

CASE NO. 5445: C&K PETROLEUM,
INC., FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO

CASE No.

5445

Application,

Transcripts,

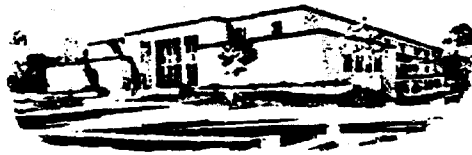
Small Exhibits

ETC.



JIM BACA
COMMISSIONER

State of New Mexico



Commissioner of Public Lands

September 26, 1983

Case #5445

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

C & K Petroleum, Inc.
P. O. Box 3546
Midland, Texas 79702

Re: Termination of Compulsory Pooling
Harold Olive Com Well No. 1
S/2 Sec. 14-T22S-R26E
Eddy County, New Mexico

Gentlemen:

On March 25, 1975, The New Mexico Oil Conservation Commission issued Order No. R-4991, by Case No. 5445 pooling all mineral interests in the Wolfcamp formation underlying the S/2 of Section 14, Township 22 South, Range 26 East, NMPM, South Carlsbad-Wolfcamp Gas Pool, Eddy County, New Mexico.

Our records reflect that the above captioned well was plugged and abandoned on February 24, 1983.

Inasmuch as this well has been plugged and abandoned, it is our interpretation that Compulsory Pooling Order No. R-4991 is no longer in full force and effect.

In view of the above please be advised that State of New Mexico Oil and Gas Lease No. L-2640-1 has expired on its own terms, effective February 24, 1983.

Please notify all interested parties of this action.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY:
FLOYD O. PRANDO, Assistant Director
Oil and Gas Division
AC 505/827-5744

JB/FOP/pm
cc:

OCD-Santa Fe, New Mexico

CASE #5445

Continued

as well as actual operation costs)
and charges for supervision. Also)
to be considered is the designation)
of the applicant as operator of the)
well and a charge for the risk in-)
volved in drilling said well.)
-----)

BEFORE: Daniel S. Nutter, Examiner.

For the New Mexico Oil William H. Carr, Esq.
Conservation Commission: Legal Counsel for the Com-
 mission
 State Land Office Building
 Santa Fe, New Mexico 87501

For C&K Petroleum, Inc.: Tom Kellahin, Esq.
 KELLAHIN & FOX
 500 Don Gaspar
 Santa Fe, New Mexico 87501

I N D E X

Testimony of John L. Moseley

Direct Examination by Mr. Kellahin 4

Questions by Mr. Nutter 15

E X H I B I T S

C & K Exhibits 1 through 8 14

MR. NUTTER: Case 5444.

MR. CARR: Application of C & K Petroleum, Inc., for pool creation and special pool rules, Eddy County, New Mexico.

MR. KELLAHIN: If the Examiner please, I'm Tom Kellahin of Kellahin and Fox, appearing on behalf of C & K Petroleum, Inc.; for purposes of our testimony this morning we would like to consolidate 5444 with Case 5445.

MR. NUTTER: At this time we'll call Case 5445.

MR. CARR: Case 5445. Application of C & K Petroleum Inc., for compulsory pooling, Eddy County, New Mexico.

MR. NUTTER: For purposes of testimony 5444 and 5445 are to be consolidated. Please proceed.

MR. KELLAHIN: I have one witness to be sworn.

(Witness sworn.)

JOHN L. MOSELEY

being called as a witness and being duly sworn upon his oath, testified as follows to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

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

A John L. Moseley, C & K Petroleum in Midland,

Texas, and I'm a petroleum engineer.

Q Mr. Moseley, have you previously testified before this Commission and had your qualifications as a petroleum engineer admitted and made a matter of record?

A Yes, I have.

Q And are you familiar with the facts surrounding this application by C & K?

A Yes, I am.

MR. KELLAHIN: If the Examiner please, are the witness' qualifications acceptable?

MR. NUTTER: Yes, they are.

Q (By Mr. Kellahin) Mr. Moseley, would you please refer to what's been marked as Applicant C & K's Exhibit Number 1, identify it, and state briefly what C & K is seeking?

A Our Exhibit Number 1 is a plat of the area south of Carlsbad area in which we have shown here the south half of Section 14, in which we propose to force pool 320 acres and establish temporary field rules for the Canyon completion shown here as the Number 2 well on the cross-section. We also have here a trace of the cross-section which we will show as Exhibit 2, which begins with the Read and Stevens Well, Hackberry Hills Unit, and then

proceeds to the Harold Olive Well, down through the Pennzoil Moore Well, and over to the two wells completed to the east in the Morrow formation.

Q Please refer to what has been marked as Exhibit Number 2 and identify that.

MR. NUTTER: Before you proceed any further, you mentioned that the cross-section shows the Canyon completion, and the case is advertised for a well in the Wolfcamp formation.

A Yes, sir. That's correct; it should be Canyon; as we had it correlated, it would -- should be a Canyon completion.

Q So it's Pennsylvanian and not Permian?

A That's correct.

MR. NUTTER: Well, if it's Pennsylvanian it's automatically covered by the State-wide rules for 320.

A Yes, sir.

MR. NUTTER: And if it's Wolfcamp, then it's automatically under the State-wide rules for 160, so --

A We consider this to be a Canyon completion.

MR. NUTTER: How did you get Wolfcamp in here originally?

MR. KELLAHIN: Perhaps that's a mistake on my part,

Mr. Examiner, we ought to check the application and see how it reads.

MR. NUTTER: Maybe it's a mistake on ours; I don't know. We've got an application for a Wolfcamp and special rules for it. I think if it's pretty well established -- now this has been submitted to the District Office of the Commission as a Canyon completion?

A No, sir, I do not believe it has. I may be wrong on that.

MR. NUTTER: Now, this multi-point test that's going to be submitted as Exhibit 4 says it's a Wolfcamp well.

A That's right. That's right, there was some confusion as to the stratographic zone in which the well was to be completed. This well was originally drilled by Gulf Oil Corporation and it was taken over by C & K as operators subsequent to the completion. Consequently, this may be where the confusion arose.

MR. NUTTER: Well, I know sometimes there's some doubt as to where the bottom of the Permian is or the lower Wolfcamp and the top of the Pennsylvanian, but is it clearly recognized now by the concerned geologist as a Wolfcamp well or that it's a Pennsylvanian well?

A We show the top of the Pennsylvanian on this

cross-section to be the Cisco interval.

MR. NUTTER: Have you checked with the Commission geologist on this?

A No, we haven't, not that I'm aware of.

MR. NUTTER: Off the record.

(There followed a discussion off the record.)

MR. NUTTER: I think at this point we'll recess the hearing until 1:30.

(Thereupon the noon recess was taken. Thereafter the hearing was continued as follows, to-wit:)

MR. NUTTER: The hearing will come to order, please. Prior to the recess we were on combined cases 5444 and 5445 and a question arose as to the formation in which the subject well is completed. Mr. Moseley, have you arrived at any decision as to the probable designation of the formation?

A Yes, I think it should be designated as Wolfcamp.

MR. NUTTER: And then the case, is that correct, should proceed with the creation of a Wolfcamp pool?

A Yes, sir, that's correct.

MR. NUTTER: All right. Would you please proceed, Mr. Kellahin?

Q (By Mr. Kellahin) Would you continue with your testimony, Mr. Moseley, by referring to what's been marked as Exhibit Number 2, and explain briefly the information contained on that exhibit?

A Our exhibit 2 is a stratigraphic cross-section showing the five wells that are included here, including the subject well, the Harold Olive Com No. 1 Well, completed as a Wolfcamp; also shown are the Read and Stevens Well to the west, which is presently completed from what is called the Middle Canyon zone. It has a cumulative production to date of 370 million, that is to 1175 . The absolute open flow from this Middle Canyon zone initially was 14 million cubic feet per day and it went on production in April of 1967. The Harold Olive Communitized Number 1 Well, as I mentioned earlier, is completed in the Wolfcamp zone, which would be the lower Wolfcamp, had an initial calculated absolute open flow of 1.332 million cubic feet of gas per day. This well was initially drilled to the Morrow and was subsequently plugged back to 9986 and completed from the zone 9836 - 9846. The well is not presently producing; they're waiting on a pipeline connection here. We anticipate that the well will be on a line sometime around the 1st of April or the 1st of May of this year.

The well immediately to the west -- to the east, rather, is the Pennzoil-Moore Communitized Number 1, and it is completed in the upper portion of the Wolfcamp. The initial calculated absolute open flow on this well was 11.2 million cubic feet per day. It has cumulative production to 1-1-75 of 246 million cubic feet of gas and 6093 barrels of oil.

Q Please refer to what has been marked as Exhibit 3.

A Exhibit 3 is a copy of the pay portion of the density-sonic log, or density-neutron log, rather, on the Harold Olive Number 1, the well in question. We have shown here the completion interval and also shown at the top the, what we call the top of the Pennsylvanian is marked on the log here and this should be the top of the Cisco, more specifically, which correlates -- which corresponds with the top of the Cisco on our previous cross-section.

Q What amount of pay have you assigned to the well?

A We've assigned about 8 feet of net pay here with an average porosity of -- no, I have a correction there. We actually assigned six feet of net pay here with a net average porosity of 8% in this particular zone.

Q Would you look at what has been marked as Exhibit 4?

A Exhibit 4 is the Form C-122, which is the absolute open flow test, from the Harold Olive Well, which was conducted in March of 1974, showing the calculated open flow of 1322 MCF gas per day.

Q Would you refer to Exhibit Number 5 and identify that, please?

A Exhibit Number 5 is a comparison of the economics for 320-acre spacing versus 160-acre spacing. The parameters, such as gas price, production tax, operating cost, and so forth, are shown at the top of this exhibit. We anticipate that with 320-acre spacing the total profit from the well to the full working interest is roughly \$115,000 for an undiscounted profit/investment ratio of .19.

If we were forced to develop on 160-acre spacing we would show a loss in excess of \$450,000 for a development in completion cost here of \$600,000 per well. We have revised this APV cost down to - it's not reflected on this exhibit - it's been revised down to \$539,000 for the development well. Our actual cost for the Harold Olive Number 1 well was \$600,000.

MR. NUTTER: That includes drilling to the Morrow, however, doesn't it?

A Well, this included, yes, drilling to the Morrow, that's right.

Q In your opinion, Mr. Moseley, can you economically drill and develop this pool unless they have 320-acre spacing?

A No, I do not believe we can.

Q Please refer to Exhibit 6 and identify it.

A Exhibit 6 is copy of the revised AFE that we have submitted here showing the estimated cost to drill a development well in the Harold Olive, a 10,000 feet well, the total estimated cost here is \$539,000 to encompass this.

Q Please refer to Exhibit 7 and identify it.

A Our Exhibit 7 is a listing of the unit ownership in the south half of Section 14; the working interest owners and their interests in this unit. Also shown here are the - on the second page - is the 2 acres that we are proposing to force pool which belong to Michael P. Grace.

Q What percentage does that two acres bear to the whole?

A This amounts to .2651 percent of the standard

320-acre unit.

Q All the rest of the acreage has voluntarily committed itself to the unit?

A Yes, that's correct.

Q Please refer to Exhibit 8 and identify that.

A Exhibit 8 is a letter that we -- a copy of a letter that we sent to Mr. Grace requesting -- asking they do join us in drilling this well, written in September of 1974, prior to -- or after substitute completion of the well.

Q And what response have you had to that letter?

A We have had no response to date.

Q Mr. Moseley, does C & K Petroleum desire to be designated as operator of the unit?

A Yes, we do.

Q In connection with the standard type forced pooling order entered by the Commission, the Commission concerns itself with a charge for supervision of the well. Do you have any recommendations as to a charge to be assessed against non-consenting participants?

A Yes, we do. Our operating agreement for the remainder of this unit calls for a combined fixed rate above 10,000 feet and for the first five wells here of

\$169 per month per well.

Q Would you also desire flexibility in the order to either increase or adjust that rate so that it remains consistent with the rate being charged the consenting participants?

A Yes, we would.

Q With regards to a risk factor to be assessed against the non-consenting participants, Mr. Moseley, do you have a recommended risk factor?

A We would recommend the cost plus 200%.

Q In your opinion, Mr. Moseley, would the granting of this application be in the best interests of conservation and the prevention of waste and the protection of royalty rights?

A We believe it will, yes.

Q Were Exhibits 1 through 8 either prepared by you directly or compiled under your direction and supervision?

A Yes, they were.

MR. KELLAHIN: If the Examiner please, we move the introduction of Exhibits 1 through 8.

MR. NUTTER: C & K Exhibits 1 through 8 will be admitted in evidence.

MR. KELLAHIN: That concludes our direct examination.

QUESTIONS BY MR. NUTTER:

Q Mr. Moseley, the Commission heretofore has created and designated a Wolfcamp pool in this area for the Pennzoil well, which is a south offset to this in Section 23. Is this well producing from the same interval in the formation that the Pennzoil well is?

A No, sir. If you'll refer to the cross-section the well to the east of our Harold Olive shows that completion interval of that well. It's in what is called the upper -- or what is called there or what they consider to be the Wolfcamp pay, which is an interval some 250 to 300 feet above the interval in which we're completed.

Q Well now, if we determine that this subject well, the Olive well, is producing from the Wolfcamp formation, and if we have already created a Wolfcamp pool for the Pennzoil well, and if we don't separate the Wolfcamp into the upper Wolfcamp and lower Wolfcamp pools, this would be producing from the same pool as the Pennzoil well.

A Yes, sir, that's correct.

Q Even though they are different sections of the Wolfcamp.

A Right.

Q I believe that the name of that particular pool is South Carlsbad Wolfcamp Pool also. Do you know if that's correct?

A Yes, I think this is correct.

Q And that pool did operate under 320-acre temporary rules, which are scheduled to become ineffective on April the 1st of '75, so since we're talking about the same pool, now, in other words what we're seeking here in essence would be a continuation of the pool rules for the old Pennzoil well.

A Yes, sir, that's right.

Q And since pool rules are effective within a mile, your pool would be covered by those rules.

A What was the date of that that they would be ineffective did you say, April of --

Q I believe April the 1st is the date that those pool rules are scheduled to become ineffective, so in order to issue here prior to April 1st reinstating those rules, or adopting new 320-acre rules would affect this well as well as the Pennzoil Well, I would think.

Now, the interest shown on Exhibit 7, Mr. Moseley, are all working interests, is that correct?

A Yes, this is correct.

Q Are all of the royalty interests signed up in-
sofar as the communitization is concerned?

A I believe they are but I'm not positive about
that. This is something that I would have to check.

Q But on Page 2 of the exhibit by designating
carried interests we're not talking about carried royalty
interests or anything; these are carried working interests,
is that correct?

A Yes, sir, that's right.

Q And Latham and Barton are also carried interests
but they're not being pooled by the subject order, am I
correct? They have signed a voluntary --

A They have volunteered, right.

Q And you agreed to carry them on this voluntary
communitization?

A That's correct.

Q Now, what was the risk factor that you mentioned
as being appropriate for this well?

A Well, we were asking cost plus 200%.

Q 200%.

A Which I believe is statutory, if I'm correct.

Q That's the maximum. Normally the maximum is

reserved for a case where a well has not been drilled and we have a well that's been drilled here, of course, and we know we've got production. There is a risk yet of obtaining a payout, I'm sure.

A Yes, sir, absolutely. We feel like the payout status of this well is very much in question right now.

Q Do you have any estimate of the reserves that the well might have?

A Yes, sir, we've assigned 1.1 million cubic feet. This again is an estimate based on a limited amount of data at this time and consequently this may be a maximum number based upon the information that we have right now.

Q 1.1 billion cubic feet.

A Right.

Q And the well is not connected as of now.

A No, sir.

Q Has the contract been signed for it?

A Yes.

Q Who will purchase that --

A El Paso.

Q And what is the price of the gas on the contract?

A The price on the contract calls for .75 cents per MCF plus BTU adjustment in rebate on taxes.

Q And how was this contract entered, as a small producer, or under an emergency sale, or what?

A No, it was entered under a small producer sale.

Q Small producer. And the combined fixed rate that has been voluntarily agreed to by all the working interest owners is \$169 per month?

A Yes, sir, this is correct.

Q What was the agreement between Latham and Barton and C & K as to the cost of carrying them, Mr. Moseley?

A I'm not familiar with that directly, the exact details of the agreement. This is something that I would have to check into and supply you that information.

Q You could do that for me?

A Yes, uh-huh.

MR. NUTTER: Are there any further questions of Mr. Moseley?

(No response.)

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

MR. KELLAHIN: Not in this case.

MR. NUTTER: Does anyone have anything they wish to offer in Cases 5444 and 5445 combined?

(No response.)

CASES 5444 - 5445

Page..... 20

MR. NUTTER: We'll take the case under advisement
and call the next case.

(Hearing concluded.)

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386

STATE OF NEW MEXICO:

REPORTER'S CERTIFICATE

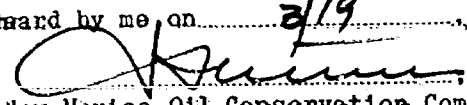
COUNTY OF SANTA FE :

I, SALLY WALTON BOYD, Notary Public and General Court Reporter, Santa Fe, New Mexico, DO HEREBY CERTIFY that the facts stated in the caption hereto are true and correct; that I reported the captioned proceedings; that the foregoing 20 pages numbered 1 through 20 inclusive, is a full, true and correct transcript of my notes taken during the hearing.

WITNESS my hand and seal, this 18th day of April, 1975.

Sally Walton Boyd
Notary Public and General Court
Reporter

My Commission expires:
10 September 1975

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 5444-45
heard by me on 2/19, 1975.
 Examiner
New Mexico Oil Conservation Commission

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

March 25, 1975

I. R. TRUJILLO
CHAIRMAN

LAND COMMISSIONER
PHIL R. LUCERO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

Mr. Tom Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: CASE NO. 5445
ORDER NO. R-4991

Applicant:
C & K Petroleum, Inc.

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.
A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other Mr. Michael P. Grace, Post Office Box 1418,
Carlsbad, New Mexico 88220

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. 5445
Order No. R-4991

APPLICATION OF C & K PETROLEUM, INC.,
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on March 19, 1975,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 25th day of March, 1975, 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, C & K Petroleum, Inc., seeks an
order pooling all mineral interests in the Wolfcamp formation
underlying the S/2 of Section 14, Township 22 South, Range 26
East, NMPM, South Carlsbad-Wolfcamp Gas Pool, Eddy County, New
Mexico.

(3) That the applicant has the right to drill and has
drilled its Harold Olive Com Well No. 1 at a point 660 feet
from the South line and 1980 feet from the East line of said
Section 14, said well being completed in and capable of pro-
ducing gas from the South Carlsbad-Wolfcamp Gas Pool.

(4) That there are interest owners in the proposed pro-
ration 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.

-2-

Case No. 5445

Order No. R-4991

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

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of reasonable well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner that does not pay his share of reasonable well costs should have withheld from production his share of the reasonable well costs plus an additional 150 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That \$169.00 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.

(11) 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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp formation underlying the S/2 of Section 14, Township 22 South, Range 26 East, NMPM, South Carlsbad-Wolfcamp Gas Pool, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to its Harold Olive Com Well No. 1 located at an orthodox location in Unit O of said Section 14.

(2) That C & K Petroleum, Inc., is hereby designated the operator of the subject well and unit.

(3) That within 30 days after the effective date of this order, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of actual well costs; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 30 days following receipt of said schedule, the

-3-

Case No. 5445

Order No. R-4991

actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 30-day period the Commission will determine reasonable well costs after public notice and hearing.

(4) That within 30 days following determination of reasonable well costs, any non-consenting working interest owner shall have the right to pay his share of reasonable well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of reasonable well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of reasonable well costs within 30 days from the date the actual well costs are determined to be reasonable well costs.

(B) As a charge for the risk involved in the drilling of the well, 150 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of reasonable well costs within 30 days from the date the actual well costs are determined to be reasonable well costs.

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

(7) That \$169.00 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.

(8) 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.

-4-

Case No. 5445
Order No. R-4991

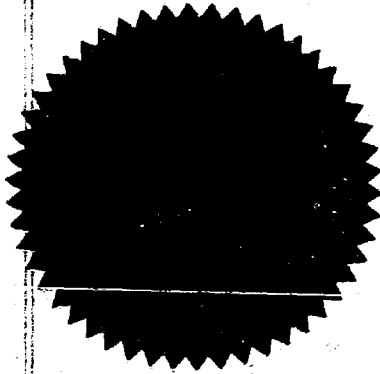
(9) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(10) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy 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.

(11) 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

Phil R. Lucero
PHIL R. LUCERO, Member

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

S E A L

jr/



May 22, 1974

Mr. E. L. Lathan, Jr. and Roy G. Barton, Jr.
P. O. Box 978
Hobbs, New Mexico 88240

Re: Harold Olive Com. #1
S/2 Sec. 14, T-22-S, R-26-E
Eddy County, New Mexico
Regarding Formation of Production Unit

Case 5445

Gentlemen:

Our records indicate that you own six acres in the South half (S/2) of Section 14, Township 22 South, Range 26 East, Eddy County, New Mexico. Gulf Oil Corporation has drilled a well on this half section, and since completing the well, Gulf has asked C & K Petroleum to assume the responsibilities of Operator.

Correspondence furnished us by Gulf indicates that you indicated your willingness to be carried in the well, allowing those of us who paid the cost of drilling and completing the well the opportunity to recover 125% of our total cost.

This arrangement will be satisfactory to Gulf and to C & K, the two companies who paid the cost of the well. If you wish to participate in the well on this basis please indicate by signing in the space provided below. As soon as we get all of the non-participating interests cleared up we will submit an Operating Agreement that will provide for your participation on this basis.

Yours very truly,

C & K PETROLEUM, INC.

G. C. Thompson

G. C. Thompson
Manager Production

GCT:drp

APPROVED:

E. L. Lathan, Jr.

Date: 5-23-74

Roy G. Barton, Jr.

Date: 5-23-74

Mr. E. L. Lathan, Jr. and
Mr. Roy G. Barton, Jr.

-2-

May 22, 1974

cc: Gulf Oil Corporation
P. O. Box 1150
Midland, Texas 79701

Attn: Mr. R. E. Griffith



May 30, 1975

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Case No. 5445, Order No. R-4991, Application of
C & K Petroleum, Inc. for Compulsory Pooling
Harold Olive Well #1, Eddy County, New Mexico

Gentlemen:

As ordered in Paragraph (3) of the above subject order we are submitting actual well costs for the drilling of the Harold Olive Well #1 in Section 14, T-22-S, R-26-E, NMPM.

This well was drilled to a total depth of 11,708' but was plugged back and completed through perforations from 10,102 to 10,349'. The attached Cost Analysis shows the total cost to drill and complete the well. At the bottom of the sheet we have deducted the cost of the "lost hole", i. e. the hole drilled below the depth the well was completed.

We regret that this information was not made available sooner. This well was drilled by Gulf Oil Company and C & K Petroleum assumed operations after its completion. In order to get these cost figures it was necessary to go to Gulf and ask their help. This did require some additional time.

If you have any questions concerning this matter please call on us.

Yours very truly,

C & K PETROLEUM, INC.

G. C. Thompson
G. C. Thompson
Manager of Production

GCT:gb
enclosure

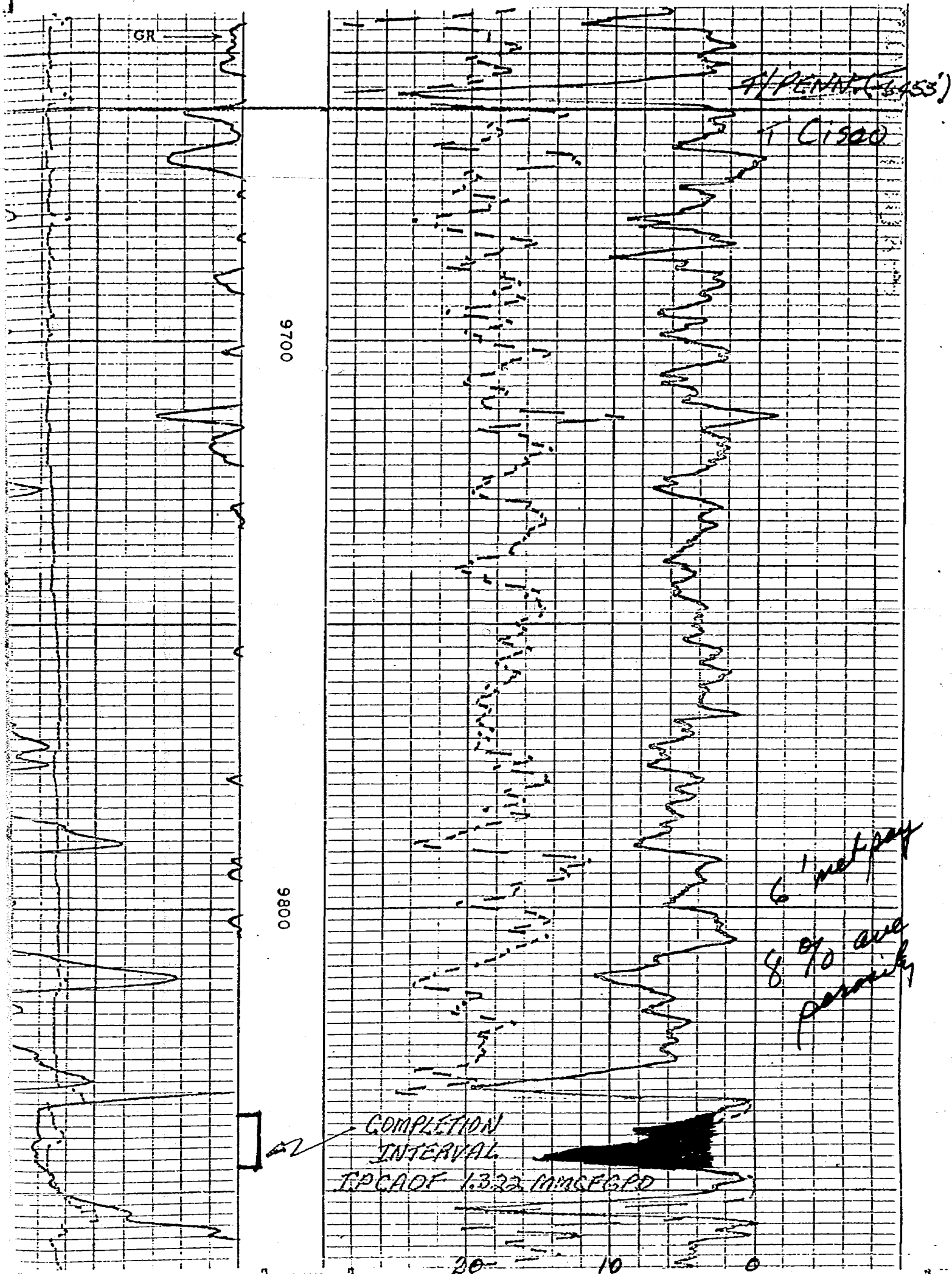
cc: Mr. W. Thomas Kellahin
Mr. Charlie Doerr

C & K PETROLEUM, INC.

COST ANALYSIS

HAROLD OLIVE #1

INTANGIBLE DRILLING & DEVELOPMENT	COST
1. Roads and Location	4190.62
2. Contract Drilling	249761.13
3. Cementing & Cementing Services	29515.24
4. Drilling Fluids	70693.34
5. Drill Stem Testing	5113.45
6. Electric Log	12388.86
7. Perforating	4983.38
8. Acidizing and Fracturing	18613.56
9. Pulling Units	11000.59
10. Trucking	4712.17
11. Miscellaneous	6161.41
12. Tool Rentals, Special Services	7348.85
13. Supervision	
TOTAL INTANGIBLE DRILLING & DEVELOPMENT	424482.60
EQUIPMENT (ITEMIZED)	
14. Casing - Surface 20"	8962.72
Intermediate 13-3/8"	26332.83
9-5/8"	51540.36
Production 7"	67435.73
15. Tubing	8871.74
16. Guide Shoes, Float, & Centralizers	2262.77
17. Well Head	6477.97
Treater	7835.88
18. Tanks	8137.69
Connection - Hook Up - Labor	3701.18
19. Flow Lines	
20. Valves & Fittings & Pkrs.	1594.58
TOTAL EQUIPMENT	193153.45
TOTAL DRILLING & COMPLETION COSTS	617636.05
LESS LOST HOLE COST	154365.27
DIFFERENCE	463270.27



COMPANY GULF OIL COMPANY - U.S.

ELL HAROLD OLIVE COM. #1

ELD S. CARLSBAD

DUNTY EDDY

STATE NEW MEXICO

SCHL. FR 11699
SCHL. TD 11703
DRLR TD 11720
Elev:

KB 3207
DF
GL 3188

Ex 3
CA 5444-45

NEW MEXICO OIL CONSERVATION COMMISSION
MULTIPOINT AND ONE POINT BACK PRESSURE TEST FOR GAS WELL

Form C-122
Revised 9-1-65

Type Test <input checked="" type="checkbox"/> Initial <input type="checkbox"/> Annual <input type="checkbox"/> Special					Test Date March 19, 1974	
Company Gulf Oil Corporation				Connection		
Pool				Formation Wolfcamp		Unit 160 acres
Completion Date 2/26/74		Total Depth 11708		Pilot Back TD 10367		Elevation 3188 GL
Case Size 7"	Wt. 26#	d	Set At 10414	Perforations: From 9836 To 9846		Well No. #1
Thy. Size 2 7/8"	Wt. 6.5 #	d 2.441"	Set At 9476	Perforations: From To		Unit Sec. Twp. R1/4 0 14 22-S 26E
Type Well - Single - Bradenhead - G.G. or G.O. Multiple Single				Packer Set At 9476		County Eddy
Producing Thru Tubing		Reservoir Temp. °F 175 est. 9476		Mean Annual Temp. °F 60		Baro. Press. - P _a 13.2
L 9476		H 9476		Cg 659	% CO ₂ 0.52	% N ₂ 0.74
				% H ₂ S	Provat	Meter Run 4"
						Taps Flange

FLOW DATA							TUBING DATA		CASING DATA		Duration of Flow
NO.	Provat Line Size	X	Orifice Size	Press. p.s.i.g.	Diff. hw	Temp. °F	Press. p.s.i.g.	Temp. °F	Press. p.s.i.g.	Temp. °F	
SI							2737	76	0		
1.	4	x	1.250	445	15	78	1740	76	0		1 hr.
2.	4	x	1.250	440	5	75	1784	75	0		1 hr.
3.	4	x	1.250	190	2	75	1820	75	0		1 hr.
4.	4	x	1.250	55	2	76	1920	76	0		1 hr.
5.											

RATE OF FLOW CALCULATIONS							
NO.	Coefficient (24 Hour)	$\sqrt{h_w P_m}$	Pressure P _m	Flow Temp. Factor F _t	Gravity Factor F _g	Super Compress. Factor, F _{pv}	Rate of Flow Q, Mcfd
1	7.469	82.90	458.2	.9831	1.232	1.047	785.
2	7.469	47.60	453.2	.9859	1.232	1.045	451.
3	7.469	20.16	203.2	.9859	1.232	1.045	191.
4	7.469	11.68	68.2	.9850	1.232	1.000	105.
5							

NO.	P _t	Temp. °R	T _r	Z	Gas Liquid Hydrocarbon Ratio	17243	Mcf/bbl.
1.	.683	538	1.434	.913	A.P.I. Gravity of Liquid Hydrocarbons	61.7	Deg.
2.	.676	535	1.426	.915	Specific Gravity Separator Gas	.659	XXXXXX
3.	.303	535	1.426	.962	Specific Gravity Flowing Fluid	XXXXX	
4.	.101	536	1.429	-	Critical Pressure	670	P.S.I.A.
5.					Critical Temperature	375	R

NO.	P _t ²	P _w	P _t ²	P _w ² - P _t ²	$(1) \frac{P_c^2}{P_c^2 - P_t^2} = 1.6846$ $(2) \left[\frac{P_c^2}{P_c^2 - P_t^2} \right]^n = 1.6846$ $AOF = Q \left[\frac{P_c^2}{P_c^2 - P_t^2} \right]^n = 1322$
1	1753.2	1756.1	3073.7	4489.9	
2	1797.2		3229.9	4333.7	
3	1833.2		3360.6	4203.0	
4	1933.2		3737.3	3826.3	

Absolute Open Flow	1322	Mcf/d @ 15.025	Angle of Slope @	45.0°	Slope, n	1,000 limit
--------------------	------	----------------	------------------	-------	----------	-------------

Remarks: This test was run in reverse because of well logging conditions.
Friction calculation: on high rate of flow indicates friction is negligible -
Used P_t to plot and calculate potential.

Approved By Commission:	Conducted By: Davis	Calculated By: Davis	Checked By:
-------------------------	------------------------	-------------------------	-------------

Ex 4 Q 6444-45

C & K PETROLEUM, INC.
CARLSBAD, SOUTH (WOLFCAMP)
EDDY CO., N.M.
DEVELOPMENT ECONOMICS

ASSUMPTIONS:

Expense Interest-
Revenue Interest-
Gas Price-
Prod. Tax-
Oper. Exp.-
Cost Per Completed Well-
Ultimate Recovery-
Life-

320 ACRE SPACING

100%
87.5%
\$0.85
7.8%
\$200/Well-Month
\$600,000
1,100 MMCF
16 Yrs.

160 ACRE SPACING

100%
87.5%
\$0.85
7.8%
\$200/Well-Month
\$600,000
1,100 MMCF
8 Yrs.

TOTAL INCOME TO FULL W.I.:

Gross Revenue-
Less 1/8 Roy.-
Less Prod. Tax (7.8%)-

TOTAL INVESTMENT

TOTAL OPER. EXP.

TOTAL PROFIT TO FULL W.I.

UNDISC. PROFIT/INVESTMENT RATIO

\$935,000
\$818,125
\$754,311
\$ 600,000 (1-Well)

\$ 38,400

\$ 115,911

0.19

\$935,000
\$818,125
\$754,311
\$ 1,200,000 (2-Well)

\$ 38,400

(\$ 484,089)

*includes
only to
include*

*539000 for
development
well*

*See
CA 5-444-45*

AUTHORITY FOR EXPENDITURE

No. _____ Date 3/18/75

Lease H. Olive Well No. 2 Field _____ Depth 10,000'

Location _____

Reason for Request To drill and complete a Canyon well

	ESTIMATED COST TO CASING POINT	COMPLETION COST AFTER CASING POINT
INTANGIBLE DRILLING & DEVELOPMENT		
1. Surveying	\$ 200.00	\$
2. Roads and Location	5,000.00	
3. Damages	750.00	
4. Contract Drilling: MI & RU @ \$	10,000.00	
Day work: 55 days @ \$ 2600.00/day	143,000.00	
5. Cement & Cementing Services:		
Surface sax @ \$	1,850.00	
Intermediate sax @ \$		
Oil String sax @ \$		15,000.00
6. Drilling Fluids	25,000.00	
7. Drill Stem Testing: 2 Tests @ 1200/ea	2,400.00	
8. Coring & Analysis		
9. Electric Log	7,500.00	450.00
10. Perforating		1,100.00
11. Acidizing & Fracturing		5,000.00
12. Pulling units		5,000.00
13. Plugging		
14. Trucking	2,000.00	1,500.00
15. Geology	3,000.00	
16. Miscellaneous including bits & fuel	51,000.00	
17. Tool Rentals, Special Services	4,000.00	2,000.00
18. Contract Labor		1,500.00
19. Contract Overhead	3,000.00	750.00
20. Engineering		
21. Supervision	2,000.00	1,500.00
22. Insurance @ 1.323/ft.	15,600.00	
23. Contingencies	26,200.00	2,200.00
TOTAL INTANGIBLE DRILLING & DEVELOPMENT	\$ 342,500.00	\$ 36,000.00
EQUIPMENT (Itemized)		
24. Casing - Surface 400' - 13-3/8" @ \$16.80/ft	7,000.00	
Intermediate		
Production 5" - 10,000' @ \$9/ft		90,000.00
25. Tubing 2-7/8" 10,000' @ \$5.00/ft		50,000.00
26. Guide Shoes, Float, & Centralizers	650.00	1,400.00
27. Well Head	2,000.00	3,500.00
28. Tanks & Separators		18,000.00
29. Flow Lines		1,000.00
30. Valves & Fittings		1,500.00
Production Packers		2,000.00
31. Pumping Equipment		
Rods		
32. Other	7,350.00	16,100.00
TOTAL EQUIPMENT	\$ 17,000.00	\$ 128,500.00
TOTALS	\$ 319,500.00	\$ 219,500.00
TOTAL DRILLING & COMPLETION COSTS		\$ 539,000.00

ACCEPTED: _____ Date _____
 Company _____
 By _____
 Your Interest \$ _____

APPROVED: _____
 C & K PETROLEUM, INC.
 By _____
 Operator's Interest \$ _____

Ex 6
CR 5444-45

*estimate
1.1 billion cu ft reserve*

Page 1.

have signed contract w/ EP

HAROLD OLIVE #1 - 319.95 acre Unit

*75¢ plus 10% of net proceeds on test
small produce contract*

PARTICIPATION IN UNIT AREA BELOW DEPTH OF 9,786 FEET:

(1) Acreage Owned	(2) Acreage Percent of Unit	(3) Initial Test Well W.L. Participation UNTIL PAYOUT	(4) Overriding Royalty in Test Well Until Payout	(5) W.L. Participation after Payout of the Farmouts	(6) W.L. Participation After Payout of the Carried Interests
-------------------------	--------------------------------------	--	---	--	---

C & K Petroleum, Inc.
607 Midland National Bank Bldg.
Midland, Texas 79701

136.70 42.7255% 74.9961% -0- 64.5765% 62.0761%

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

80.00 25.0039% 25.0039% -0- 25.0039% 25.0039%

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

80.00 25.0039% -0- * 1.5627%
(.0625 of 25.0039%) 8.7514%
(35% of 25.0039%) 8.7514%

C. R. Cahill
c/o J. Richard Rowan
P. O. Box 162
Midland, Texas 79701

15.35 4.7663% -0- * .2979%
(.0625 of 4.7663%) 1.6682%
(35% of 4.7663%) 1.6682%

*proposed change same as
others signed voluntarily
\$169/mo/well*

*200/0
Sx 7
CR 5444-45-*

cont'd. on p. 2

Participation in Unit Area below depth of 9,786 feet (contd'.)

	(1) Acreage Owned	(2) Acreage Percent of Unit	(3) Initial Test Well W.I. Participation UNTIL PAYOUT	(4) Overriding Royalty in Test Well Until Payout	(5) W.I. Participation After Payout of Farmouts	(6) W.I. Participation After Payout of Carried Interests
CARRIED INTERESTS:						
E. L. Latham, Jr. and Roy G. Barton, Jr. P. O. Box 978 Hobbs, New Mexico 88240	6.00	1.8753%	-0-	-0-	-0-	1.8753%
Michael P. Grace P. O. Box 1418 Carlsbad, New Mexico 88220	2.00	.6251%	-0-	-0-	-0-	.6251%
TOTALS:	319.95	100.0000%	100.0000%	* 1.8606% (.0625 of 29.7702%)	100.0000%	100.0000%

* The interests of Amoco Production Company and C. R. Cahill are subject to farmout agreements in favor of C & K Petroleum, Inc. (below 9786' only). The overriding royalty credited to said owners under Column (4) above are to be borne solely by C & K Petroleum, Inc. Said overriding royalties may be converted to the working interest credited to said owners under Column (5) above after payout and said conversion shall be borne solely by the interest of C & K Petroleum, Inc. Payout shall include recovery by Gulf Oil Corporation of 100% of drilling costs from surface down to 9786'. (see Exhibit "A")

NOTE: C & K Petroleum, Inc. shall recover out of Unit production all well costs attributable to the above carried interests plus applicable 25% penalty including operating costs for deepening and producing initial test well below 9786'. Thereafter, Gulf Oil Corporation shall recover out of Unit Production all costs attributable to carried interests plus applicable 25% penalty for drilling to 9786' only. (see Exhibit "A" hereof)

The working interest participation factors shown under Column (5) and/or Column (6) above shall become effective at 7:00 a.m. on the first day following the date that C & K Petroleum, Inc. and Gulf Oil Corporation have recovered said well costs.

September 12, 1974

Mr. Michael P. Grace
P. O. Box 1418
Carlsbad, New Mexico 88220

Re: Harold Olive Com No. 1
S/2 Sec 14, T-22-S, R-26-E
Eddy County, New Mexico

Dear Mr. Grace:

You have verbally agreed to commit the 2-acre leasehold interest of Michael P. Grace toward the 319.95 acre proration unit described above, your interest to be carried, with operator to recover 125% prior to your receiving income from your working interest.

We attach one copy of Communitization Agreement with five signature and acknowledgment pages. As this agreement must be file in five originals, we ask that you execute this agreement and return the five signature and acknowledgment pages to C & K. We also attach one copy of Unit Operating Agreement (see Exhibit "A-1" for your contribution). Please execute and return one signature and acknowledgment page of the operating agreement.

This well is still shut-in pending execution of gas contract. We will very much appreciate your prompt attention to this matter. If you need further information, please let us know.

Very truly yours,

C & K PETROLEUM, INC.

G. C. Tompson
Manager of Production

DML:pgb
encl.

Ex 8
CA 5444-45

CASE 5440: Application of Gulf Oil Corporation for two unorthodox oil well locations, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its South Penrose Skelly Wells Nos. 220 and 262 to be located, respectively, 1034 feet from the South line and 2635 feet from the West line of Section 5 and 1300 feet from the South line and 1139 feet from the East line of Section 8, both in Township 22 South, Range 37 East, Penrose Skelly Pool, Lea County, New Mexico. Applicant further seeks the amendment of Order No. R-2794 to provide an administrative procedure for the approval of additional unorthodox locations for injection and producing wells within the South Penrose Skelly Unit Area.

CASE 5441: Application of J. Gregory Merrion and Robert L. Bayless for down-hole commingling, Rio Arriba County, New Mexico. Applicants, in the above-styled cause, seek authority to commingle undesignated Gallup and Basin-Dakota production in the wellbore of the El Paso Canyon Largo NP Well No. 1, located in Unit K of Section 3, Township 24 North, Range 6 West, Rio Arriba County, New Mexico.

CASE 5442: Application of David Fasken for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of his Feil Federal Well No. 1, to be drilled 660 feet from the North and West lines of Section 28, Township 20 South, Range 25 East, Cemetery-Morrow Gas Pool, Eddy County, New Mexico, the N/2 of said Section 28 to be dedicated to the well.

CASE 5443: Application of Sun Oil Company for pool creation and special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new oil pool for Bone Spring production for its Jennings-Federal Well No. 1, located in Unit F of Section 15, Township 19 South, Range 32 East, Lea County, New Mexico, and the promulgation of special pool rules therefor, including a provision for 160-acre proration units.

CASE 5444: Application of C & K Petroleum, Inc., for pool creation and special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the establishment of a new gas pool for production from the Wolfcamp formation for its Harold Olive Com No. 1 Well, located in Unit O of Section 14, Township 22 South, Range 26 East, Eddy County, New Mexico, and the promulgation of temporary special rules therefor, including a provision for 320-acre spacing units.

CASE 5445: Application of C & K Petroleum, Inc., for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp formation underlying the S/2 or, in the alternative, the SE/4 of Section 14, Township 22 South, Range 26 East, Eddy County, New Mexico, to be dedicated to its Harold Olive Com Well No. 1, located at an orthodox location in the SE/4 of said Section 14. 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 the applicant as operator of the well and a charge for the risk involved in drilling said well.

Docket No. 7-75

Dockets Nos. 8-75 and 9-75 are tentatively set for hearing on April 2, and April 16, 1975. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 19, 1975

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

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

- ALLOWABLE: (1) Consideration of the allowable production of gas from seventeen prorated pools in Lea, Eddy, Roosevelt, and Chaves Counties, New Mexico, for April, 1975;
- (2) Consideration of the allowable production of gas from five prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for April, 1975.

CASE 5415: (Continued from the February 19, 1975, Examiner Hearing)

Application of Burk Royalty Co., for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Double L Queen Unit Area, comprising 2670 acres, more or less, of Federal, State, and fee lands in Townships 14 and 15 South, Ranges 29 and 30 East, Chaves County, New Mexico.

CASE 5409: (Continued & Readvertised)

Application of Atlantic Richfield Company for a non-standard gas proration unit, an unorthodox gas well location, and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 320-acre non-standard gas proration unit comprising the SE/4 of Section 12 and the NE/4 of Section 13, both in Township 24 South, Range 36 East, Jalmat Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to its George W. Toby WN Wells Nos. 4, 1, and 1-A, located, respectively, in Units I and P of said Section 12 and in Unit A of said Section 13.

CASE 5438: Application of Exxon Corporation for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of temporary special rules for the Fairview Mills-Wolfcamp Gas Pool, Township 25 South, Range 34 East, Lea County, New Mexico, including a provision for 640-acre spacing units.

CASE 5439: Application of Gulf Oil Corporation for the amendment of Order No. R-4079, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-4079, which order, as amended, authorized the commingling, prior to measurement, of Hobbs Grayburg-San Andres, Hobbs-Blinbry, and Bowers-Seven Rivers production from its W. D. Grimes "A" and "B" Leases in Sections 32 and 33, Township 18 South, Range 38 East, Lea County, New Mexico, to include in said commingling authority Hobbs-Drinkard production.

CASE 5446: Application of C & K Petroleum, Inc., for pool creation and special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the establishment of a new oil pool for Strawn production for its Shipp "27" Well No. 1, located in Unit 0 of Section 27, Township 16 South, Range 37 East, Lea County, New Mexico, and the promulgation of temporary special rules therefor, including a provision for 80-acre proration units.

CASE 5447: Application of C & K Petroleum, Inc., for amendment of Order No. R-4857, Lea County, New Mexico. Applicant, in the above-styled cause, seeks amendment of Order No. R-4857, which order pooled all mineral interests in the Pennsylvanian formation underlying the SW/4 SE/4 of Section 27, Township 16 South, Range 37 East, Lea County, New Mexico, to pool all such mineral interests underlying the S/2 SE/4 of said Section 27.

CASE 5428: (Continued from the February 19, 1975, Examiner Hearing)

Application of Amax Chemical Corporation for the extension of the Potash-Oil Area, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the extension of the Potash-Oil Area in Eddy County, New Mexico, as defined by Order No. R-111-A, as amended, by the addition of the following described lands:

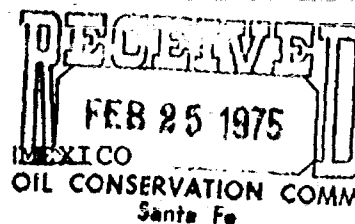
TOWNSHIP 19 SOUTH, RANGE 29 EAST

Section 13: S/2 SE/4
Section 14: W/2 SW/4
Section 23: N/2 NW/4, SE/4 NW/4, S/2 NE/4
Section 24: NW/4, W/2 NE/4, NE/4 NE/4

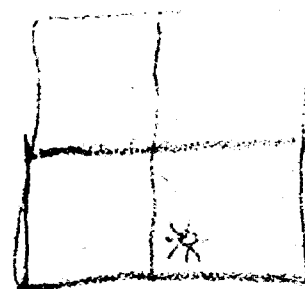
TOWNSHIP 19 SOUTH, RANGE 30 EAST

Section 14: W/2 NE/4
Section 18: SW/4

BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO



IN THE MATTER OF THE APPLICATION
OF C & K PETROLEUM, INC., FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO



A P P L I C A T I O N

COMES NOW C & K PETROLEUM, INC., and applies to the
Oil Conservation Commission of New Mexico for an order
pooling all of the mineral interests of Pennsylvanian age
or older underlying the S/2 of Section 14, Township 22
South, Range 26 East, N.M.P.M., ^{Edgy} Lea County, New Mexico,
and in support thereof would show the Commission:

1. Applicant is the owner of the right to drill and
develop the subject acreage, has drilled a wolfcamp well
designated the Harold Olive Com No. 1 Well located 660
feet from the South line and 1980 feet from the East line
of Section 14, Township 22 South, Range 26 East, N.M.P.M.,
Lea County, New Mexico.

2. All interest owners have agreed to pool their
interests within this proposed unit with the exception
of certain owners whose names and addresses, to the best
of applicant's information and belief, are as follows:

Michael P. Grace
Post Office Box 1418
Carlsbad, New Mexico 88220

DOCKET MAILED

Date 3/6/75

DOCKET MAILED

Date 3/6/75

3. As required by the provisions of Commission Rule 104, applicant proposes to dedicate the S/2 of Section 14, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico to the subject well.

4. Applicant requests that it be designated operator of the pooled unit requested above.

5. Applicant has been unable to obtain voluntary agreement for the pooling of the unpooled interests indicated in paragraph 2 above, and in order to avoid the drilling of unnecessary wells to protect correlative rights, and to prevent waste, the Commission should pool all interests in the spacing or proration unit as a unit.

6. Pooling of the proposed unit is in the interests of conservation, and the interests of all mineral interests, including those of royalty owners, will be protected.

WHEREFORE applicant prays that this application be set for hearing before the Commission or the Commission's duly appointed examiner, and that after notice and hearing as required by law the Commission enter its order pooling all mineral interests of Pennsylvanian age or older underlying the proposed unit, designating applicant as operator, and making provision for applicant to recover the costs of drilling and completing said well, actual operating costs, charges for supervision, and a provision for a charge for the risk involved in drilling and completing said well.

Respectfully submitted,

C & K PETROLEUM INC.

BY



KELLAHIN & FOX
Post Office Box 1769
Santa Fe, New Mexico

ATTORNEYS FOR APPLICANT

DRAFT

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. 5445

Order No. R-4991

APPLICATION OF C & K PETROLEUM, INC.,
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on March 19, 1975
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this day of March, 1975, 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, C & K Petroleum, Inc.,
seeks an order pooling all mineral interests in the Wolfcamp
formation underlying the S/2 ~~or in the~~

~~at the north of~~ Section 14, Township 22 South, Range 26 East,
NMPM, South Carlsbad Wolfcamp gas pool, Eddy County, New
Mexico.

-2- (said well being completed in ~~the~~ ^{has drilled it} and capable of
Case No. producing gas from the South Carlsbad
Order No. R- Wolfcamp gas Pool.

(3) That the applicant has the right to drill and ~~proposes~~
~~to drill a well~~ Harold Olive Com well No. 1 at a point 660 feet from the
~~South line and 1930 feet from the East line of Section 18~~

(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 any non-consenting working interest owner should
be afforded the opportunity to pay his share of ^{reasonable} ~~estimated~~ well
costs to the operator in lieu of paying his share of reasonable
well costs out of production.

(8) That any non-consenting working interest owner that
does not pay his share of ^{reasonable} ~~estimated~~ well costs should have
withheld from production his share of the reasonable well costs
plus an additional ^{150 percent} ~~200 percent~~ thereof as a reasonable charge for the
risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be
afforded the opportunity to object to the actual well costs but
that actual well costs should be adopted as the reasonable well
costs in the absence of such objection.

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

It is recommended that the application be approved.

-3-

Case No.

Order No. R

(10) ~~(11)~~ That \$169.00 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.

(11) ~~(12)~~ 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.

~~(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before _____, 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, in the Wolfcamp formation underlying the S/2, ~~or in the alternative the SE/4~~ of Section 14, Township 22 South, Range 26 East, NMPM, South Carlsbad-Wolfcamp Gas Pool, Eddy County, New Mexico, are hereby pooled to form a standard 320 - acre gas spacing and proration unit to be dedicated to its Harold Olive Com Well No. 1 located at an orthodox location in Unit O ~~the SE/4~~ of said Section 14.

~~PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the _____ day of _____, 1973, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the _____ Wolfcamp _____ formation;~~

~~PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the _____ day of _____, 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 C & K Petroleum, Inc. is hereby designated the operator of the subject well and unit.

~~(3) That after the effective date of this order and at least 20 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.~~

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

^{within 30 days after the effective date of this order,}
(3) (5) That ^{in the subject unit} the operator shall furnish the Commission and each known working interest owner an itemized schedule of actual well costs; ~~within 90 days following completion of the well,~~ that if no objection to the actual well costs is received by the Commission and the Commission has not objected within ³⁰ ~~45~~ days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said ^{30-day} ~~45-day~~ period, the Commission will determine reasonable well costs after public notice and hearing.

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

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

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of ~~reasonable~~ ~~estimated~~ well costs within 30 days from the date the ~~schedule of estimated well costs is~~ ~~are determined to be reasonable well costs~~ ~~furnished to him.~~ *actual* *are determined to be reasonable well costs*

(B) As a charge for the risk involved in the drilling of the well, ~~200 percent~~ ^{150 percent} of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of ~~estimated~~ *reasonable* well costs within 30 days from the date the ~~schedule of estimated well costs is~~ ~~are determined~~ *actual* *are determined* ~~to him.~~ *to be reasonable well costs*

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

(7) ~~That~~ That \$169.50 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.

-6-

Case No.

Order No. R-

(8) ~~(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.

(9) ~~(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.

(10) ~~(12)~~ That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy 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.

(11) ~~(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.