. We plan to commence operations as soon as possible and would appreciate receiving an early reply.

Yours very truly,

R. E. GRIFFITH
District Landman

Enclosures
SSS/dch

cc: Exxon Company, U.S.A.
P. O. Box 1000
Midland, TX 79701
Attention: Mr. William H. Leifester

JRM → USE MARVIN WILGUY AS your
Exxon Contact

4g

GULF OIL COMPANY - U. S.

AREA Hobbs

DATE 12-22-72

DRILL & COMPLETE Hulda Townsend No. 2

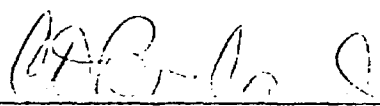
LOCATED 2310' FSL and 660' FEL Section 9-16S-35E, Lea County, New Mexico

<u>INTANGIBLE</u>		<u>DRILL</u>	<u>COMPLETE</u>	<u>EXPENDED</u>	<u>OVER/ UNDER</u>
<u>ELEMENT</u>	<u>ITEM</u>				
	101 Location & Access	2000			
	102 Rig Contract	-			
	103 Rig Contract - Footage @ \$ _____ per ft.	-			
	104 Rig Contract - Day Work day <u>31</u> days @ \$ <u>1500</u> per day	46,500			
	105 Rig Contract - Rig Up & Down	15,000			
111 -	106 Fuel (Gas)	-			
	106 Drilling Fluids	8,000			
	107 Rentals - Equipment & Tools	11,100			
	108 Cement & Cementing Service	2,200			
	109 Logging, Perforating & Testing	-			
	110 Formation Treating	-			
	111 Miscellaneous Items	3,500			
164 -	111 Bits & Reamers	8,730			
232 -	111 Water Well, Lay Water Lines, etc.	2,000			
	122 Rig Contract	-			
	123 Rig Contract - Footage @ \$ _____ per ft.	-			
	124 Rig Contract - Day Work day <u>7</u> days @ \$ <u>400</u> per day		2,800		
	125 Rig Contract - Rig Up & Down	-			
111 -	126 Fuel (Gas)	-			
	126 Drilling & Fluids	-			
	127 Rentals - Equipment & Tools		130		
	128 Cement & Cementing Service		3,500		
	129 Logging, Perforating & Testing		4,600		
	130 Formation Treating		500		
	131 Miscellaneous Items		1,500		
	192 Allocation of FOE - Other		1,500		
	193 Billings to Outsiders		-		
	195 Billings from Outsiders		-		
	196 Tangible Material for Temp. Use		-		
	198 Transfer between AFEs		-		
	Miscellaneous				
	TOTAL INTANGIBLE DRILLING COSTS	99,030	14,530		
	GRAND TOTAL INTANGIBLE DRILLING COSTS	113,560			

TANGIBLE PRODUCING EQUIPMENTESTIMATED COSTS

<u>ELEMENT</u>	<u>ITEM</u>	<u>DRILL</u>	<u>COMPLETE</u>	<u>EXPENDED</u>	<u>OVER/ UNDER</u>
21X	Casing				
	Surface _____' of _____"				
	Intermediate _____' of _____"				
22X	Casing (Oil String)				
	1900 _____' of 4" " @ \$3.10/ft.		5,900		
23X	Other Subsurface Prod. Eqpt.		1,200		
	Tubing 2300 _____' of 2-3/8 "		2,650		
24X	Subsurface Artificial Lift Eqpt.		-		
25X	Surface Producing Equipment		5,000		
26X	Christmas Tree		2,000		
	Miscellaneous				

	TOTAL TANGIBLE PRODUCING EQUIPT.		16,750		
<u>INTANGIBLE COSTS CAPITALIZED</u>					
27X	Billing to Outsiders				
28X	Billings from Outsiders				
29X	Misc'l. Items, Transfers & Other Expense				
	TOTAL INTANGIBLE & TANGIBLE COSTS CAPITALIZED				
	TOTAL ESTIMATE	99,030	31,280		
	GRAND TOTAL		130,310		


AREA PRODUCTION MANAGER

APPROVED:

BY _____

DATE _____

Int

July 17, 1973

Re: E/2 Section 9, T-16-S,
R-35-E, LEA COUNTY,
New Mexico

Exxon Company, U.S.A.
P. O. Box 1600
Midland, TX 79701

Attention: Mr. Marvin Wigley

Gentlemen:

For your immediate observation, attached are letters dated April 2nd and 5th, 1973 concerning the proposed deepening operation to test the Morrow Sand in Gulf's Hulda Townsend Well No. 2, Lea County, New Mexico.

Due to V-P Petroleum, Inc.'s apparent lack of interest in this project, Gulf is considering forced pooling procedure which would result in expenses of 2/3rds to Gulf and 1/3rd to Exxon to carry the proportionate share of the non-consenting party's interest in this proposed test.

Your prompt consideration in this matter will be greatly appreciated.

Yours very truly,

R. E. GRIFFITH
District Landman

Attachments
FWT/dch

J. L. Hutchinson - 10
[Signature]

EXXON COMPANY, U.S.A.

POST OFFICE BOX 1600 MIDLAND, TEXAS 79701 (915) 681-4411

August 10, 1973

In Re: Townsend Area
E/2 Section 9-16S-35E
Lea County, New Mexico

Gulf Oil Company
Post Office Box 1150
Midland, Texas 79701

Attention: Mr. R. E. Griffith

Gentlemen:

Exxon's management has approved bearing 8-1/3 percent additional working interest in deepening the Gulf No. 2 Holda Townsend. It is understood that this is necessitated by virtue of V-F Petroleum Inc. refusal to join. The approval is contingent upon your obtaining a penalty of not less than 200 percent from the New Mexico Oil Conservation Commission or by direct negotiation with V. F. Petroleum Inc.

Cost + 200% maximum 600

Yours very truly,

*Pay for the well twice.
Humble not we
Larry Hahn*

[Signature]

John H. Folks
LAND-UNITIZATION

JHF:ms1

Gulf Oil Company - U.S.

EXPLORATION DEPARTMENT
MIDLAND DISTRICT

J. A. Hord
DISTRICT EXPLORATION MANAGER
R. E. Griffith
DISTRICT LANDMAN
V. B. Newsom
DISTRICT EXPLORATION GEOLOGIST

August 24, 1973

P. O. Drawer 1150
Midland, Texas 79701

Re: Hulda Townsend Com No. 2
E/2 Section 9, T-16-S, R-35-E,
LEA COUNTY, New Mexico

V-F Petroleum, Inc.
1212 Vaughn Building
Midland, TX 79701

Attention: Mr. J. M. Fullinwider


Gentlemen:

Reference is made to previous correspondence pertaining to the reentry and deepening from 10,650 to the Morrow Sand at approximately 11,900 feet in Gulf Oil Corporation's Hulda Townsend Well No. 2. Initial letter of invitation to join communitization was written June 29, 1972.

Since you have had several months to think about this project, we sincerely hope you are ready to enter this venture and assume your proportionate share of expenditures. If not, are you interested in selling this interest.

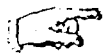
In the event you are not interested in joining communitization of the E/2 Section 9, please consider this as a final invitation as we expect to request a Hearing October 3, 1973 to consider forced pooling procedure with a cost plus 100% penalty.

Yours very truly,


R. E. GRIFFITH
District Landman

FWT/dch

cc: Exxon Company, U.S.A.
P. O. Box 1600
Midland, TX 79701
Attention: Mr. John H. Folke

 bcc: L. L. Fuller
C. F. Kalteyer



A DIVISION OF GULF OIL CORPORATION

48

V-F Petroleum Inc.

oil & gas operations 1212 vaughn building midland, texas 79701 915 683-3344

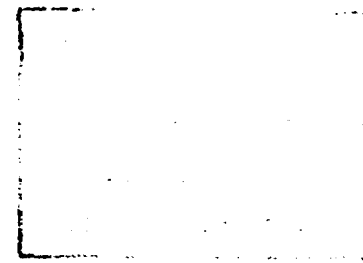
Thompson

Y

August 29, 1973

Gulf Oil Company
P. O. Drawer 1150
Midland, Texas 79701

Attention: Mr. R. E. Griffith
District Landman



Proposed Morrow Test
E/2 Sec. 9 16-S 35-E
Lea County, New Mexico

Gentlemen:

Thank you for your letter of August 24, 1973, proposing that we join in the re-entry and deepening of your #2 H. Townsend.

As we have discussed several times with Messrs. Griffith and Fuller at Gulf, and Messrs. Lively and Wigley at Exxon, we are presently planning to drill a 12,600 foot Devonian wildcat well, a diagonal SE offset to your proposed re-entry. As we do not like to have two deals going in the same area at the same time, we have declined and do again decline to participate at this time in the proposed re-entry.

In answer to your further inquiry, we would be interested in selling this leasehold interest and would be pleased to entertain an offer from Gulf and/or Exxon.

Yours very truly,

V-F PETROLEUM INC.

J. M. Fullinwider

J. M. Fullinwider
Vice President

JMF:jw

cc - Exxon Company, USA
P. O. Box 1600
Midland, Texas 79701
Attention: Mr. John H. Folks

4K

Gulf Oil Company - U.S.

EXPLORATION DEPARTMENT
MIDLAND DISTRICT

September 12, 1973

P. O. Drawer 1150
Midland, Texas 79701

J. A. ROSS
DISTRICT EXPLORATION MANAGER
R. E. GRIFFITH
DISTRICT LANDMAN
Y. B. NEWSOM
DISTRICT EXPLORATION GEOLOGIST

Re: Hulda Townsend Com
Well No. 2, E/2 Section 9,
T-16-S, R-35-E,
Lea County, New Mexico

V. F. Petroleum, Inc.
1212 Vaughn Building
Midland, TX 79701

Attention: Mr. J. M. Fullinwider

Gentlemen:

Reference is made to your telephone conversation on September 1, 1973, with our Mr. Floyd Thompson concerning the purchase of your 1/4 acre lease located in the E/2 of Section 9, T-16-S, R-35-E, Lea County, New Mexico. You have refused an offer by Gulf to purchase your 7/8 working interest as to all rights below the Wolfcamp on the captioned land for \$250.00 per acre.

Your reconsideration of our offer to purchase this property would certainly be appreciated. If after reconsideration you still desire not to sell, we would greatly appreciate your entering this venture with Gulf and assume your proportionate share of the expenditures. As you are aware, under existing rules and regulations of the New Mexico Oil Conservation Commission the risk factor has been increased from 50% to 200% for a non-consenting working interest owner's pro rata share of the costs involved in drilling and completing such a well.

Again, you are invited to participate as a working interest owner in the deepening of the Hulda Townsend Com Well No. 2.

Yours very truly,


R. E. GRIFFITH
District Landman

FWT/tll

cc: Exxon Company, USA
P. O. Box 1600
Midland, TX
Attn: Mr. John H. Folks



A DIVISION OF GULF OIL CORPORATION

48

Halda Townsend
V-F Petroleum Inc.

oil & gas operations 1212 vaughn building midland, texas 79701

*Chuck's file -
9-28-73*

*Copy to L.L. Guller
9-27-73
Sent*

September 26, 1973

Gulf Oil Company - U.S.
P. O. Drawer 1150
Midland, Texas 79701

Attention: Mr. R. E. Griffith

RECEIVED

SEP 27 1973

LAND SECTION
MIDLAND, TEXAS

E/2 NE/4 Section 9
T-16-S R-35-E
Lea County, New Mexico

Gentlemen:

Further to your inquiry of September 12, 1973, we would be willing to sell our leasehold rights below the Wolfcamp formation on either of the following basis:

1. \$20,000 cash consideration to V-F, with assignment to Gulf of an 87.5% income interest and 100% expense interest during payout period, after which V-F would have option to come in for 43.75% income interest and 50% expense interest, (with proportionate reduction, of course).
2. \$75,000 cash consideration to V-F, with assignment to Gulf of all of V-F leasehold rights - no reservations or reversions.

The offer to sell contained herein shall be held open for 12 days from the date hereof unless sooner accepted or rejected by Gulf.

NI.

Yours very truly,

V-F PETROLEUM INC.

Proceed with Forced Pooling - Mike

JMF:jw

9-27-73

J. M. Fullinwider
J. M. Fullinwider
Vice President

4m

September 27, 1973

Re: Hulda Townsend Com Well No. 2,
E/2 Section 9, T-16-S, R-35-E,
LEA COUNTY, New Mexico

V-F Petroleum Inc.
1212 Vaughn Building
Midland, TX 79701

Attention: Mr. J. M. Fullinwider

Gentlemen:

Reference is made to your letter of September 26, 1973, in which you state you are willing to sell your leasehold rights below the Wolfcamp formation in the E/2 NE/4 Section 9-16S-35E, Lea County, New Mexico.

Gulf is not interested in acquiring said leasehold rights under the terms as stated in your letter.

Yours very truly,

R. E. GRIFFITH

FWT/dch

42

PRESENT WELL VALUE
HULDA TOWNSEND WELL NO. 2
2310' FSL and 660' FEL
UNIT 1 SECTION 9 - T16S - R35E
LEA COUNTY, NEW MEXICO

<u>ITEM</u>	<u>CLASS "B" VALUE</u>
Well Head - 13 3/8 X 8 5/8 X 5 1/2 Natl. Type 'B' W/2 3/8 Series 1500 Tubing Bonnett and associated equipment	\$4,500
Casing - 5 1/2" OD8RT 15.5#, 17# and 20# J-55 and N-80 SS CF&I - 10220'	27,400
Tubing - 2 3/8" ODEUE 8RT 4.70# J-55 and N-80 SS National Estimated Usable pipe 9500'	<u>6,800</u>
TOTAL	\$ 38,700

*Transfer of
lease equipment
to joint
account*

BEFORE EXAMINER STAMP
OF CONSERVATION COMMISSION

EXHIBIT NO. 5

DATE 5092

Gulf Oil

14-51-23

EXHIBIT NO. 5
GULF OIL CORPORATION
CASE NO. 5092
OCTOBER 31, 1973

GULF OIL COMPANY - U. S.

AREA Hobbs

DATE 10-25-73

DRILL & COMPLETE Hulda Townsend No. 2 - DEEPEN 1250'

LOCATED 2310' FSL and 660' FEL Section 9-16S-35E, Lea County, New Mexico

<u>INTANGIBLE</u>		<u>DRILL</u>	<u>COMPLETE</u>	<u>EXPENDED</u>	<u>OVER/ UNDER</u>
<u>ELEMENT</u>	<u>ITEM</u>				
	101 Location & Access	2,000			
	102 Rig Contract	-			
	103 Rig Contract - Footage				
	' @ \$ _____ per ft.	-			
	104 Rig Contract - Day Work day				
	<u>33</u> days @ \$ <u>1,800</u> per ft.	59,400			
	105 Rig Contract - Rig Up & Down	15,000			
111 -	106 Fuel (Gas)	-			
	106 Drilling Fluids	8,000			
	107 Rentals - Equipment & Tools	12,100			
	108 Cement & Cementing Service	2,200			
	109 Logging, Perforating & Testing	-			
	110 Formation Treating	-			
	111 Miscellaneous Items	4,000			
164 -	111 Bits & Reamers	9,730			
232 -	111 Water Well, Lay Water Lines, etc.	2,000			
	122 Rig Contract	-			
	123 Rig Contract - Footage				
	' @ \$ _____ per ft.				
	124 Rig Contract - Day Work day				
	<u>7</u> days @ \$ <u>500</u> per ft.		3,500		
	125 Rig Contract - Rig Up & Down		-		
111 -	126 Fuel (Gas)		-		
	126 Drilling & Fluids		-		
	127 Rentals - Equipment & Tools		130		
	128 Cement & Cementing Service		3,500		
	129 Logging, Perforating & Testing		4,600		
	130 Formation Treating		500		
	131 Miscellaneous Items		1,500		
	192 Allocation of FOE - Other		1,500		
	193 Billings to Outsiders		-		
	195 Billings from Outsiders		-		
	196 Tangible Material for Temp. Use		-		
	198 Transfer between AFEs		-		
	Miscellaneous				
	<u>5092</u>				
	By <u>Gulf Oil</u>				
	Date <u>10-31-73</u>				
	TOTAL INTANGIBLE DRILLING COSTS	114,430	15,230		

GRAND TOTAL INTANGIBLE DRILLING COSTS

129,660

Exhibit No. 6

Hulda Townsend No. 2 - 10-25-73

TANGIBLE PRODUCING EQUIPMENT

ESTIMATED COSTS

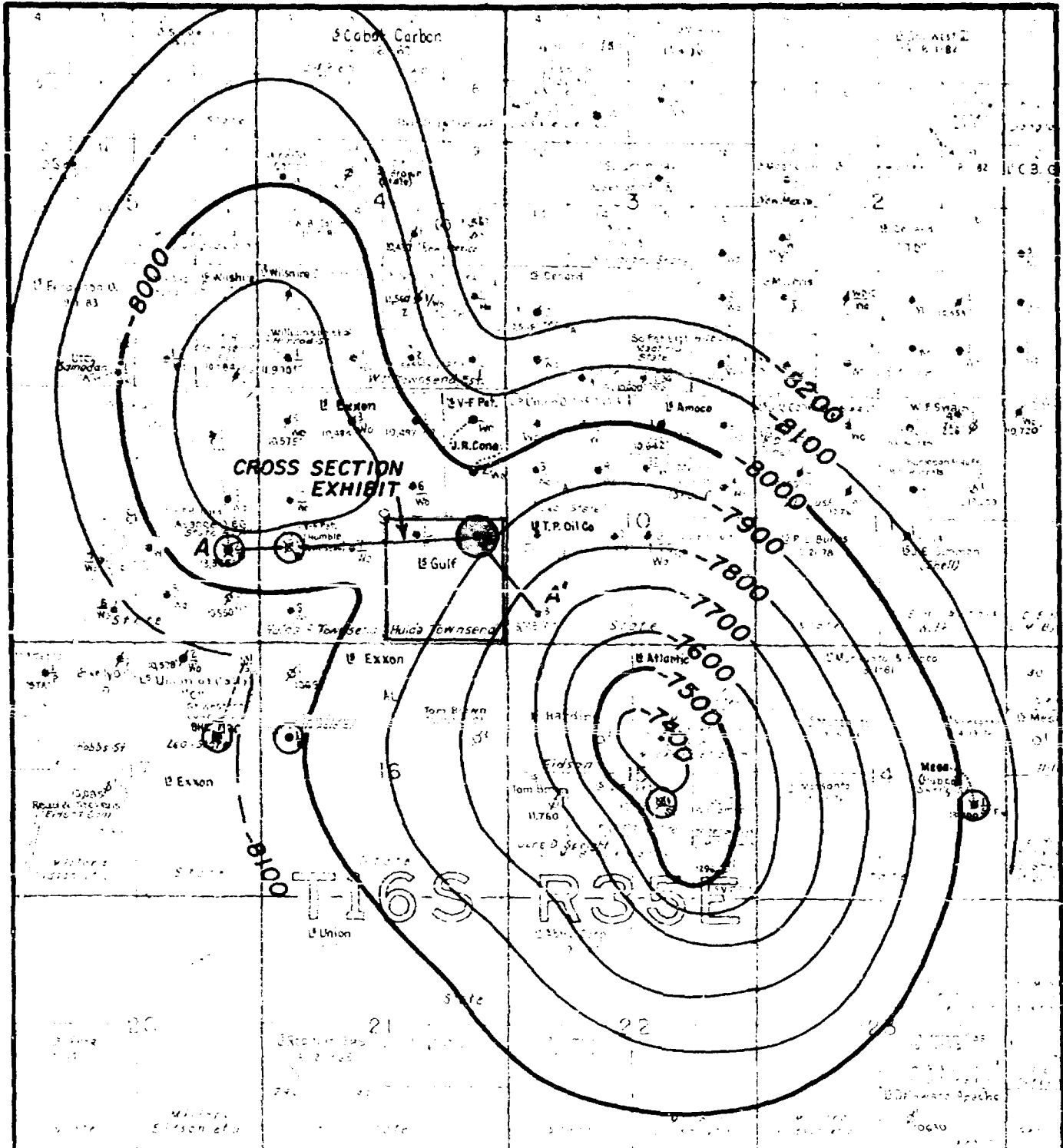
<u>ELEMENT</u>	<u>ITEM</u>	<u>DRILL</u>	<u>COMPLETE</u>	<u>EXPENDED</u>	<u>OVER/ UNDER</u>
21X	Casing				
	Surface _____ ' of _____ "				
	Intermediate _____ ' of _____ "				
22X	Casing (Oil String)				
	1900 _____ ' of _____ " @ \$3.10/ft		5,900		
23X	Other Subsurface Prod. Eqpt.		1,390		
	Tubing 2300 _____ ' of 2-3/8 "		2,650		
24X	Subsurface Artificial Lift Eqpt.		-		
25X	Surface Producing Equipment		-		
26X	Christmas Tree		2,000		
	Miscellaneous				
	TOTAL TANGIBLE PRODUCING EQUIPT.		11,940		
<u>INTANGIBLE COSTS CAPITALIZED</u>					
27X	Billing to Outsiders				
28X	Billings from Outsiders				
29X	Misc'l. Items, Transfers & Other Expense				
	TOTAL INTANGIBLE & TANGIBLE COSTS CAPITALIZED				
	TOTAL ESTIMATE	114,430	27,170		
	GRAND TOTAL		141,600		


AREA PRODUCTION MANAGER

APPROVED:

BY _____

DATE _____



BEFORE EXAMINER'S SIGNATURE
OIL CONSERVATION COMMISSION

EXHIBIT NO. 7 28

CASE NO. 5092

Submitted by GULF OIL CORP.

Hearing Date 10-31-73

CASE No. 5092

OCT. 31, 1973

EXHIBIT No. 7

TOWNSEND (MORROW) FIELD
STRUCTURE MAP-TOP BARNETT

SCALE: 1" = 3000'

C.I. = 100'



PROPOSED OWDD

MORROW PRODUCER

Gulf Oil Corp.

Midland District

Gulf Oil Company - U.S.

PRODUCTION DEPARTMENT

MIDLAND DISTRICT

W. B. Hopkins
DISTRICT PRODUCTION MANAGER
J. L. Pike
DISTRICT OPERATIONS MANAGER
M. B. Moseley
DISTRICT SERVICES MANAGER
A. J. Evans, Jr.
DISTRICT ENVIRONMENTAL & SAFETY MANAGER
J. C. Howard
DISTRICT EMPLOYEE RELATIONS MANAGER

October 1, 1973

P. O. Drawer 1150
Midland, Texas 79701

Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 88501

Attention: Mr. A. L. Porter, Jr.

Gentlemen:

Gulf Oil Corporation respectfully requests that a hearing be scheduled on your docket for the October 31, 1973, Examiner's Hearing to consider an order pooling all mineral interests from the base of the Wolfcamp formation to the base of the Morrow formation underlying the E/2, Section 9, T-16S, R-35E, Lea County.

Said standard 320 acre unit is to be dedicated to the Gulf Oil Corporation Hulda Townsend Well No. 2 located in Unit I at a standard location 2310' FSL & 660' FEL of Section 9, Lea County, which is to be drilled deeper from 10,650' to approximately 11,900' to evaluate the Pennsylvanian formation. To be considered are allocations of present well value as well as drilled deeper, supervisory and operating cost together with a consideration of a charge for risk incurred in deepening the well.

Yours very truly,

J. L. Pike
J. L. PIKE

CFK:jm

cc: Exxon Corporation
Attn: Marvin Wigley
P. O. Box 1600
Midland, Texas 79701

V-F Petroleum Inc.
Attn: J. M. Fullinwider
1212 Vaughn Building
Midland, Texas 79701

James E. Sperling
P. O. Box 2168
Albuquerque, New Mexico 87100



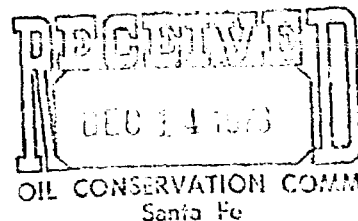
A DIVISION OF GULF OIL CORPORATION

JASON W. KELLAHIN
ROBERT E. FOX
W. THOMAS KELLAHIN

KELLAHIN AND FOX
ATTORNEYS AT LAW
500 DON GASPAR AVENUE
POST OFFICE BOX 1752
SANTA FE, NEW MEXICO 87501

TELEPHONE 982-4315
AREA CODE 505

December 12, 1973



Mr. A. L. Porter
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Gulf Oil Application
Compulsory Pooling, Lea County
OCC No. 5092, Order No. R-4669

Dear Mr. Porter:

In behalf of V-F Petroleum please find enclosed
an original and three copies of an application for a
hearing de novo in the above referenced cause.

Very truly yours,

A handwritten signature in dark ink, appearing to read "W. Thomas Kellahin".

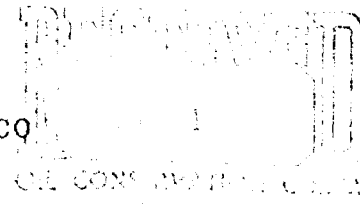
W. Thomas Kellahin

WTK:ks

Enclosure

cc: V-F Petroleum
Gulf Oil Corporation
w/ encls.

BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO



IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

Case No. 5092
Order No. R-4669

APPLICATION OF GULF OIL CORPORATION
FOR AN UNORTHODOX WELL LOCATION,
LEA COUNTY, NEW MEXICO

APPLICATION FOR HEARING DE NOVO

COMES NOW, V-F PETROLEUM, an interested party adversely
affected by the order entered in the above captioned case,
and pursuant to the provisions of Rule 1220 of the Rules and
Regulations of the New Mexico Oil Conservation Commission
applies to the Oil Conservation Commission of New Mexico
for a Hearing De Novo of the above captioned Case No. 5092,
and Order No. R-4669 issued pursuant thereto.

Respectfully submitted,

V-F PETROLEUM,

By

A handwritten signature in dark ink, appearing to read "W. G. Kellahin", is written over a horizontal line.

KELLAHIN & FOX
P. O. Box 1769
Santa Fe, New Mexico

dr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5092

Order No. R-4609

APPLICATION OF GULF OIL CORPORATION
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 31, 1973
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this day of , 19 , the Commission,
a quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

(1) That due public notice having been given as required by
law, the Commission has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, Gulf Oil Corporation,
seeks an order pooling all mineral interests from the base of the Wolfcamp
formation to the base of the Morrow formation underlying the E/2
of Section 9, Township 16 South, Range 35 East,
NMPM, Townsend-Morrow Gas Pool, Lea County, New
Mexico.

Case No.
Order No. R-

applicant's

above-described acreage is to be dedicated to ~~Hulda~~ Hulda
Townsend Well No. 2 located in Unit I of said Section 9

which is (3) That the ~~applicant has the right to drill and proposes~~
to be deepened to test the Morrow formation.

(4) That there are interest owners in the proposed proration
unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to
protect correlative rights, and to afford to the owner of each
interest in said unit the opportunity to recover or receive
without unnecessary expense his just and fair share of the gas
in said pool, the subject application should be approved by
pooling all mineral interests, whatever they may be, within said
unit.

(6) That the applicant should be designated the operator
of the subject well and unit.

(7) That the used value of all
salvageable surface and subsurface
equipment and casing ~~extant at or~~
~~in applicant's Hulda Townsend Well~~
~~is~~
in the subject well, which is ~~utilized~~
utilized in the completion of the
well as a Morrow gas producer,
should be independently determined
by a third party.

*reasonable
value*

any non-consenting working interest owner that has paid his
share of ~~estimated costs~~ ^{reasonable and valuable} should pay to the operator any amount
that reasonable ~~well completion costs~~ ^{well completion costs and valuable} exceed estimated well costs and
should receive from the operator any amount that paid estimated
well costs exceed reasonable well costs ^{and valuable}

-3-
Case No.
Order No. R

(12) That 1182⁰⁰ per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(13) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(14) That upon the failure of the operator of said pooled unit to commence ~~drilling~~^{deepening} of the well to which said unit is dedicated on or before February 15, 1974, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, *from the base of the Wolfcamp formation to the base of the Morrow* ~~in the Morrow~~ formation underlying the E/2 of Section 9, Township 16 South, Range 35 East, NMPM, Townsend-Morrow Gas Pool, Lea County, New Mexico, are hereby pooled to form a standard 320 acre gas spacing and proration unit to be dedicated to ~~a well to be drilled~~^{applicant's ~~xxxx~~ is Hulda Townsend Well No. 2} located in Unit I of said Section 9.

PROVIDED HOWEVER, that the operator of said unit shall commence the ~~drilling~~^{deepening} of said well on or before the 15th day of February, 1973, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the ~~drilling~~^{deepening} of said well on or before the 15th day of February, 1973, Order (1) of this order shall be null and void and of no effect whatsoever;

Case No.
Order No. R-

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Gulf Oil Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and ^{within} ~~at least~~ 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

→ and an itemized schedule of the ^{independently determined by a third party} used ~~value~~ ^{values} of all salvageable surface and subsurface equipment and casing extant at or in the subject well which is to be utilized in the completion of the well as a Morrow gas producer.

no objection to the actual well costs ^{and values} as received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs ^{and values} shall be the reasonable well costs ^{and values} provided however, that if there is an objection to actual well costs ^{and values} within said 45-day period the Commission will determine reasonable well costs ^{and values} after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs ^{and values}, any non-consenting working interest owner that has paid his share of estimated costs ^{and values} in advance as provided

Case No.
Order No. R-

above shall pay to the operator his pro rata share of the amount that reasonable well costs^{and values} exceed estimated well costs^{and values} and shall receive from the operator his pro rata share of the amount that estimated well costs^{and values} exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs ^{and} ~~solvable~~ ^{salvageable} ^{equipment} ^{values} attributable to each non-consenting working interest owner who has not paid his share of estimated well costs^{and values} within 30 days from the date the schedule of estimated well costs ^{and} ~~estimated well costs~~ ^{estimated well/equipment and casing values schedule} is furnished to him.

(B) As a charge for the risk involved in the ~~drilling~~ ^{recompletion} of the well, ^{150 percent} of the pro rata share of reasonable well ^{recompletion} costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs^{and salvageable equipment values} within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That ~~\$ 182.00~~ per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths ($7/8$) working interest and a one-eighth ($1/8$) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.