

CASE 5622: TEXACO FOR DETERMINA-
TION OF CHARGES AND COSTS ,
EDDY COUNTY, NEW MEXICO

CASE NO.

56 22

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

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. 5622
Order No. R-5186

APPLICATION OF TEXACO INC. FOR
DETERMINATION OF CHARGES AND
COSTS, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on February 4, 1976, at Santa Fe, New Mexico, before Examiner, Richard L. Stamets.

NOW, on this 30th day of March, 1976, 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 by Order No. R-4980, dated March 11, 1975, the Commission pooled all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the E/2 of Section 3, Township 18 South, Range 26 East, NMPM, Eddy County, New Mexico, to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled on said unit by William G. Ross, hereinafter referred to as "Ross," who was named by said order as operator of the well and unit.

(3) That said order also provided that if any non-consenting working interest owner should not have paid to operator (Ross) his share of estimated well costs within certain specified time limits, then Ross would be authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to such non-consenting working interest owner.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to such non-consenting working interest owner.

(4) That subsequent to the issuance of said order, Ross did drill the A. Q. Rogers Well No. 1, located in Unit P of said Section 3, and completed the same capable of producing from the Morrow formation on August 13, 1975.

(5) That Texaco Inc., hereinafter referred to as "Texaco," did not pay its share of estimated well costs within the specified time limits, and thereby elected to have withheld from production the costs and charges described in Finding No. (3), paragraphs (A) and (B).

(6) That pursuant to the provisions of said Order No. R-4980, Ross on November 13, 1975, did furnish to Texaco as a non-consenting working interest owner in the pooled unit and the well thereon, an itemized schedule of the actual well costs.

(7) That Order No. R-4980 provides that the actual well costs shall be reasonable well costs unless objection to such actual costs is received by the Commission. Further, that if objection to such actual costs is received, the Commission will determine reasonable well costs.

(8) That, on December 31, 1975, Texaco filed with the Commission an objection to the actual well costs submitted by Ross to Texaco.

(9) That the statement of actual costs paid to date November 13, 1975, totalled \$372,650.92, in addition to which Ross listed "ADDITIONAL ESTIMATED EXPENSE[S]" totalling \$16,100.00.

(10) That included in the actual costs to date are three items totalling \$26,883.59, said items being:

Rental of Surface Equipment	\$ 7,354.59
Gas Production Unit	14,181.00
Storage Tanks	5,348.00

(11) That Texaco does not question the reasonableness of the aforesaid costs, but does question the applicability of the 200 percent risk factor to these items, which are down-stream from the wellhead.

(12) That a fourth item included in the actual costs to date is entitled "Legal Expense to Date," and is in the amount of \$1,834.24.

(13) That Texaco does not object to the applicability of the 200 percent risk factor to the aforesaid legal expense if it was incurred in the forced pooling action.

(14) That of the three items under "ADDITIONAL ESTIMATED EXPENSE[S]" totalling \$16,100.00, only one item, "Legal Expense-Operating Agreements-Division Order Title Examination etc. \$7,300.00," is questioned by Texaco as being a reasonable expense,

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and the remaining two items are presumed to be reasonable pending actual billing and receipt of invoices.

(15) That the first two paragraphs of Section 65-3-14, subsection (c) NMSA 1953 Comp. provide that "(c) When two (2) or more separately owned tracts of land are embraced within a spacing or proration unit, or where there are owners of royalty interests or undivided interests in oil and gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration unit, the owner or owners thereof may validly pool their interests and develop their lands as a unit. Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the Commission, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interest or both in the spacing or proration unit as a unit.

All orders effecting such pooling shall be made after notice and hearing, and shall be upon such terms and conditions as are just and reasonable and will afford to the owner or owners of each tract or interest in the unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil or gas, or both. Each order shall describe the lands included in the unit designated thereby, identify the pool or pools to which it applies and designate an operator for the unit. All operations for the pooled oil or gas, or both, which are conducted on any portion of the unit shall be deemed for all purposes to have been conducted upon each tract within the unit by the owner or owners of such tract. For the purpose of determining the portions of production owned by the persons owning interests in the pooled oil or gas, or both, such production shall be allocated to the respective tracts within the unit in the proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit. The portion of the production allocated to the owner or owners of each tract or interest included in a well spacing or proration unit formed by a pooling order shall, when produced, be considered as if produced from the separately owned tract or interest by a well drilled thereon."

(16) That the second paragraph of aforesaid subsection (c) further provides that "Such pooling order of the Commission shall make definite provision as to any owner, or owners, who elects not to pay his proportionate share in advance for the pro rata reimbursement solely out of production to the parties advancing the costs of development and operation which shall be limited to the actual expenditures required for such purpose and may include a charge for the risk involved in the drilling of such well which charge for risk shall not exceed two hundred percent (200%) of the non-consenting owner or owners' pro rata share of the cost of drilling and completing the well." [Emphasis added.]

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(17) That the aforesaid second paragraph of subsection (c), in providing that the order of the Commission may include a 200 percent charge for the risk involved in the drilling of such well, and also providing for withholding actual expenditures required for such purpose, is obviously relating such well and such purpose back to the original precept of this paragraph, i.e., that the order shall make provision for the carried interest owner to compensate, out of production, the parties who advanced the costs of development of the pooled unit; in other words, that the "costs of development" of the pooled unit are synonymous to the "cost of drilling and completing" the unit well, and are to be compensated for out of production.

(18) That the "cost of drilling and completing" the unit well being synonymous to the "cost of development" of the pooled unit, it then follows that inasmuch as the cost of drilling and completing the unit well is subject to the authorized risk factor, the cost of development of the unit is also subject to the authorized risk factor.

(19) That the pooled unit cannot be considered "developed" until it is on production or in producing condition.

(20) That a gas well may be considered as capable of producing gas when it has been completed and has installed thereon a well head, but it is illogical to consider that the unit upon which it is located is in producing condition, and the unit is developed until all of the appurtenant equipment, flowlines, separators, tanks, etc., have been installed and are in producing condition.

(21) That such items as flowlines, separators, tanks, etc., are items necessary to the development of the unit.

(22) That although such items are normally purchased and installed only after production has been obtained, there is still risk involved in drilling and completing the well, i.e., development of the pooled unit, inasmuch as at the time such equipment is purchased and installed, there is no assurance that the well will produce in sufficient quantities to pay out the cost of development.

(23) That such items as flowlines, separators, tanks, etc., being items necessary to the development of the pooled unit, and also subject to possible non-payout as discussed in Finding No. (22) above, should also be subject to the risk factor authorized by Section 65-3-14(c) NMSA 1953 Comp.

(24) That the items described in Finding No. (10) above, being items necessary to the development of the pooled unit, should be subject to the 200 percent risk factor imposed by Order No. R-4980.

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(25) That the item described in Finding No. (12) above, being legal expense incurred in the formation of the pooled unit, was also an expense necessary to the development of the pooled unit.

(26) That said item described in Finding No. (12) above should also be subject to the 200 percent risk factor imposed by Order No. R-4980.

(27) That the item described in Finding No. (14) above as being "Legal Expense-Operating Agreements-Division Order Title Examination etc. - \$7,300.00" is vague, and there exists insufficient information in the record of this case to determine what portion thereof is reasonable or unreasonable, what Texaco's proportionate share would be, and what portion, if any, should be subject to the 200 percent risk factor.

(28) That the remaining two items mentioned in Finding No. (14) above, being (1) additional estimated expense for additional well head equipment, \$2,300.00, and (2) additional estimated expense for well head hookup, dirt work, and trucking charges, \$6,500.00, are items necessary to the development of the pooled unit.

(29) That the actual expenditures finally incurred and invoiced for the items described in Finding No. (28) above should be subject to the 200 percent risk factor imposed by Order No. R-4980.

(30) That issuance of an order embodying the above findings is in the interest of conservation, will prevent waste, and will protect correlative rights, and should be effected.

IT IS THEREFORE ORDERED:

(1) That the charges of \$7,354.59 for "Rental of Surface Equipment," \$14,181.00 for a "Gas Production Unit," \$5,348.00 for "Storage Tanks," and \$1,834.24 for "Legal Expense to Date" all related to the drilling and completion of the William G. Ross A. Q. Rogers Well No. 1 located in Unit P of Section 3, Township 18 South, Range 26 East, Eddy County, New Mexico, are hereby approved as reasonable charges.

(2) That said charges, as well as actual reasonable costs of legal services related to the pooling order, operating agreements, and division order title examination for said William G. Ross A. Q. Rogers Well No. 1 shall be subject to the charge for risk described in Order (7) of Commission Order No. R-4980.

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

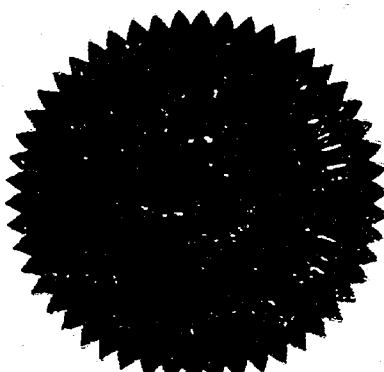
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DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


Phil R. Lucero
PHIL R. LUCERO, Chairman

Emery C. Arnold
EMERY C. ARNOLD, Member

Joe D. Ramey
JOE D. RAMEY, Member & Secretary

S E A L

jr/

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
February 4, 1976

EXAMINER HEARING

IN THE MATTER OF:

Application of Texaco for determination) CASE
of charges and costs, Eddy County,) 5622
New Mexico.)

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: William F. Carr, Esq.
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

For the Applicant: Ken Bateman, Esq.
WHITE, KOCH, KELLY & MCCARTHY
Attorneys at Law
220 Otero Street
Santa Fe, New Mexico

For Bill Ross: Clarence Hinkle, Esq.
HINKLE, BONDURANT, COX & EATON
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1 MR. STAMETS: We will call next Case 5622.

2 MR. CARR: Case 5622, application of Texaco for
3 determination of charges and costs, Eddy County, New Mexico.

4 MR. BATEMAN: Mr. Examiner, I'm Ken Bateman of White
5 Koch, Kelly and McCarthy appearing for Texaco. I have one
6 witness to be sworn.

7 MR. STAMETS: Are there other appearances in this
8 case?

9 MR. HINKLE: Clarence Hinkle, Hinkle, Bondurant,
10 Cox and Eaton appearing on behalf of Bill Ross.

11 MR. STAMETS: I would like at this time to have all
12 of the witnesses in this case stand and be sworn.

13 (THEREUPON, the witnesses were duly sworn.)

14 GEORGE PATTERSON

15 called as a witness, having been first duly sworn, was
16 examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BATEMAN:

19 Q State your full name, residence and occupation for
20 the record, please?

21 A My name is George Patterson, I live in Midland,
22 Texas and I work for Texaco, Inc. as a contract man in the Land
23 Department.
24
25

1 Q. Mr. Patterson, have you previously testified before
2 the Commission?

3 A. No, I have not.

4 Q. Would you briefly give a resume of your educational
5 background?

6 A. I attended undergraduate school at Texas A & M
7 and graduated from Baylor Law School in 1970; at which time
8 I started work with Texaco in March of 1970 and have worked
9 continuously in Midland ever since.

10 Q. And what have been your duties with Texaco?

11 A. I am a contract man and have been since March of
12 1970 in the Land Department. This involves preparation of
13 agreements, operating agreements and contracts for different
14 companies involving drilling and producing operations.

15 Q. Mr. Patterson, are you familiar with the forced
16 pooling statute in New Mexico?

17 A. Yes, I am.

18 MR. BATEMAN: Mr. Examiner, are the witness's
19 qualifications acceptable?

20 MR. STAMETS: Mr. Bateman, on the surface they
21 would appear to be. If the questioning should get into an
22 area where his qualifications might be called into question,
23 we would permit some questioning of them at that point.

24 MR. BATEMAN: Thank you, Mr. Examiner.

25 Q. (Mr. Bateman continuing.) Mr. Patterson, are you

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1 familiar with the case in question?

2 A. Yes, I am.

3 Q. Do you have with you a copy of the actual well
4 costs?

5 A. The actual or the estimated?

6 Q. The actual.

7 A. Yes, I do. We received this from Mr. Ross on
8 November 20th, 1975.

9 Q. We are dealing here with an interest of Texaco that
10 was previously force pooled under an order of the Commission,
11 is that right?

12 A. Yes, we are.

13 Q. Would you state briefly what Texaco seeks by this
14 application?

15 A. Texaco's interest in this is rather small. I believe
16 we have a very small interest in the well. We were previously
17 force pooled and then we were furnished with well costs on
18 November 20th. Certain items of these costs we are question-
19 ing, not because of the expenditures themselves but whether or
20 not there should be an imposition of a two hundred percent
21 risk penalty. These items are essentially items of equipment
22 beyond the wellhead of the well and we are also questioning
23 certain legal expenses which appear on the actual well costs
24 which were furnished to us on November 20th as an additional
25 estimated expense of seventy-three hundred dollars and then

1 legal expense to date of eighteen hundred and thirty-four
2 dollars and twenty-four cents. The nature of these legal
3 expenses we have not been able to satisfy ourselves as to and
4 we are also questioning whether the two hundred percent risk
5 penalty should be applicable to legal expenses after the well
6 is completed as a producer.

7 Q Mr. Patterson, would you specifically state what
8 items on the actual well cost and the amounts that you are
9 questioning?

10 MR. STAMETS: Do you have a copy of the well costs
11 that the Examiner could look at?

12 MR. HINKLE: Are you introducing this as an exhibit?

13 MR. BATEMAN: I assumed that you would.

14 MR. HINKLE: Well, we have a copy but I don't know
15 whether it is the same copy as yours.

16 (THEREUPON, a discussion was held
17 off the record.)

18 Q (Mr. Bateman continuing.) Would you state for the
19 record, Mr. Patterson, the costs that you are questioning and
20 the amounts?

21 A. The first cost that we are questioning appears on
22 page one of the November 13th, 1975 statement of the drilling
23 and completion costs. This item is, rental of surface
24 equipment in the amount of seven thousand, three hundred and
25 fifty-four dollars and fifty-nine cents. The next item

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1 that we are questioning is, gas production unit, on the
2 same page. The amount of this item is fourteen thousand,
3 one hundred and eighty-one dollars. The next item we are
4 questioning is storage tanks. The amount of this item is
5 five thousand, three hundred and forty-eight dollars and
6 then the legal expense item previously mentioned of one
7 thousand, eight hundred and thirty-four dollars and twenty-four
8 cents.

9 The additional estimated expense on page two, we
10 are questioning the legal expense, operating agreements,
11 division order title examination, et cetera, of seven thousand
12 three hundred dollars and I believe that is the sum total of
13 the items that we are questioning.

14 As I stated before, with the exception of the
15 legal expenses, we are not questioning the amount expended on
16 the items or Mr. Ross' right to recover one hundred percent
17 of this amount, we are questioning whether or not the imposi-
18 tion of the two hundred percent risk penalty is appropriate
19 for the items which are beyond the wellhead connection and
20 are items installed or associated with the operation of the
21 well, rather than the drilling and the completing of the
22 well.

23 Q All right, as I understand your testimony, you don't
24 question that these expenses are reasonable but you do question
25 whether or not the penalty should be assessed against them?

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1 A. The equipment items, no, the legal expense items
2 we are questioning whether or not they are reasonable.

3 Q. I see. Now, Mr. Patterson, have you made a search
4 to determine whether or not there is any definition of the
5 term "well costs" in the order previously issued by the
6 Commission?

7 A. I have looked at several orders which concerned
8 Texaco and in each instance I have found that the Commission
9 discusses drilling and completing costs and discusses
10 operating costs and it does not give particular attention in
11 the orders that I have examined as to a break down of items
12 beyond the wellhead as being categorized in one category or
13 the other.

14 Q. All right, Mr. Patterson, is there any custom in
15 the industry that is similar to this situation?

16 A. There is. I believe there is an analogous situation
17 in the American Association of Petroleum Landmen, Form six,
18 ten.

19 MR. HINKLE: We would object. I think he will have
20 to show first whether or not they entered into an operating
21 agreement. That is what he is about to testify to that this
22 form of operating agreement provides for certain items a
23 hundred percent and certain items two and three hundred
24 percent but that is not material here unless he shows that
25 we have entered into an operating agreement.

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1 MR. BATEMAN: Mr. Examiner, I think the testimony
2 is offered as an analogous situation. We are not testifying
3 that we have entered into this particular operating agree-
4 ment.

5 MR. HINKLE: How can it be material then?

6 MR. BATEMAN: Because we feel it is a custom of
7 the industry which I think bears consideration by the
8 Commission with respect to whether or not costs beyond the
9 wellhead should be considered for a penalty situation.

10 MR. STAMETS: Mr. Hinkle, do you intend to present
11 some testimony on the operating agreement on this well?

12 MR. HINKLE: We will present testimony to show that
13 there has not been an operating agreement and that the order
14 speaks for itself and the statute speaks for itself and
15 whatever that means, that's it. It can't be anything else
16 because there has been no operating agreement entered into.

17 MR. STAMETS: It would appear that the question
18 here is: When is a well completed? And the Examiner will
19 allow this testimony to be brought into the record to aid
20 in the determination of when a well is completed.

21 MR. BATEMAN: Thank you, Mr. Examiner.

22 Q (Mr. Bateman continuing.) Mr. Patterson, do you
23 have a copy of the pertinent language from the operating
24 agreement that you are about to testify to? Mr. Patterson,
25 would you identify the form and the section we are dealing with?

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1 A. The form operating agreement that we are dealing
2 with is the American Association of Petroleum Landmen, Form
3 six, ten, model form operating agreement, 1956. This is an
4 operating agreement that from my experience is in almost
5 universal use in West Texas and the Southeastern New Mexico
6 area and which I believe is fairly well accepted as a standard
7 of the industry and fairly reflects the custom of the industry.
8 In Section twelve on page five, it continues over into page six,
9 but section twelve which is found on page five of this form
10 discusses an analogous situation in that it deals with a
11 situation where the parties to an operating agreement cannot
12 agree on the drilling of a well on the unit area. At that
13 point it sets up a mechanism of notice and gives an opportunity
14 for each party to either participate in the operation or
15 go to what is referred to as non-consent.

16 Now, if a party goes non-consent under this form,
17 the parties that do participate in the cost of the operation
18 recover their expenses of the operation in the specified
19 amounts. Now, this form sets out in section twelve-a and
20 twelve-b that when this occurs, the parties that participate
21 recover one hundred percent of the non-consenting parties'
22 share of the cost of any newly acquired surface equipment
23 beyond the wellhead connections, parenthesis, including
24 but not limited to stock tanks, separators, treaters, pumping
25 equipment and piping, close parenthesis, comma, plus one

1 hundred percent of each non-consenting party's share of the
2 cost of operation of the well, commencing with first production
3 and continuing until non-consenting parties' relinquished
4 interest shows it reverts to it, which is on the recovery of
5 the cost.

6 It goes on and says, in addition to recovery of
7 one hundred percent of these items, and it says, and item b
8 is two hundred percent of that portion of the cost and expenses
9 of drilling, reworking, deepening or plugging back, testing
10 and completing after deducting any cash contributions received
11 under section twenty-five and two hundred percent of that
12 portion of the cost of newly acquired equipment in the well,
13 parenthesis, to and including the wellhead connection, close
14 parenthesis, comma, which would have been chargeable to a
15 non-consenting party had he participated therein.

16 I believe, and this is my own opinion, that this is
17 an analogous situation to the statute, in that the recovery
18 is one hundred percent of the cost of operation and the cost
19 of the equipment beyond the wellhead connections and the
20 recovery of two hundred percent. It does not specifically
21 state in here that this is the recovery of one hundred percent
22 of the cost, plus the risk penalty but in my own mind, I cannot
23 justify recovery of two hundred percent. This is often
24 changed in the industry to three hundred percent, except as
25 representing a risk penalty for the items to and including

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1 the wellhead equipment, which are the risk items involved
2 in the well. The items beyond the wellhead equipment
3 certainly don't have the same measure of risk associated with
4 them as the items in the hole, cost of drilling, completing,
5 this type of things.

6 Q Mr. Patterson, what we have marked as Exhibit Number
7 One is a Xerox copy of section twelve of the AAPL form six,
8 ten, is that correct?

9 A Yes.

10 Q Mr. Patterson, you touched on the measure of risk
11 being with the recovery of the cost of the equipment, would
12 you elaborate on that?

13 A Well --

14 Q I assume, for clarification, that equipment has
15 some salvage value?

16 A Correct. Obviously the salvage value of the
17 equipment that is placed in the hole is somewhat speculative.
18 There is somewhat of an amount of risk there. This is my
19 personal opinion as to why the wellhead connection was chosen
20 as the cut-off point. The salvage value, in my opinion, of
21 the items that are placed on the ground, the separators and
22 tanks, the surface equipment, is relatively free from risk.
23 You place these items on the ground and can expect to recover
24 them. They are salvageable equipment without much danger
25 of risk.

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1 Q Mr. Patterson, in your experience with Texaco have
2 you had other problems with the definitions of items to
3 which the risk penalty should be assessed, in other
4 instances?

5 A Before this?

6 Q Before this particular incident?

7 A We have had the question arise on two occasions.

8 Q It has been pointed out that in this particular
9 case your interest is a small one, however, I assume that
10 the principle involved here is an important one to your
11 company, is that correct?

12 A It seems to be a question which keeps arising and
13 the question of the proper construction of the statute and
14 the orders of the Commission. This is the third time that
15 it has arisen as to whether these items should or should not
16 be included in the imposition of the risk factor.

17 Q What is your position with respect to the legal
18 expenses that we have discussed?

19 A The expenses, as has previously been stated, and
20 the expenses of the forced pooling of Texaco, our position is
21 that this is a risk item. It was an expense that Mr. Ross
22 incurred and if the well had not been productive he certainly
23 would not have recovered it, so we feel that a risk penalty
24 is appropriate on the cost of the forced pooling action, which
25 this is a reopening of.

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1 On the question of an operating agreement, as has
2 been pointed out here, we don't have an operating agreement
3 and some of these estimated additional expenses are for
4 preparation of operating agreements. It is hard to tell what
5 is included in these expenses. Our position is that the
6 Commission order obligates the payment of royalties, I
7 believe, and the distribution of proceeds of the well in a
8 legal manner and will obviously require some title examination
9 and legal expenses to arrive at this end. We think that
10 these legal expenses were probably incurred after the well
11 was completed as a producer and we don't think this is a
12 proper application of the risk penalty but should come under
13 the nature of operating expenses after the well has been
14 completed as a producer. We have no objection to Mr. Ross
15 recovering one hundred percent of the cost of these items
16 if these items can be shown as being applicable to our
17 interest. Now, I believe, there were several segregated
18 tracts that were force pooled together and we do not know
19 the extent of the expenses that Mr. Ross has incurred or
20 of the applicability to our interest, whether, in fact, these
21 expenses were incurred on the tract that Texaco contributed
22 or not. We kind of question whether or not all of this
23 expense is applicable to our interest and and should be
24 recoverable at all and even that portion that we feel is
25 applicable to us, we don't feel should bear a two hundred

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1 percent penalty on it, it has been incurred after the well
2 has been completed and it should be a cost of operation.

3 Q So it should be considered an operating expense?

4 A I believe so. There is no risk involved after you
5 complete your well, except looking at your titles.

6 Q Do you have any further testimony?

7 A No, I don't.

8 MR. BATEMAN: Mr. Examiner, I offer Exhibit Number
9 One which has previously been identified.

10 (THEREUPON, a discussion was held off
11 the record.)

12 MR. STAMETS: I think what we will do is take
13 a short break and you can make a couple copies of this.

14 MR. BATEMAN: Right, and then I will offer it as
15 Exhibit Number Two.

16 (THEREUPON, a short recess was
17 taken.)

18 MR. STAMETS: The hearing will come to order, please

19 Q (Mr. Bateman continuing.) Mr. Patterson, would
20 you identify what has been marked as Exhibit Number Two?

21 A This is a Xerox copy of the statement rendered by
22 Mr. Ross and sent to Texaco. It is dated November 13th. We
23 have stamped it up on the upper right-hand corner as having
24 been received by us on November 20th, 1975. Some of it is
25 illegible but it has the date November 20th and the Land

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1 Department underneath it. We have indicated on here the costs
2 that I mentioned that we were questioning on the first page,
3 are checked and it is written on here, "These costs are
4 incurred beyond the wellhead." This was written by an
5 employee of Texaco. It was written, I believe, by Mr. Les
6 Spencer but I would have to compare the handwriting. As I
7 recall he was the one that looked at it. And over here on
8 the second page is an error of legal expense to date and
9 then the estimated additional expense which we were question-
10 ing of seventy-three hundred dollars.

11 MR. BATEMAN: Mr. Examiner, I offer Exhibits
12 Numbers One and Two.

13 MR. STAMETS: Any objection to these exhibits?

14 MR. HINKLE: No objection.

15 MR. STAMETS: They will be admitted.

16 (THEREUPON, Texaco's Exhibits One and Two
17 were admitted into evidence.)

18 MR. STAMETS: Are there any questions of this
19 witness?

20 MR. HINKLE: I have a few.

21 MR. STAMETS: Mr. Hinkle.

22
23 CROSS EXAMINATION

24 BY MR. HINKLE:

25 Q Mr. Patterson, I believe you stated that Texaco

1 has a small interest, what is this interest, what does it
2 amount to?

3 A. I believe it is a two point one, eight, five percent.
4 Yes, two point one, eight, five percent and this is in the
5 communitized area.

6 Q. Is that brought about by the fact that Texaco has
7 a strip, a roadway, of seven acres down through the middle of
8 the unit?

9 A. I believe that is correct that we have a lease on
10 it.

11 Q. Now, I understand by your testimony that you are
12 not objecting to any of these well costs as shown on the
13 statement that you received on November the 20th, except for
14 the possibility of legal expenses, that is to the amount?

15 A. Right, as to the amounts, to the imposition of a
16 penalty.

17 Q. And that you are objecting to the two hundred
18 percent penalty being applied to the rental of surface equip-
19 ment, seven thousand, three hundred and fifty-four, fifty-nine
20 and to the gas production unit, fourteen thousand, one hundred
21 and eighty one and storage tanks, five thousand, three hundred
22 and forty-eight?

23 A. That is correct.

24 Q. I believe also that you stated that as far as
25 legal expenses are concerned, you would be amenable to the

1 two hundred percent penalty applying to that portion of the
2 legal expense which applied to the forced pooling application,
3 preparing the order and so forth?

4 A. That is correct and we assume that maybe you can
5 clarify this that the eighteen hundred and thirty-four dollars
6 and twenty-four cents is that figure.

7 Q. I don't know. We will clarify that when we get on
8 the stand.

9 A. Okay, fine.

10 Q. Now, did I understand by your testimony that Texaco
11 has not entered into an operating agreement with Bill Ross
12 in this case?

13 A. That is correct. We were force pooled and we have
14 not entered into an operating agreement.

15 Q. And you never offered in any way to pay your way
16 in connection with this well?

17 A. We would not consent under a forced pooling order.

18 MR. HINKLE: That's all I have.

19

20

CROSS EXAMINATION

21 BY MR. STAMETS:

22 Q. Mr. Patterson, in your opinion, when is a well
23 completed?

24 A. I think it is completed when you have installed
25 the equipment in the well to the point that it could produce.

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1 Now, I'm not saying it could produce into tanks but you could
2 turn, in the case of a gas well, I'm a layman, so to speak,
3 but you could turn the valve and it would shoot gas out.
4 I think there are two elements, one is to complete the well
5 physically to produce and the other element is to save that
6 production which is a part of operations. Obviously you don't
7 want to produce your well into the air and if you are going to
8 operate your well, then you have to put on the equipment
9 necessary to save your production and reduce your product to
10 beneficial use. I think it is obviously hard to draw the
11 line. If we didn't have a problem we wouldn't be here today.
12 I think the items beyond the wellhead are items more associated
13 with the operation of the well than the drilling and completion
14 and making a producer out of it.

15 Q. Mr. Patterson, if this seventy-three hundred dollar
16 item, rental of surface equipment were, for example, testing
17 equipment on the well to tell whether or not the well could
18 go on line, whether or not it would be good enough to justify
19 a pipe line in the area, would you consider that a part of
20 the completion of the well?

21 A. Right, on that basis if it was involved in the
22 testing of the well and was rental -- we don't know the nature
23 of this rental, if that's what is involved in this, fine, I
24 would consider it as part of the cost of testing the well,
25 completing the well. Now, if it is for rental of tanks

1 sitting out there right now, that's another matter, but if it
2 is for temporary.

3 MR. STAMETS: Any other questions of the witness?
4 He may be excused.

5 (THEREUPON, the witness was excused.)

6 MR. HINKLE: We have one witness and several exhibits
7 here.

8
9 WILLIAM G. ROSS

10 called as a witness, having been first duly sworn, was
11 examined and testified as follows:

12
13 DIRECT EXAMINATION

14 BY MR. HINKLE:

15 Q Would you state your name and residence?

16 A My name is William G. Ross and I reside in Midland,
17 Texas.

18 Q Are you the same William G. Ross that was the
19 applicant in Case Number 5436 in which forced pooling Order
20 Number R-4980 was issued on March 11th, 1975?

21 A Yes, sir.

22 Q Are you familiar with the Order which we just
23 referred to?

24 A I am, sir.

25 Q Did you furnish to Texaco the statement which was

1 required to be furnished before drilling operations were
2 commenced and immediately after drilling operations were
3 completed?

4 A I did, sir, as far as within the sixty days as
5 set out by the Commission's order. As far as the costs that
6 have been paid to date and the estimated costs up to that
7 time.

8 Q Refer to Exhibit One and explain what that shows?

9 A This is a drilling cost estimate that I prepared
10 prior to the time the well was started and which was furnished
11 to the Texas company.

12 Q And other working interest owners?

13 A And other working interest owners, which was based
14 on the estimate of a well that I had an interest in with
15 Mr. Fasken to the south that was drilled down there.

16 Q What's the total amount there?

17 A It's a total amount of three hundred and ninety-
18 eight thousand, five hundred and forty-four dollars.

19 Q Now, when was the well completed?

20 A The well was completed on August the 13th, 1975.

21 Q Was it completed as a well capable of producing gas
22 in paying quantities?

23 A It was completed in the B zone of the Morrow forma-
24 tion at thirteen million, nine hundred and ten thousand
25 natural.

1 Q Do you have any pipeline connection at the present
2 time?

3 A I do not have one at the present time for the
4 reason that -- you are probably generally aware that securing
5 stack packs and tanks and so forth for gas connections are
6 pretty hard to get ahold of. Now, it took me better than
7 two months after I ordered it to even get it from BS & B
8 then I had to wait to secure a contractor to set these tanks.
9 I had to, under the terms with the land owner, remove all
10 the cuttings from the pits used in drilling the well, as well
11 as the three overflow pits, as well as level the ground and
12 get it back in its natural shape and one of the irrigation
13 ditches ran through the south third of the pad. I was forced
14 to go clear around there and lay a new irrigation ditch and
15 connect with the one on the far side which went onto the
16 road approximately six hundred feet and, of course, on the
17 north side.

18 Now, to get back, now, you kind of ask me what
19 time it is and I start telling you how to make a watch and
20 that is kind of a failing of mine but I wasn't stalling
21 particularly on getting this connection, except that also
22 this gas thing got in it and I'm just now in a position to
23 get this thing connected up and the gas companies wouldn't
24 even make a contract so we don't know what in the hell we
25 could do.

1 Q This is due to the price situation and the pending
2 litigation?

3 A That's right, yes, sir.

4 Q Now, refer to Exhibit Number Two. If the Examiner
5 please, this is the same exhibit that was introduced by
6 Texaco. This is all out of order, but if you don't mind we
7 will introduce it again and I would like Mr. Ross to indicate
8 the total amount as compared with his original estimate.

9 A Now, the estimate, which includes this estimated
10 cost of seventy-three hundred dollars, expense of additional
11 wellhead equipment and dirt work and so forth and so on and
12 it is three hundred and eighty-eight thousand, seven hundred
13 and fifty dollars and ninety-two cents.

14 Q And your original estimate was three hundred and
15 ninety-eight, five forty-four?

16 A Yes, and I'm not going to be far from that as I
17 show the additional costs in there.

18 Q Now, refer to Exhibit Three and explain what this
19 shows?

20 A It shows a list of charges there as objected to
21 by the Texas Company, the BS & B tanks and you gentlemen have
22 a copy of that, or do you, or do you want me to read this, sir?

23 Q No, they have a copy.

24 A Of the tanks and the rental of the surface equipment
25 and I mean, then seven thousand, three hundred and fifty-four

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1 dollars and forty-nine cents.

2 Q Now, explain that, what that was?

3 A That was rental on surface equipment. Now, when I
4 made the report to the Texas Company as was requested by the
5 Commission, I didn't just sit there and itemize every nut and
6 bolt that went down in there, I never thought I was going to
7 be objected to on this thing.

8 That is a five hundred barrel tank used for acetic
9 acid to break a perforation, that sure had to do with the
10 completion of the well.

11 Q Was that part of the rental?

12 A Sir, that's rental.

13 Q Okay.

14 A Now, in drilling this well you have to install a
15 mud separator so that if you blow out you can run your mud
16 through these separators to vent this gas. So you have to
17 rent that and that was rented for two thousand and fifty-nine
18 dollars.

19 You have to have a desander on the well, that's
20 two thousand, eight hundred and forty-six dollars. You have
21 to have a blow-out preventer used in completion of the well,
22 which was four hundred and eight dollars and then on recording
23 and so forth and taking the four point test on completion of
24 the test to see what you have, one thousand, two hundred
25 and sixty-three dollars. That's the seven thousand, three

1 hundred and fifty-four dollars which I don't think --

2 Q In your opinion is all of this equipment necessary
3 in the completion of the well?

4 A You are forced to have it by Commission order, most
5 of that stuff, well, all of it you are.

6 Q All right, now, what about the gas production unit
7 that is shown on the exhibit?

8 A We are talking about the tanks or the stairway and
9 so forth?

10 Q Wait a minute, the gas production unit is the
11 item of fourteen thousand, one hundred and eighty one?

12 A Plus the tax, which makes a total of nineteen
13 thousand, five, twenty-nine.

14 Now, gentlemen, this in my estimation goes into
15 the completion of a well. You have to have this on your
16 well before you ever run this in the pipeline. Now, you say,
17 well, this well is completed when you took your potential and
18 so forth. Coquina, and you can check up on this, drilled a
19 well down there northeast of Carlsbad and completed that well
20 for twenty million cubic feet of gas, somewhere in that
21 neighborhood. They fiddled and fooled around -- what I'm
22 getting around to -- when they finally opened this well up,
23 it exhausted in four days. You can't run this gas in a pipe-
24 line unless you've got these tanks and stack packs and all
25 of this equipment. So actually, in my estimation, a well

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1 isn't completed, a gas well, until you run this a month or
2 two. You don't know what you've got and I think any operator
3 that has operated down in that country can tell you that. It's
4 a necessity to have this on there.

5 Q In other words, what you are saying is that you
6 can't tell what you've got unless you have this equipment to
7 test.

8 A And until you run it into a pipeline for awhile,
9 that's right. Now, this same thing has happened before on
10 these tests. There was one well drilled over here on south
11 and west of me over there and it was shut in for two or
12 three years and they opened it up and it was gone, it
13 wasn't even there, so until you test these wells you don't
14 know what you have and that's what scares me right now, the
15 money I've got tied up in it.

16 Q Well, now, your testimony that you have given, does
17 it refer to the storage tanks, the five thousand, three
18 forty-eight too?

19 A Yes, sir, because this well will produce a certain
20 amount of condensate and you have to separate that and put
21 it in tanks.

22 Q Is this gas production unit a permanent installation?

23 A Yes, sir, it is.

24 Q And the tanks are too?

25 A Yes, sir.

1 Q Now, Texaco has pointed to the legal expenses of
2 eighteen, thirty-four, twenty-four, do you recall what portion
3 that is?

4 A Well, they just pointed to that here and my files
5 are quite voluminous on this and I tried to find it right
6 quick and I couldn't. As I recall this was in checking the
7 east half of this section, which was a unit, to find out who
8 owned what in there. You couldn't tell what the Texas
9 Company had in there until you have checked all of the other
10 leases that were in the unit.

11 Q Was this necessary preparatory to filing the forced
12 pooling action?

13 A That's right, because nobody is going to go ahead
14 and drill a well if they don't have title to whatever they
15 are going to drill it on and we had to find out what Texas
16 Company actually owned.

17 Q Now, there is another item on legal expense of
18 seven, three hundred dollars, which says operating agreements,
19 division order, title examination and so forth, will you
20 explain that?

21 A Well, actually I come pretty close, actually it
22 turned out to be seventy-five hundred. This was to go ahead
23 and I had to force pool, as you gentlemen know, and I had
24 a lot of people involved in this thing and you have that mess
25 of people, some of them have less than one acre, so I had to

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1 get farmouts from them, get them to either join or farmouts
 2 from them and I want to mention right here that everybody in
 3 this unit went along with drilling this well, one way or another,
 4 except the Texas Company and I had to go around and secure
 5 all of this and I couldn't go ahead and drill this well until
 6 I had all of this matter cleared up and was ready to go ahead
 7 and drill it and then after that you get this thing and the
 8 gas company pays you a hundred percent and you've got to
 9 dispose of this money, if that doesn't have something to do
 10 with the drilling of the well to begin with.

11 Q Does that legal expense also include the work
 12 necessary in getting up the division orders?

13 A That's right and that's a big part of it.

14 Q And the circulation of the division orders?

15 A Yes, sir, and I've got Mr. Don Blackmar whom I think
 16 you are all acquainted with, working down there and I haven't
 17 even got a bill off of him yet. I don't know what it's going
 18 to be, three or four thousand dollars more.

19 Q Did you incur additional expenses, have you received
 20 bills for expenses other than those which were shown on
 21 Exhibit Two?

22 A Yes, sir. This is Exhibit Number Four which has to
 23 do with building tank battery graves, a small supervision
 24 made by Bryan Engineering Company, connections used in
 25 hooking up the well, some small credits there and here is an

1 item of two thousand, three hundred and four dollars for
2 a Manomatic safety valve that goes on the Christmas tree
3 that you've got to have. And sixteen hundred and forty-eight
4 dollars for a fiberglass tank. When you break that gas out
5 you get a certain amount of condensate and water which you've
6 got to put in that tank. There is six thousand, four hundred
7 dollars. Now, I had to dig up on these tanks, haul off the
8 dirt and fill it back in and level it. There's five thousand,
9 five hundred and fifty-two dollars.

10 Q In your opinion, were all of these items necessary
11 in connection with the completion of the well?

12 A That's right, and they totaled fifteen thousand,
13 seven hundred and seventeen dollars.

14 Q Now, what about Exhibit Five?

15 A Now, Exhibit Five is an additional amount of
16 seven thousand, one hundred and twenty-two dollars, which
17 includes some work of a construction company to dig up a
18 pipeline and somemore expense on this title work, two
19 hundred and eighteen dollars on clearing this thing up.
20 Delay rentals, you have to pay delay rentals on those
21 leases or lose those, which is a small amount. It cost
22 three thousand, four hundred and seventeen dollars to replace
23 those concrete irrigation ditches that were torn up and then
24 I have a charge of two thousand, eight hundred and sixty-nine
25 dollars for supervision, which was allowed in the drilling of

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1 the well for supervision, so that amounts to another seven
2 thousand one hundred and twenty-two dollars.

3 Q Okay, now, you have already indicated that you did
4 run into some problems title-wise in connection with the
5 pooling. Refer to Exhibit Six and explain what this is and
6 what it shows?

7 A Well, this Exhibit Six is a plat of the area showing
8 the various leases owned by the various companies in the area,
9 their net acre interest and the tract or roadway owned by
10 the Texas Company. I might mention right now and I believe Mr
11 Patterson will back me up on that, they don't even have any
12 title or abstract and that was checked by Mr. Martin who is
13 also with the firm of Hinkle in Midland and they admitted
14 they don't have any title to it and it is now in an estate.

15 Q It was necessary for you to secure abstracts on
16 this whole unit?

17 A On everything but this seven acres and I didn't
18 buy that because Texas Company -- that's their worry. I
19 mean they didn't join the lease.

20 Q Now, in addition to the ownership of the forty point
21 twenty-one hundredth acres which is in the northwest portion
22 of that, I believe, were the other owners involved which you
23 had to deal with?

24 A In this fifty, three thirty-sevenths?

25 Q Yes, in the northwest forty acres?

1 A. Yes.

2 Q. Now, refer to the next Exhibit, Seven.

3 A. Yes, sir.

4 Q. Exhibit Seven shows all of the other owners
5 involved in the forty-acre tract?

6 A. Yes, sir, that is correct, there are twenty-four
7 owners in there of which Hanson Oil Company had twenty-five
8 acres, Western Oil Producers had twenty-five and the remainder
9 was owned by twenty-two other parties, all who farmed out,
10 they gave me the lease for an override, subject to backing.

11 Q. So it did involve dealing with a whole lot of
12 parties in getting the well ready to drill?

13 A. That's right.

14 Q. Is it customary in getting up a block and drilling
15 a well of this kind to treat these expenses in getting the
16 block together and your title examination and all of the
17 work that is necessary as a part of the cost of drilling that
18 well?

19 A. Yes, I have a few parties that have some interest
20 in this well with me. I have a large interest. And they
21 haven't kicked on this, they paid their way, they are all
22 paid right up to date.

23 Q. There has been no one but Texaco that has raised
24 any question about any of these items?

25 A. That's right. Now, Texaco says in their letter here

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1 that it's the custom and I would like to quote that and it
2 might be I'm getting sarcastic here, but it says here that it
3 is the custom in the oil business, accepted, on this operating
4 agreement. Well, gentlemen, I never signed an operating
5 agreement. I've never even been contacted directly by the
6 Texas Company.

7 It's a custom in the oil business to help people
8 drill wells and if you've got acreage or interest in there you
9 farmout or you give them dry hole money or you do something
10 for them but it is the custom of the Texas Company to do
11 nothing and I'm sincere when I say that. I've run into them
12 before, that isn't the first time and I see some gentlemen
13 right in this room that will say the same thing, so I don't
14 know how they can say, here, this is the custom, do this, this
15 is what we want to do, now, we aren't going to help anybody
16 but the custom here is that you ought to do that.

17 Q In your opinion was it necessary for you to incur
18 all of the items of expenses which have been shown by the
19 statement that has been presented here to our exhibits, in
20 drilling and completing the well?

21 A Yes, sir.

22 Q Are those items a necessary part of the cost of
23 drilling and completing the well?

24 A Yes, sir, and if there is any question about this
25 stack pack and the stock tank and all of this other equipment

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1 you put in here, take a look at that Coquina well and see
2 what happened to it. Mr. Patterson said, well, you've got
3 some salvage value, well, you buy a new car and drive it
4 around the block you have lost money, you buy some oil field
5 equipment and try to get rid of it the next day and see what
6 happens to it.

7 Q Now, on these items which Texaco is questioning,
8 you would only be reimbursed one hundred percent, are you
9 going to be out that money and the others that are involved
10 be out that without any interest and so forth?

11 A We put up the money for the tanks and everything
12 and then the Texas Company wants us to put up this money buying
13 the wellhead without any interest -- oh, we'll get some
14 money back and then they say, you give us our two point one
15 percent of that if you get your money back, no interest on
16 our money, no penalty or nothing. I don't think that's fair.

17 Q So, it is your position on all of these items
18 that the risk factor, two hundred percent, should apply?

19 A Yes, sir.

20 MR. HINKLE: That's all. We would like to offer
21 Exhibits One through Seven.

22 MR. BATEMAN: No objection.

23 MR. STAMETS: They will be admitted into evidence.

24 (THEREUPON, Ross's Exhibits One through
25 Seven were admitted into evidence.)

1 MR. STAMETS: Are there any questions of the witness?

2 MR. BATEMAN: Just a couple, Mr. Examiner.

3

4

CROSS EXAMINATION

5 BY MR. BATEMAN:

6 Q Mr. Ross, your testimony had to do with the gas
7 production unit, you indicated that those items were difficult
8 to get, is that correct?

9 A Well, I say difficult to get, it is hard to obtain
10 them when I obtained them because there is a lot of drilling
11 going on down there in Pecos County and this stuff is made to
12 order. Now, this can be usually my -- the veracity of my
13 statement can be checked very easily with the S & B Tank
14 Company. And they had to go make those tanks and make the
15 stairway and make the whole thing. There was a shortage of
16 pumping units around here for a long time, as you may well have
17 been aware of. You just couldn't buy a pump. If you would buy
18 a pump they would come back and ask for it, but it did take
19 me approximately two months, if I remember right, two months
20 or six weeks to get that equipment.

21 Q What is the major source of supply for the gas
22 for that gas production, BS & B or whatever you testified to?

23 A Well, all of the equipment came from BS & B and
24 I would be glad to give you a copy of that bill.

25 Q I would like to have that bill.

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1 A. Well, it's in there, yes, it should be in there.

2 Q. Where is it?

3 A. Well, I don't know, we have a copy of it.

4 Q. My question was, what was the principal source of
 5 supply for the gas production units?

6 A. They are made over in Odessa.

7 Q. By BS & B?

8 A. That's right, at least that's who I bought mine
 9 from.

10 Q. Okay. Would the gas production units you have be
 11 usable at any other well location?

12 A. Oh, yes, it would. It's like a pumping unit, but
 13 if you buy it and use it then you've got your secondhand
 14 equipment.

15 Q. All right, now, you mentioned Don Blackwell, something
 16 he --

17 A. Blackmar.

18 Q. Blackmar?

19 A. Don Blackmar, he's, you might say, a title man that
 20 works in Odessa, yes, sir. I haven't got his bill yet. Now,
 21 he got all of this farmout equipment so I could get this thing
 22 in shape where I could drill a well and he is now securing
 23 signatures.

24 Q. He is not an attorney but he is doing the leg work?

25 A. He is doing the leg work for this reason, he knows

1 all of these people, and this is a complicated thing to get
2 into. When I come down the road they don't know me but they
3 know Don Blackmar and if he says, this is right, then he will
4 sign it. Besides I've got something else I've got to do
5 besides doing that.

6 MR. BATEMAN: I understand. No further questions.
7

8 CROSS EXAMINATION

9 BY MR. STAMETS:

10 Q Mr. Ross, if the statute concerning forced pooling
11 permits the imposition of a risk factor, in this case two
12 hundred percent as a risk. Let me read the statute.
13

14 The last part of the statute in question says:
15 (Reading.) But which shall include, referring to the Commission
16 order, a reasonable charge for supervision and may include
17 a charge for the risk involved in the drilling of such well,
18 which charge for risk shall not exceed two hundred percent of
19 the non-consenting working interest owner or owners prorated
20 share of the cost of drilling and completing the well. (End
21 of reading.)

22 Now, if we just assume for the moment that that
23 risk factor is put in there to assure that the people who put
24 up the money, not only get their money back but are compensated
25 for the risk they take that they might not get it back on a
well. In your opinion, would the completion include not only

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Phone (505) 982-9212

1 the work you do in downhole and the wellhead but the surface
2 equipment, the tanks and so forth?

3 A. Yes, for the reason I have stated that you don't
4 know what you have until you have produced this well for
5 awhile, so you have to have this equipment.

6 Q. Now, the previous witness said that you took less
7 risk on surface equipment because you could go out and peddle
8 that as used equipment more easily. Well, obviously you can't
9 go out and peddle the hole that's in the ground, you can peddle
10 the pipe that's in it there. Would the surface equipment be
11 much different than, say, the tubing or the wellhead equipment?

12 A. No, the tubing and a certain amount of casing you
13 might recover from the well.

14 Q. So, it's your opinion that everything could be
15 charged?

16 A. I think this is everything. Now, I don't want to
17 appear sour on this thing and I tried to keep from doing
18 that, but I am a little bit and I think you guys would be
19 too. We are in an energy shortage and we are trying to get
20 something done and if somebody don't -- I've got property
21 and if they come along -- Mr. Krueger out there will testify
22 he is trying to get some stuff right now. I said I will do
23 this or that and I'm going to do something. I'm not going to
24 say that I'm doing nothing and they have got to set this
25 up to where these companies are either going to help these

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1 independents or help other companies, but why do they buy
2 these leases if they aren't going to do anything. They say,
3 well, we'll just let him go down the road until he gets a
4 well and then we will close in on him and cut him off.

5 Q If the Commission's decision in this case were to
6 be favorable to you, could you see any way that others might
7 abuse this privilege?

8 A No, sir, I don't because, sir, Commissioner, if
9 anybody goes in there and gets in the same position I'm in
10 they are going to have to do the same thing.

11 Now, if it is approved in my favor, I think this
12 thing should be settled. If it is approved in my favor
13 then somebody can write you down and say, well, we will go ahead
14 and let him have the two hundred percent at the wellhead but
15 then we will let him put up the rest of the money for the other
16 equipment that he claims is beyond the wellhead expense and
17 then when it is paid for, we are not even out any interest
18 on that money and we get our interest that we've got
19 a proportionate interest in the equipment.

20 Now, we are not talking about, assume this, just
21 assume this, Mr. Commissioner, if this legal expense is legal
22 and I know it is because I had to do it to drill my well,
23 we are boiling down to the case of the stack pack and the
24 tanks and you take two percent of that and you are looking
25 at three hundred and sixty-six dollars or a total of seven

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1 hundred and thirty-two dollars on two point two percent,
2 that's all of the money you are talking about. I'm not
3 here to talk about money, it's the principle of the thing.

4 MR. STAMETS: Any other questions of the witness?

5 He may be excused.

6 (THEREUPON, the witness was excused.)

7 MR. STAMETS: Anything further in this case?

8 MR. BATEMAN: I would like to make a very brief

9 statement.

10 Mr. Examiner, what we are dealing with here clearly
11 is a question of statutory interpretation. I draw your
12 attention to the language of the statute involved which
13 refers, I submit, to four different kinds of costs involved,
14 if I may just read briefly from it, which is Article 65-3-14.
15 (Reading.) Such pooling order of the Commission shall make
16 definite provision as to any owner or owners who elect not
17 to pay his proportionate share in advance of the prorata
18 reimbursement solely out of production to the parties advancing
19 the cost of development and of operation which shall be
20 limited to the actual expenditures required for such purpose
21 but not in excess of what is reasonable, which shall include
22 a reasonable charge for supervision and may include a charge
23 for risk in drilling a well, which charge for risk shall not
24 exceed two hundred percent of the consenting working interest
25 owner or owners prorata share of the cost of drilling and

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Phone: (505) 982-9212

1 completing the well. (End of reading.)

2 Obviously the risk then is limited to the cost of
3 drilling and completing the well. I think that is clear. I
4 think the earlier reference on that bears some consideration
5 and that references the cost of development and operation,
6 which the statute clearly indicates that the operator is
7 entitled to recover one hundred percent of his cost incurred
8 in development and operation expenses.

9 We submit that the well is complete and all of the
10 equipment in the wellhead is installed in a producing well.
11 We further submit, and I think this is borne out by the custom
12 of the industry which is indicated by the operating agreement
13 which you have as an exhibit, that the cost of surface equip-
14 ment and the equipment beyond the wellhead, including
15 expense beyond the wellhead is an operating or development
16 expense to which the two hundred percent risk should not
17 apply. I would include in that the legal expense involved,
18 the expense involved in obtaining division orders, obtaining
19 signatures on operating agreements, et cetera and in addition
20 the initial expense of title examination is a development
21 expense to which the risk factor should not apply.

22 Now, I would ask the Commission to focus attention
23 on the language used and, of course, that is drilling and
24 completing a well. It does not take into consideration all
25 of the risk involved. Obviously I would concede that any time

1 you invest money of any nature in the drilling of a well, it
2 is of a speculative nature and you may not get a return. On
3 the other hand you may get a substantial return. I don't
4 think that is what we are dealing with here.

5 Lastly, Mr. Ross testified as to the difficulty in
6 obtaining some of the surface equipment and I don't hold myself
7 out to be an expert but I know how supply and demand works and
8 in most markets, I submit that, if the gas production unit is
9 a difficult item to get and people have producing wells which
10 are not being produced because of the lack of surface equip-
11 ment, I submit that there is an adequate market for it should
12 this well not pay out and, therefore, there would be a
13 substantial possibility of recovery of the cost of that
14 equipment, so it should not be considered as being a risk
15 factor.

16 MR. HINKLE: I think the Examiner has already pointed
17 out what the statute provides and when you read part of the
18 statute, that the two hundred percent penalty relates to
19 non-consenting working interest owner or owners prorata share
20 of drilling and completing the well. Now, I think it is
21 admitted that there is no specific definition, either in the
22 statute or in the order, as to what makes up those items.

23 Texaco has referred to an operating agreement which
24 has been used quite extensively and so forth, which does
25 try to define those items. In this case there was no

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1 operating agreement entered into and this case has to be
2 governed solely and only by the wording of the statute and
3 by the wording of the order. Now, the testimony of Mr. Ross
4 clearly indicates that all of these items that have been listed
5 on these various statements are necessary in the drilling and
6 the completion of the well. Now, he couldn't have tested
7 this well unless he had some of this surface equipment. It
8 just would have been impossible, so if that is necessary to
9 test the well, it is necessary in the completion of the
10 well and that is the broad interpretation of what the words,
11 "completing a well" means. You have got to do everything that
12 is necessary in connection with it, making it ready and if
13 it proves out to be a well in paying royalties, preparatory
14 to making a deal with a gas purchaser to put it on the line.

15 I think all of those things that enter into a
16 contract are absolutely essential and are included in the
17 language "completing a well". For that reason we disagree
18 with Texaco and their position on this thing. We feel that
19 the penalty should apply to all of these items.

20 Now, as far as the legal expenses are concerned,
21 if Texaco desires it or the Commission desires it, we can
22 give a break down of just what all items went into that legal
23 expense, but this was a complicated title as indicated by
24 the exhibit there and everything that went into it and it
25 required a lot of time and a lot of people involved and after

1 the well was completed it was necessary to again check the
2 title, bring it up to date and prepare the division orders
3 to get it on production.

4 Now, that in my opinion too, is just as much a
5 part of the cost of the completion of the well as anything
6 else. I think that you will find that all of the major
7 companies and operators consider all these costs for their
8 records as a part of the cost of drilling and completing the
9 well. If it has to be capitalized, those costs go in there
10 as a capital investment, outside of the intangible costs.
11 They are all charged up as an accounting principle as a part
12 of the cost of drilling and completing the well. That's
13 all.

14 MR. STAMETS: Mr. Hinkle, if I can summarize a little
15 bit what you have said there, I interpret your closing
16 statement to mean that you believe that regardless of what
17 may be defined as completing a well somewhere else, for the
18 purposes of the statute and the order issued, the Commission
19 may determine what a completed well constitutes?

20 MR. HINKLE: Well, I think we have to determine it
21 on the basis of the evidence presented here. I don't think
22 you can just reach out and determine it on something else but
23 on the basis of the record you can make a determination of
24 what constitutes a completed well.

25 MR. STAMETS: Anything further?

1 MR. BATEMAN: One statement in rebuttal.

2 MR. STAMETS: You may.

3 MR. BATEMAN: Mr. Examiner, I think it is a clear
4 cut principle of law that if there is no definition existing
5 in the statute or contract, for instance, the courts look to
6 the conduct of the parties or what is customary in the
7 industry. What comes to my mind immediately is Article One
8 of the Uniform Commercial Codes, which is universal in the
9 United States and it has specific language having to do with
10 contract interpretation and it states, as I recall, that if
11 there is no definition available then the court must first
12 look to the conduct of the parties and if the conduct of
13 the parties does not decide the question, then the court looks
14 to what is customary in the industry and I would submit then
15 that the form to look to is the operating agreement which
16 we have in evidence which Mr. Hinkle has already pointed out
17 is in wide use in the industry. That settles the question of
18 when a well is completed. Thank you.

19 MR. STAMETS: Is there anything further? We will
20 take the case under advisement.
21
22
23
24
25

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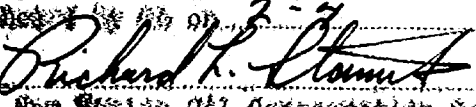
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REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand Reporter,
do hereby certify that the foregoing and attached Transcript
of Hearing before the New Mexico Oil Conservation Commission
was reported by me, and the same is a true and correct record
of the said proceedings to the best of my knowledge, skill and
ability.


Sidney F. Morrish, C.S.R.

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

I do hereby certify that the foregoing is
a complete record of the proceedings in
the hearing of Case No. 5622
held at Santa Fe, N.M., on 3-7-76

Richard H. Stamm, Secretary
New Mexico Oil Conservation Commission



DIRECTOR
JOE D. RAMEY

OIL CONSERVATION COMMISSION

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

LAND COMMISSIONER
PHIL R. LUCERO
April 1, 1976



STATE GEOLOGIST
EMERY C. ARNOLD

Mr. Ken Bateman
White, Koch, Kelly & McCarthy
Attorneys at Law
Post Office Box 787
Santa Fe, New Mexico

Re: CASE NO. 5622
ORDER NO. R-5186

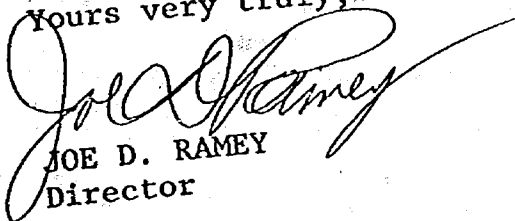
Applicant:

Texaco Inc.

Dear Sir:

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

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC X
Artesia OCC X
Aztec OCC

Other Mr. Clarence Hinkle

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
Texas EXHIBIT NO. 1
CASE NO. 5622

12. OPERATIONS BY ~~LESS THAN ALL PARTIES~~

Submitted by Applicant

Hearing Date FEB 4, 1976

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value.

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it and from and after such reversion such Non-Consenting Party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the accounting procedure schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

WM. G. ROSS
OIL INVESTMENTS
BOX 86
MIDLAND, TEXAS 79701

NOVEMBER 13, 1975

Submitted

REV 20 1975

LAND DEPT.

In re: Eddy County, New Mexico
Oil Conservation Commission of New Mexico
Case No. 5436 - Order No. R-4980

Drilling and Completion Costs of Wm. G. Ross
No. 1 A. O. Rogers Comm.
SE/4 SE/4 Section 3, 18-South, 26-East

Footage and Day Work Drilling Cost	9050' @ 14.53/	\$ 131,344.34
Water		2,500.00
Drilling Mud		25,691.14
Cementing Services & Supplies - Surface and Intermediate Casing		12,302.68
Wellhead and Christmas Tree Equipment		12,441.89
Surface, Intermediate, Gas String and Tubing		100,013.78
Road, Pad, Cattle Guard & Damages		9,865.04
Matting Boards and Liner For Reserve Pits		1,863.68
Location Surveying		104.00
Schlumberger Well Logging		13,464.90
Drill Stem Testing - Three		3,778.58
Miscellaneous Service & Supplies		685.76
Geological Service		2,301.62
Supervisory Engineer Expense by Jas. O'Briant Eng. Service.		8,005.40
Double Derrick Pulling Unit		1,989.59
Half Cost Casing		931.07
Cementing Service & Supplies - 1 1/2" Casing - Gas String		7,641.37
Perforating		2,354.15
Stimulation Service		1,146.00
Rental of Surface Equipment		7,351.59
Back Pressure Test & WHP Build Up		506.25
Tubing Testing		2,222.42
Anchors		291.20
Welding		869.00
Gas Production Unit		14,181.00
Storage Tanks		5,348.00

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
<u>Texaco</u> EXHIBIT NO. <u>2</u>
CASE NO. <u>5622</u>
Submitted by <u>Applicant</u>
Hearing Date <u>FEB. 4, 1976</u>

These costs are incurred beyond the well head.

Miscellaneous Service & Supplies

140.23

Drilling Well and Monthly Supervision

2,479.00

Legal Expense to date

1,831.21

TOTAL

\$372,650.92

ADDITIONAL ESTIMATED EXPENSE

Legal Expense - Operating Agreements - Division Order Title Examination
etc.

7,300.00

Expense of Additional Well Head Equipment

2,300.00

Well Hook Up Expense - Dirt Work - Trucking Charges, etc.

6,500.00

TOTAL

\$388,750.92

WM. G. ROSS
OIL INVESTMENTS
BOX 86
MIDLAND, TEXAS 79701

NOVEMBER 13, 1975

Midland District

REV 2-1975

LAND DEPT.

In re: Eddy County, New Mexico
Oil Conservation Commission of New Mexico
Cast No. 5436 - Order No. R-4980

Drilling and Completion Costs of Wm. G. Ross
No. 1 A. W. Rogers Comm.
SE/4 SE/4 Section 3, 18-South, 26-East

Footage and Day Work Drilling Cost	9050' @ \$14.53/	131,344.34
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Road, Pad, Cattle Guard & Damages		9,865.04
Matting Boards and Liner For Reserve Pits		1,863.68
Location Surveying		104.00
Schlumberger Well Logging		13,464.90
Drill Stem Testing - Three		3,778.58
Miscellaneous Service & Supplies		685.76
Geological Service		2,301.62
Supervisory Engineer Expense by Jas. O'Briant Eng. Service.		8,005.40
Double Derrick Pulling Unit		1,989.59
Half Coat Casing		931.07
Cementing Service & Supplies - 4 1/2" Casing - Gas String		7,641.37
Perforating		2,354.15
Stimulation Service		1,146.00
Rental of Surface Equipment		7,354.59
Back Pressure Test & BHP Build Up		506.25
Tubing Testing		1,222.42
Anchor		291.20
Welding		869.00
Gas Production Unit		14,181.00
Storage Tanks		+ 5,348.00

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION

EXHIBIT NO. 2

CASE NO. 5622

Submitted by Applicant

Hearing Date FEB 4, 1976

219529

These costs are incurred beyond the well head

Texas does not question the
amount of these expenses - only the
applicability of the 200% risk factor P. 7

Miscellaneous Service & Supplies

140.23

Drilling Well and Monthly Supervision

2,472.00

Legal Expense to date

1,831.21

TOTAL

\$372,650.92

ADDITIONAL ESTIMATED EXPENSE

Legal Expense - Operating Agreements - Division Order Title Examination etc.

7,300.00

Expense of Additional Well Head Equipment

2,300.00

Well Kick Up Expense - Dirt Work - Trucking Charges, etc.

6,500.00

TOTAL

\$388,750.92

*Legal expense
prior to pooling area*

*Texaco does not
object to the 200%
risk factor being
applied to such
expenses PPN #18
also P13*

*73.00
23.00
45.00
141.00*

BOX 913
RUIDOSO, NEW MEXICO
PHONE 257-4313

WM. G. ROSS
OIL INVESTMENTS

BOX 88
MIDLAND, TEXAS 79701

June 17, 1975

BUS. PHONE 683-1412
RES. PHONE 682-2983

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION

EXHIBIT NO. 1

CASE NO. 5622

Submitted by Bill Ross

Hearing Date 2-4-76

In re: Wm. G. Ross No. 734 Eddy County, New Mexico
New Mexico Conservation Commission Case #5436
Order No. R-4980
Estimated Cost to Drill and Complete
Wm. G. Ross
#1 A. Q. Rogers
660' FLS & 660' FEL
Sec. 3, T-18-S, R-26-E
Eddy County, New Mexico

DRILLING COST ESTIMATE

Footage Drilling Cost 9200' @ \$12.25	\$112,700.00
Day Work Cost - 6 days at \$2,800.00	16,800.00
Water	2,500.00
Drilling Mud	13,500.00
Cementing Services & Supplies	7,500.00
Wellhead Equipment	2,500.00
Conductor Casing - 40' of 20"	600.00
Surface Casing - 1250' of 13 3/8"	18,170.00*
Intermediate Casing - 2200' of 8 5/8"	15,959.00*
Road, Pad, Cattle Guard & Damages	15,000.00
Matting Boards	1,000.00
Trucking, Welding & Rental	2,000.00
Surveying of Location	104.00
Logging	13,500.00
Drill Stem Testing - 4 at \$1,200.00	4,800.00
Miscellaneous Services & Supplies	2,500.00
Geological & Supervisory Expense	5,000.00
TOTAL	\$234,133.00

Plugging Cost - If Dry - Hauling off Pits & Road

*Includes 4% New Mexico Sales Tax.

5,000.00
239,133.10
2.5 = 4782.46
2.5 = 5978.32

BOX 913
RUIDOSO, NEW MEXICO
PHONE 257-4313

WM. G. ROSS
OIL INVESTMENTS
BOX 88
MIDLAND, TEXAS 79701
PAGE NO. 2

BUS. PHONE 683-1412
RES. PHONE 682-2983

COMPLETION COST ESTIMATE

Double Derrick Pulling Unit - 120 hours @ 55	36,600.00
Oil String Casing - 9200' 4 1/2" - 4 1/2"	37,108.00 *
Ruff Cost	600.00
Cementing Services & Supplies	5,000.00
Logging, GR, CCL & Perforating	4,000.00
Packer	1,200.00
Tubing Head w/Valves	3,000.00
Christmas Tree	3,500.00
Stimulation Service	30,000.00
Rental of Surface Equipment	1,500.00
Back Pressure Test & BHP Build Up	1,500.00
Roustabout Labor	4,000.00
Tubing - N-80 - 9200'	23,353.00*
Tubing Testing	2,000.00
Anchors	300.00
Welding	750.00
Trucking	1,000.00
Gas Production Unit	20,000.00
Storage Tanks	8,000.00
Valves, Piping & Connections	4,000.00

(OVER)

BOX 913
RUIDOSO, NEW MEXICO
PHONE 257-4313

WM. G. ROSS
OIL INVESTMENTS
BOX 88
MIDLAND, TEXAS, 79701

BUS. PHONE 683-1412
RES. PHONE 682-2983

PAGE NO. 3

COMPLETION COST ESTIMATE - CONTINUED

Miscellaneous Service & Supplies - - - - -	\$2,000.00
Dirt Work - - - - -	2,000.00
Supervision - - - - -	<u>3,000.00</u>
TOTAL	\$164,411.00

TOTAL DRILLING & COMPLETION COST ESTIMATES

\$398,544.00

*Includes 4% New Mexico Sales Tax

$\times 28 = 11970.88$
 $\times 280 = 9963.60$

Wm. G. ROSS
OIL INVESTMENTS
BOX 86
MIDLAND, TEXAS 79701

BEFORE EXAMINER STAMETS NOVEMBER 13, 1975
OIL CONSERVATION COMMISSION

Ross EXHIBIT NO. 2
CASE NO. 5122
Submitted by Bill Ross
Hearing Date 2-4-76

In re: Eddy County, New Mexico
Oil Conservation Commission of New Mexico
Cast No. 5136 - Order No. P-4980

Drilling and Completion Costs of Wm. G. Ross
No. 1 A. Q. Rogers Comm.
SE/4 SE/4 Section 3, 18-South, 26-East

Footage and Day Work Drilling Cost	\$ 131,344.34
Water	2,500.00
Drilling Mud	25,691.14
Cementing Services & Supplies - Surface and Intermediate Casing	12,302.68
Wellhead and Christmas Tree Equipment	12,441.89
Surface, Intermediate, Gas String and Tubing	100,013.78
Road, Pad, Cattle Guard & Damages	9,865.04
Matting Boards and Liner For Reserve Pits	1,863.68
Location Surveying	104.00
Schlumberger Well Logging	13,464.90
Drill Stem Testing - Three	3,778.58
Miscellaneous Service & Supplies	685.76
Geological Service	2,301.62
Supervisory Engineer Expense by Jas. O'Briant Eng. Service.	8,005.40
Double Derrick Pulling Unit	1,989.59
Ruff Coat Casing	931.07
Cementing Service & Supplies - 4 1/2" Casing - Gas String	7,641.37
Perforating	2,354.15
Stimulation Service	1,146.00
Rental of Surface Equipment	7,354.59
Back Pressure Test & BHP Build Up	505.25
Tubing Testing	1,222.42
Anchors	291.20
Welding	869.00
Gas Production Unit	14,181.00
Storage Tanks	5,348.00

Miscellaneous Service & Supplies
Drilling Well and Monthly Supervision
Legal Expense to date

140.23
✓ 2,479.00
1,834.24
TOTAL \$372,650.92

✓ INCREASE IN 1-23-76
5-7-76
ADDITIONAL ESTIMATED EXPENSE

Legal Expense - Operating Agreements - Division Order Title Examination
etc.

7,300.00

Expense of Additional Well Head Equipment

2,300.00

Well Hook Up Expense - Dirst Work - Trucking Charges, etc.

6,500.00

TOTAL

\$388,750.92

WM. G. ROSS /1 A. Q. ROGERS COMM.

LIST OF CHARGES OBJECTED TO BY TEXACO

Charge by BS&B for 2 tanks, walway, stairway, etc. Code Separator,
Heater Shell, Firebox, Choke actuator. \$19,529.00

Rental on Surface Equipment

500 barrel tank rental - used for acid to break perforations. \$277.68

Labor to hook up mud separator (used in drilling of well) 418.08

Rental on #4 cone desander unit. Delivery charge and labor to
hook up to well. Used in drilling of the well. 2,846.71

Rental on N-M Gas Mud Separator, delivery charge, welder,
labor to disconnect, etc. 2,059.72

Blow out Preventer used in completion test of well. 408.80

Rental on Pit Level Recorder #248 and rental on Flow Alert
Recorder #642 and Flow Meter #447 used in completion test
of well. 1,263.60

\$7,354.49

GRAND TOTAL \$26,883.59

PHOTOSTATS OF PAID INVOICES ATTACHED TO THIS STATEMENT

BEFORE EXAMINER STAMETS	
OIL CONSERVATION COMMISSION	
<u>Ross</u>	EXHIBIT NO. <u>3</u>
CASE NO. <u>5622</u>	
Submitted by <u>Bill Ross</u>	
Hearing Date <u>2-4-76</u>	



MANUFACTURING

A Division of Black, Stivell & Bryson, Inc.



A Subsidiary of International Systems & Controls Corporation

MAIL REMITTANCES TO: BS&B MANUFACTURING
P. O. BOX 100138
HOUSTON, TEXAS 77094

INVOICE

CUSTOMER'S ORDER Verbal	CUSTOMER'S REQUISITION	ORDERED BY Mr. Ross	PLANT Mesquite	SHIPPED FROM	SO NUMBER	QUOTATION NUMBER 75-130-1438
DATE OF DELIVERY	SHIPPED VIA	PRE-PD OR COLL.	NEAREST STOCKING POINT	MILEAGE ONE WAY	LABOR & MATERIAL REPORT NO'S JOB No. 04997	

SOLD TO

- William G. Ross
- P. O. Box 80
- Midland, Texas 79701

SHIPPED TO Awaiting shipping instructions

COUNTY

STATE

10	REF. OR SALES NO.	CHG. TICKET NO.	INVOICE DATE 10-24-75	INVOICE NO. 30615
TERMS: NET 30 DAYS FROM DATE OF INVOICE				
QUAN.	DESCRIPTION	UNIT PRICE	MULTIPLE	TOTAL

WE INVOICE YOU FOR (1) HS-IN-EPUS PRODUCTION UNIT

\$14,181.00

W.S. 01-1 20" x 10' 1000# WP CODE SEPARATOR
Serial No. 049970101

W.S. 02 - 1 1000 IN HEATER SWELL
Serial No. 049970201

W.S. 03-1 1000 IN FIREBOX
Serial No. 049970301

W.S. 04-1 COIL, 12-2-3 D/P (8 & 4) WITH T.C.
CHOKER & ACTUATOR
Serial No. 049970401

W.S. 05-1 SKID & ASSEMBLY

NOTE: FREIGHT CHARGES TO FOLLOW

CUSTOMER NUMBER

PO 11-3-75

#59

TANKS

\$ 5,348.00

\$ 14,181.00

\$ 19,529.00

0530-01. \$14,181.
2900 \$14,181.

MERCHANDISE MAY NOT BE RETURNED WITHOUT WRITTEN CONSENT AND SHIPPING INSTRUCTIONS FROM THE SELLER.
IN NO CASE WILL WE BE RESPONSIBLE FOR LOSS OF CONTENTS OF VESSELS NOR FOR DAMAGES CAUSED BY SUCH LOSSES.

As to the items covered by this invoice, the seller represents full compliance (1) with Section 12a of the Fair Labor Standards Act of 1938, as amended, (2) with the pricing provisions of the price stabilization act, and (3) with all other Federal statutes and regulations applicable to the seller.

Interest at ten percent per annum on account not paid at maturity.



MANUFACTURING

A Division of Black, Shalts & Bryson, Inc.



A Subsidiary of International Systems & Controls Corporation

MAIL REMITTANCES TO: BS&B MANUFACTURING
P. O. BOX 100138
HOUSTON, TEXAS 77094

INVOICE

CUSTOMER'S ORDER	CUSTOMER'S REQUISITION	ORDERED BY	PLANT	SHIPPED FROM	SO NUMBER	QUOTATION NUMBER
Verbal		Mr. Ross	Odessa			75-630-1439
DATE OF DELIVERY	SHIPPED VIA	PRE'PD OR COLL.	NEAREST STOCKING POINT	MILEAGE ONE WAY	LABOR & MATERIAL REPORT NO'S	
					Job No. 04998	

SOLD TO • William C. Ross
• P. O. Box 86
• Midland, Texas 79701

SHIPPED TO
COUNTY
STATE
Awaiting shipping instructions

TERMS: NET 30 DAYS FROM DATE OF INVOICE		REP. OR SALES NO.	CHG. TICKET NO.	INVOICE DATE	INVOICE NO.
				10-24-75	30616
QUAN.	DESCRIPTION	UNIT PRICE	MULTIPLE	TOTAL	

2 10' x 15' 1/4-3-3 PB P&H WELDED TANKS
Serial Nos. 0463301 & 046330102 2,674. ea. \$5,348.00

ALSO INCLUDES:

- 6' 26" WIDE PAINTED WALKWAY
- 1' 26" WIDE PAINTED STAIRWAY FOR 15' HIGH TANKS
- 1 SET DOUBLE WALKWAY BRACKETS

NOTE: FREIGHT CHARGES TO FOLLOW

CUSTOMER NUMBER

0530-01 \$5,348.00
2900 \$5,348.00

MERCHANDISE MAY NOT BE RETURNED WITHOUT WRITTEN CONSENT AND SHIPPING INSTRUCTIONS FROM THE SELLER.
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Interest at ten percent per annum on account not paid at maturity.

THE FIRST NATIONAL BANK
MIDLAND, TEXAS
PHONE MU 3-4231



728
7,354.59

Phone (505) 393-9610



Mail Remittance
Box 2395
Hobbs, N. M. 88240

TO Williams G. Ross
P. O. Box 86
Midland, Texas 79701

Date Aug. 7, 1975
Your Order No. 805
Invoice No. 2360
Our Field Receipt Rogers #1
Location

	UNIT PRICE	TOTAL
1 500 bbl. Tank Rental 5-day Minimum	125.00	\$ 125.00
4 Hr. Transportation from yard to location	17.75	71.00
4 Hr. Transportation from location to yard	17.75	71.00
		<hr/> 267.00
4% New Mexico Tax		10.68
		<hr/> \$ 277.68

Ho 8/12/75

QD 9-4-75
#26

INVOICE

Day or Night
Phone 805 885-5800

Pecos Valley Construction, Inc.

P. O. BOX 1167
CARLSBAD, NEW MEXICO 88220

No. 2013

FOR William Ross

Date 7-11, 1975

LEASE Rogers #1

Order No.

Hooked up mud separator.

\$418.08

C. aid 9-4-75
#29

Ho
8/4/75

Truck No.

Signed

SUPERIOR — FORM NO. 1

Rogers Valley Construction, Inc.

Day or Night
Phone 505 885-5800

P. O. Box 1167
CARLSBAD, NEW MEXICO 88226

FOR William Ross

Date 7-11, 19 75

LEASE Rogers #1

Order No. _____

Hours	Rate	Amount	Equipment Used	DESCRIPTION OF WORK PERFORMED
12	850	102 00	Truck w/hoist	Hooked up mud separate
12	700	84 00	Pusher	
36	600	216 00	Roustabouts	
		402 00		
4 1/2 Tax		16 08		
		418 08		
Employee Time				
Pusher - J. Franco				
Roustabouts - J. Pina				
C. Brooks				
B. Meyers				
Truck No.				Signed _____

Phone 396-2422 — P. O. Box 1673
LOVINGTON, NEW MEXICO 88260

Charge To: William G. Ross

Street or Box Number Box 36

City Midland State Texas

Lease Rogers Well No. 1 Company Moranco Rig #5

9
#37
4.906
4²
TOTAL

Total 2346.71

TERMS: Net Cash — No Discount. All charges are due and payable by the 20th of the month following date of invoice.

CONDITIONS: Rentals will be charged for entire number of days equipment is in use at said location, also charges will be made for any lost or damaged equipment.

396-202-1

FROM

To

SHIPMENT	DISTANCE	DISTRICT	WORK SHEET NO.	CUSTOMER'S ORDER NO.
I.C.C. <input type="checkbox"/>				
INTRA <input checked="" type="checkbox"/>		Truck #51		Bob Smith
NON-REG. <input type="checkbox"/>				

6-24-75

44485

HOME ADDRESS

PAYABLE AT LOVINGTON, NEW MEXICO SUBJECT TO CREDIT REGULATIONS OF REGULATORY COMMISSION.
PERMIT NO'S. I.C.C.M.C. 120239; N.M.S.C.C. 812-1; TEXAS RRC 5045.

ABOVE SERVICE RENDERED SUBJECT TO ALL APPLICABLE LAWS AND REGULATIONS AND IN ACCORDANCE WITH BILL LADING OR CONTRACT WITH YOU, ALL
FCAS TAXES AND FED. AND STATE UNEMP. INS. ACCRUING THEREON WILL BE PAID BY US. EMPLOYER'S REGISTRATION NO.: N. M. C2-3173-1, FED. 85-0132129.

[illegible]

P. O. Box 1673

INVOICE N° 12529

Street or
Box Number Box 36

City Midland State Texas

Lease Rogers Well No. 1 Company Moranco Rig #5

[illegible]

Total 2059.72

CONDITIONS: Rentals will be charged for entire number of days equipment is in use at said location, also charges will be made for any lost or damaged equipment.



INVOICE

ZU-003 1/15

LAND & MARINE RENTAL COMPANY

For Rent: Drilling, Completion & Production Tools
8700 TESORO DRIVE
SAN ANTONIO, TEXAS, 78286
PLEASE REMIT TO: P. O. BOX 86, SAN ANTONIO, TEXAS 78291 512 / 828-6211

YARD Hobbs, NM	DATE SHIPPED 8-4-75	D.T. NO. 87099	DELIVERED VIA L&M	DATE RETURNED 8-7-75	RETURNED VIA L&M	INV. NO. 09-0442
CUST. ORD. NO.	ORDER BY Mr. O'Bryant	LEASE NAME Rogers #1	COUNTY Eddy	RENTAL PERIOD Minimum	INV. DATE 9-15-75	
NOTICE - X	END OF MONTH BILLING	EQUIPMENT STILL OUT	PARTIAL BILLING	FINAL BILLING THANK YOU.		X

CHARGE • W. G. Ross
• P.O. Box 86
TO • Midland, Texas 79701

SHIP
TO Same
Artesia, NM

R0529

QUAN.		DESCRIPTION		DESTINATION:		DATE RETURNED		DAYS CHGD		MINIMUM RENTAL		EA. ADD'L DAY		AMOUNT	
1		7" Shaffer Double Manual BOP #7554 W/2 3/8 Rams #18570 & Blinds #13485 Studded 6"900						M	10	140.00				140.00	
12		6"900 Studs & Nuts												N/C	
1		Set Tri Angle Pipe Racks						M	5	40.00				40.00	
1		2 3/8 8Rd. Safety Valve #9509 W/Handle						M	5	100.00				100.00	
		TO SALE:												280.00	
2		R-45 Rubber Ring Gaskets								34.10Ea.				68.20	
		TO FREIGHT:												60.90	
		Delivery Per L&M												60.90	
		Return Per L&M												470.00	
														18.80	
														488.80	

Blow out PREVENTER
For Completion

PO 10-3-75
#48

4% New Mexico State Tax

ACCEPTED UPON TERMS, CONDITIONS AND PROVISIONS EXPRESSED ON REVERSE SIDE HEREOF TO WHICH REFERENCE IS HERE MADE.

WM. G. ROSS
OIL INVESTMENTS
BOX 86
MIDLAND, TEXAS 79701

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
Ross EXHIBIT NO. 4
CASE NO. 5622
Submitted by B. U. Ross

LIST OF INVOICES AND CHARGES PAID AFTER ESTIMATED CHECKING DATE DATED NOVEMBER 13, 1975, FORWARDED TO NEW MEXICO CONSERVATION COMMISSION AND TEXACO, INC. 2-4-76

DATE OF CHECK	INVOICE DUE AND PAID TO	AMT. PAID	CHK. NO.
11-26-75	Rose Gravel Co. Gravel for tank battery grade.	\$74.39	62
11-26-75	Frank C. Strech Trucking Company - Trucking charge from Odessa to location.	444.60	63
11-26-75	O'Briant Engineering Co. - Office & Field Supervision during drilling and completion of well	52.65	64
1-6-76	Mid-Continent Supply Co. - Interest on past due acct.	6.23	65
1-6-76	Union Supply Co. - Invoice #1-0554, 11-13-75. Line pipe, nipples, flanges, ells, etc. used in connecting up well.	2,212.65	66
	Union Supply Co. - Invoice #1-0554 - 11-14-75. Connections used in hooking up well.	269.36	
	CREDIT 10-8-75. Union Supply Co. No. CM GS-2244. Return of casing.	(286.03)	
	CREDIT 10-8-75. Union Supply Co. No. CM GS-2245. Return of casing.	(129.98)	
1-6-76	Stevens-Roach Tank Co. Inc. Labor, trucks, and equipment used to set and hook up equipment for well. This amount also includes \$1,648.00 for a fiberglass tank and \$2,304.40 for a Azelson Man-O-Matic safety valve for well-head Xmas Tree.	6,400.58	68
1-6-76	Sweatt Construction Co. Invoice No. 9704, 10-30-75. Use of D-5 & D-6 Dozers, sump trucks, dirt, water and trucks, and labor to bust out pits, pick up plastic and trash. Push up mud, load and haul off to Rogers reservoir. Push up fill dirt, haul to fill in pits, blade grade, build tank grade, clean out cement ditch.	\$5,552.82	69
1-6-76	Sweatt Construction Co. Invoice No. 9770. 11-30-75. Dig out pipeline ditch and back fill with a backhoe.	96.20	74
1-6-76	Johnny Johnson Insurance. Invoice dated 11-24-75. Commercial Catastrophe Liability.	600.00	70
1-6-76	BS&B Manufacturing. Invoice No. 30650 C, dated 12-8-75. 9' of additional walkway - painted. 26".	315.00	71
1-6-76	Gray Pumping Service. Supervision of installation of producing equipment.	104.00	72

DATE OF
CHECK

1-6-76

INVOICE DUE AND PAID TO

"E" Log Library - Xerox copies.

AMT. PAID

\$4.57

CHK.
NO.

73

TOTAL THIS STATEMENT \$15,717.42

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION

Ross EXHIBIT NO. 5

CASE NO. 5622

Submitted by Bill Ross

Hearing Date 2-4-76

OIL INVESTMENTS
BOX 86
MIDLAND, TEXAS 79701

JANUARY 21, 1976

In re: Eddy County, New Mexico
Wm. G. Ross / I. A. Q. Rogers Comm.
SE/4 SE/4 Section 3, 18-South, 26-East

#5

DATE PAID	INVOICE DUE TO:	AMT. PAID	WGR CHK. NO.
1-6-76	Sweatt Construction Co. Removal of pipe line and covering of ditch, including hauling in dirt.	\$96.20	74
1-8-76	Hinkle Firm - All phone expense in regard to title work	218.83	75
1-16-76	"E" Log Library - Xerox copies.	7.88	76
1-16-76	Remuda Oil & Gas Co. - Xerox copies.	2.55	77
1-16-76	Reading & Bates Oil and Gas Co. - Refund of delay rentals paid by R&B for shut in gas royalty	144.63	78
1-16-76	Sweatt Construction Co. Invoice #9858. Dig out and load concrete irrigation ditch - which had been broken. And to haul in dirt and fill ditch and blade.	366.34	79
1-29-76	B. E. Wolfe & Company, Roswell. Ditch and lay 677' of concrete irrigation ditch. 4 tie-ins, 3 turns, 3-22" Swanson Headgates concrete ditch handword, labor and material.	23,417.31	81
	Wm. G. Ross - Well Operator - \$1,894.00 supervision of drilling well, and 5 months supervision at \$195.00 per month, August 13, 1975 through January 13, 1976, equals \$975.00, for a total of -	2,869.00	
	TOTAL	7,122.74	

E/2 SECTION 3-TOWNSHIP 18-SOUTH, RANGE 26-EAST
(ALSO KNOWN AS LOT 1 & 2 & S/2 NE/4 & SE/4)
CONTAINING 320.37 ACRES, MORE OR LESS

TEXACO, INC.
Roadway 7 AC.

Lot 2 - 40.21 Ac.	Lot 1 - 40.16 Ac.
HANSON OIL ETAL Exp. 7-13-78 1/6th royalty 56.37 Acres 56.37	READING & BATES - - - 91.05 Exp. 4-1-76 Hanson Oil & Gas etal 5.95 A Total 91.05
Lease described as the West 941.2 feet of the NE/4	Lease described as the East 1,603 feet of the NE/4 Both leases 3/16th royalty

3

READING & BATES, INC.	- 40.0000 NET AC.
EXPIRES 4-8-1976	
WM. G. ROSS	- 52.4520 NET AC.
EXPIRES 4-8-1976	
CHEVRON OIL	- 67.5480 NET AC.
EXPIRES - HBP	
TOTAL	160.0000 ACRES

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
Ross EXHIBIT NO. 6
CASE NO. 5622
Submitted by Bill Ross
Hearing Date 2-4-76

KENNEDY FARMS PROSPECT

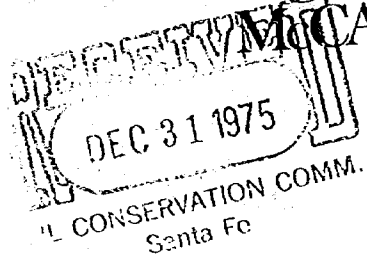
HOC	25.00
GLEN CLEM	1.00
EMMA L. EVERTSON	1.00
ROBERT B. GATES	1.00
SEARCY C. GLASS	2.00
WALTER GRANBERRY	3.00
W. L. GRAY	1.00
FRED G. HANSEN	1.00
CHARLES K. JOHNSON	1.00
KENNEDY OIL COMPANY	10.00
HAROLD KERSEY	3.00
HAROLD KIOUS	3.75
W. T. LOYD	1.00
W. W. MCCLELLAN	.75
L. J. REISCHMAN	1.00
W. J. SWEATT	1.00
REAGAN S. SWEET	3.00
MARK L. TERRY	1.00
T. E. VANDIVER	4.00
A. J. VASILAKIS	.75
CHARLENE M. WARD	4.00
WESTERN OIL PRODUCERS, INC.	25.00
BASIL R. WILLIS	2.00
WRIGHT PETROLEUM, LIMITED	3.75

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
ROSS EXHIBIT NO. 7
CASE NO. 5622
Submitted by Bill Ross
Hearing Date 2-4-76

Case 5622

WHITE,
KOCH, KELLY
&
MC CARTHY

December 29, 1975



Oil Conservation Commission
P.E.R.A. Building
Santa Fe, New Mexico 87501

Re: Application of William G. Ross

Gentlemen:

Enclosed find protest to actual well costs filed
by Texaco in Case #5436.

Sincerely,

Booker Kelly
BOOKER KELLY

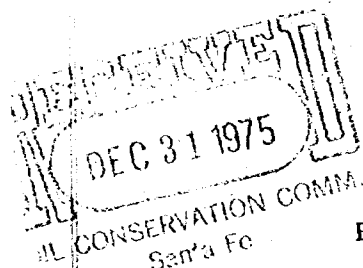
BK:mjq
Enclosures

L.C. White
Summer S. Koch
William Booker Kelly
John F. McCarthy, Jr.
Kenneth Bateman
Benjamin Phillips
Ronald M. Friedman

Attorneys and Counselors at Law

220 Otero St., P.O. Box 787, (505)982-4374, Santa Fe, N.M. 87501 — P.O. Drawer E, (505)758-4338, Taos, N.M. 87571

Case 5622



BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

APPLICATION OF WILLIAM G. ROSS FOR
COMPULSORY POOLING AND AN UNORTHODOX
GAS WELL LOCATION, EDDY COUNTY,
NEW MEXICO.

CASE NO. 5436

NOTICE OF PROTEST

COMES NOW Texaco, Inc., owner of a 2.185 percent working interest in the gas well pooled under Case No. 5436 and pursuant to Order No. R-4980, files its protest to the actual well costs submitted by the operator to Texaco.

Texaco objects to the risk factor claimed to be applicable to all expense items beyond the wellhead and specifically to those items covering Rental of Surface Equipment, Gas Production Unit, and Storage Tanks.

Further, Texaco objects to the inclusion as a reasonable well cost of all estimated items and all expenses incurred defined as legal expenses.

Texaco requests that this matter be set down for public hearing and shows the Commission that a copy of this protest has been mailed to the operator, William G. Ross, P. O. Box 86, Midland, Texas 79701.

DOCKET MAILED

Date 1/26/76

WHITE, KOCH, KELLY & MCCARTHY

Booker Kelly
BOOKER KELLY
Attorneys for Texaco Inc.
P. O. Box 787
Santa Fe, New Mexico 87501

*Texaco seeks
the determination
of reasonable
well costs and
the applicability
of the risk factor
to certain items of expense*



BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

APPLICATION OF WILLIAM G. ROSS FOR
COMPULSORY POOLING AND AN UNORTHODOX
GAS WELL LOCATION, EDDY COUNTY,
NEW MEXICO.

CASE NO. 5436

NOTICE OF PROTEST

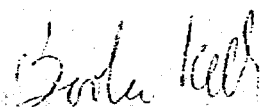
COMES NOW Texaco, Inc., owner of a 2.185 percent working interest in the gas well pooled under Case No. 5436 and pursuant to Order No. R-4980, files its protest to the actual well costs submitted by the operator to Texaco.

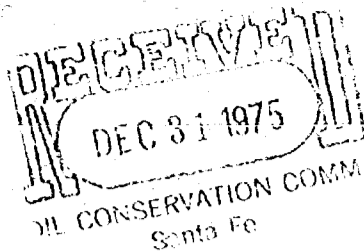
Texaco objects to the risk factor claimed to be applicable to all expense items beyond the wellhead and specifically to those items covering Rental of Surface Equipment, Gas Production Unit, and Storage Tanks.

Further, Texaco objects to the inclusion as a reasonable well cost of all estimated items and all expenses incurred defined as legal expenses.

Texaco requests that this matter be set down for public hearing and shows the Commission that a copy of this protest has been mailed to the operator, William G. Ross, P. O. Box 86, Midland, Texas 79701.

WHITE, KOCH, KELLY & MCCARTHY


BOOKER KELLY
Attorneys for Texaco Inc.
P. O. Box 787
Santa Fe, New Mexico 87501



BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

APPLICATION OF WILLIAM G. ROSS FOR
COMPULSORY POOLING AND AN UNORTHODOX
GAS WELL LOCATION, EDDY COUNTY,
NEW MEXICO.

CASE NO. 5436

NOTICE OF PROTEST

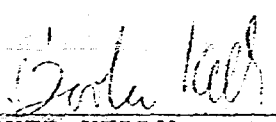
COMES NOW Texaco, Inc., owner of a 2.185 percent working interest in the gas well pooled under Case No. 5436 and pursuant to Order No. R-4980, files its protest to the actual well costs submitted by the operator to Texaco.

Texaco objects to the risk factor claimed to be applicable to all expense items beyond the wellhead and specifically to those items covering Rental of Surface Equipment, Gas Production Unit, and Storage Tanks.

Further, Texaco objects to the inclusion as a reasonable well cost of all estimated items and all expenses incurred defined as legal expenses.

Texaco requests that this matter be set down for public hearing and shows the Commission that a copy of this protest has been mailed to the operator, William G. Ross, P. O. Box 86, Midland, Texas 79701.

WHITE, KOCH, KELLY & MCCARTHY


BOOKER KELLY
Attorneys for Texaco Inc.
P. O. Box 787
Santa Fe, New Mexico 87501

Dockets Nos. 6-76 and 7-76 are tentatively set for hearing on February 18 and March 3, 1976. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - FEBRUARY 4, 1976

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. Stanets, Examiner, or Daniel S. Sutter, Alternate Examiner:

CASE 5620: Application of Champlin Petroleum Company for a waterflood project, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the Chavero-San Andres Pool by the injection of water into the San Andres formation through its Farrell Federal Well No. 4, located in Unit P of Section 30, Township 7 South, Range 33 East, Roosevelt County, New Mexico. Applicant further seeks an administrative procedure for approval of additional wells at standard and non-standard locations within the project area.

CASE 5397: (Reopened)

In the matter of Case 5397 being reopened pursuant to the provisions of Order No. R-4949, which order established the North Burton Flats-Wolfcamp Gas Pool, Eddy County, New Mexico, and promulgated special pool rules therefor, including a provision for 320-acre spacing and proration units. All interested parties may appear and show cause why said special pool rules should or should not remain in effect.

CASE 5621: Application of El Paso Natural Gas Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval to commingle Basin-Dakota and Blanco-Mesaverde gas production in the wellbore of its Jicarilla 119N Well No. 4, located in Unit H of Section 6, Township 26 North, Range 4 West, Rio Arriba County, New Mexico.

CASE 5622: Application of Texaco for determination of charges and costs, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the determination by the Commission of reasonable well costs, and the applicability of the charge for risk to certain items of expense, for the William G. Ross A. O. Rogers Well No. 1, located in Unit P of Section 3, Township 18 South, Range 26 East, Eddy County, New Mexico, to which is dedicated the E/2 of said Section 3, said lands having been pooled by Commission Order No. R-4980.

CASE 5623: Application of Amoco Production Company for salt water disposal, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced water by injection into the lower Delaware formation through the perforated interval from 3376 to 3400 feet in its Old Indian Draw Well No. 4, located in Unit I of Section 18, Township 22 South, Range 28 East, Indian Draw-Delaware Pool, Eddy County, New Mexico.

CASE 5624: Application of Harris & Walton for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced water into the Yates-Seven Rivers formation through the open-hole interval from 3507 feet to 3761 feet in its H. Whitten Well No. 1, located in Unit C of Section 4, Township 24 South, Range 36 East, Jalmat Pool, Lea County, New Mexico.

CASE 5625: Application of Walter W. Krug dba Wallen Production Co. for an exception to Order R-111-A, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the Potash-Oil Area casing-cementing rules for his Wallen Fee Well No. 1, located 330 feet from the North line and 990 feet from the West line of Section 28, Township 20 South, Range 34 East, Lea County, New Mexico, to permit completing said well with a shallow-cavings string cemented in and with 7-inch production casing to the top of the pay and a 4 1/2-inch liner through the pay, all cemented to the surface.

CASE 5626: Southeastern New Mexico nomenclature case calling for an order for the creation, abolishments, and extension of certain pools in Eddy and Lea Counties, New Mexico.

(a) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Strawn production and designated as the Carlsbad-Strawn Gas Pool. The discovery well is the Belco Petroleum Corporation Union Mead Com Well No. 1, located in Unit H of Section 8, Township 22 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM
Section 8: All
Section 17: N/2

(b) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Morrow production and designated as the East Carlsbad-Morrow Gas Pool. The discovery well is the Champlin Petroleum Company Pecos Federal Well No. 1, located in Unit C of Section 1, Township 22 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM
Section 35: All
Section 36: W/2

TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM

Section 1: N/2

Section 2: N/2

(c) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Strawn production and designated as the East Carlsbad-Strawn Gas Pool. The discovery well is the Champlin Petroleum Company Pecos Federal Well No. 1, located in Unit C of Section 1, Township 22 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM

Section 1: N/2

(d) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Strawn production and designated as the La Puerta-Strawn Gas Pool. The discovery well is the Cities Service Oil Company Tracy A Corn Well No. 1, located in Unit C of Section 33, Township 21 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM

Section 33: N/2

(e) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Pennsylvanian production and designated as the Nonombre-Pennsylvanian Pool. Said pool would consolidate the vertical limits and acreage of the abolished Nonombre Lower-Pennsylvanian, Nonombre Middle-Pennsylvanian and the Nonombre Upper-Pennsylvanian Pools. New pool to be governed by the rules of the abolished Nonombre Lower-Pennsylvanian Pool under Order R-2929. Said pool would comprise:

TOWNSHIP 13 SOUTH, RANGE 34 EAST, NMPM

Section 32: All

(f) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Morrow production and designated as the Robinia Draw-Morrow Gas Pool. The discovery well is the American Quasar Petroleum Company of New Mexico Robinia Draw Unit Well No. 1, located in Unit K of Section 7, Township 23 South, Range 24 East, NMPM. Said pool would comprise:

TOWNSHIP 23 SOUTH, RANGE 24 EAST, NMPM

Section 7: W/2

(g) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Pennsylvanian production and designated as the North Sammal-Pennsylvanian Pool. The discovery well is the Dalco Oil Company Bell 17 State Well No. 1, located in Unit G of Section 17, Township 16 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM

Section 17: NE/4

(h) ABOLISH the Nonombre Lower Pennsylvanian Pool in Lea County, New Mexico, described as:

TOWNSHIP 13 SOUTH, RANGE 34 EAST, NMPM

Section 32: SW/4

(i) ABOLISH the Nonombre Middle-Pennsylvanian Pool in Lea County, New Mexico, described as:

TOWNSHIP 13 SOUTH, RANGE 34 EAST, NMPM

Section 32: E/2 NW/4 and W/2 NE/4

(j) ABOLISH the Nonombre Upper-Pennsylvanian Pool in Lea County, New Mexico, described as:

TOWNSHIP 13 SOUTH, RANGE 34 EAST, NMPM

Section 32: E/2 and SW/4

(k) EXTEND the North Benson Queen-Grayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 30 EAST, NMPM

Section 32: S/2 NE/4 and NW/4 SW/4

(l) EXTEND the Burton Flat-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 26 EAST, NMPM

Section 12: S/2

Section 13: E/2

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM

Section 2: Lots 11, 12, 13, 14 & SW/4

Section 15, 16, 21, 22, & 28: All

Section 33: N/2

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- (m) EXTEND the Burton Flat-Strawn Gas Pool in Eddy County, New Mexico, to include therein:
TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM
Section 15: All
- (n) EXTEND the South Carlsbad-Morrow Gas Pool in Eddy County, New Mexico, to include therein:
TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM
Section 3: N/2
Section 4: All
Section 5: E/2
Sections 8, 9, 17 & 18: All
Section 20: W/2
- (o) EXTEND the Eagle Creek-San Andres Pool in Eddy County, New Mexico, to include therein:
TOWNSHIP 17 SOUTH, RANGE 25 EAST, NMPM
Section 13: N/2 NW/4
- (p) EXTEND the Eumont Gas Pool in Lea County, New Mexico, to include therein:
TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM
Section 33: NW/4 and SW/4 NE/4
- (q) EXTEND the Los Medanos-Morrow Gas Pool in Eddy County, New Mexico, to include therein:
TOWNSHIP 23 SOUTH, RANGE 31 EAST, NMPM
Section 6: E/2
- (r) EXTEND the Lovington-Paddock Pool in Lea County, New Mexico, to include therein:
TOWNSHIP 17 SOUTH, RANGE 37 EAST, NMPM
Section 3: NW/4
Section 4: NE/4
- (s) EXTEND the North Vacuum-Abo Pool in Lea County, New Mexico, to include therein:
TOWNSHIP 16 SOUTH, RANGE 34 EAST, NMPM
Section 36: SE/4
TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
Section 9: SE/4
- (t) EXTEND the Vada-Pennsylvanian Pool in Lea County, New Mexico, to include therein:
TOWNSHIP 9 SOUTH, RANGE 33 EAST, NMPM
Section 11: E/2
- (u) EXTEND the Wantz-Granite Wash Pool in Lea County, New Mexico, to include therein:
TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 14: NE/4
- (v) CONTRACT the Indian Basin-Morrow Gas Pool in Eddy County, New Mexico, by the deletion of the following described lands:
TOWNSHIP 20 SOUTH, RANGE 25 EAST, NMPM
Sections 31 & 32: All
TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM
Sections 4 & 5: All
- (w) EXTEND the Cemetary-Morrow Gas Pool in Eddy County, New Mexico, to include the following described lands:
TOWNSHIP 20 SOUTH, RANGE 25 EAST, NMPM
Section 31: All
Section 32: W/2
TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM
Sections 4 & 5: All

DRAFT

DSN/dr

BEFORE THE
OF THE

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. 5622

Order No. R- 5186

APPLICATION OF TEXACO INC. FOR
DETERMINATION OF CHARGES AND COSTS,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on February 4,
19 76, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this day of March, 19 76, 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 by Order No. R-4980, dated March 11, 1975, the
Commission pooled all mineral interests, whatever they may be,
in the Pennsylvanian formation underlying the E/2 of Section 3,
Township 18 South, Range 26 East, NMPM, Eddy County, New Mexico,
to form a standard 320-acre gas spacing and proration unit to be
dedicated to a well to be drilled on said unit by William G. Ross,
hereinafter referred to as "Ross," who was named by said order as
operator of the well and unit.

(3) That said order also provided that if any non-consenting working interest owner should not have paid to operator (Ross) his share of estimated well costs within certain specified time limits, then Ross would be authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to such non-consenting working interest owner.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to such non-consenting working interest owner.

(4) That subsequent to the issuance of said order, Ross did drill the A. Q. Rogers Well No. 1, located in Unit P of said Section 3, and completed the same capable of producing from the Morrow formation on August 13, 1975.

(5) That Texaco Inc., hereinafter referred to as "Texaco," did not pay its share of estimated well costs within the specified time limits, and thereby elected to have withheld from production the costs and charges described in Finding No. (3), paragraphs (A) and (B).

(6) That pursuant to the provisions of said Order No. R-4980, Ross ~~did~~^{did} on November 13, 1975, furnish to Texaco as a non-consenting working interest owner in the pooled unit and the well thereon, an itemized schedule of the actual well costs.

(7) That Order No. R-4980 provides that the actual well costs shall be reasonable well costs unless objection to such actual costs is received by the Commission. Further, that if objection to such actual costs is received, the Commission will determine reasonable well costs.

(8) That, on December 31, 1975, Texaco filed with the Commission an objection to the actual well costs submitted by Ross to Texaco.

(9) That the statement of actual costs paid to date November 13, 1975, totalled \$372,650.92, in addition to which Ross listed "ADDITIONAL ESTIMATED EXPENSE[S]" totalling \$16,100.00

(10) That included in the actual costs to date are three items totalling \$26,883.59, said items being:

Rental of Surface Equipment	\$ 7,354.59
Gas Production Unit	14,181.00
Storage Tanks	5,348.00

(11) That Texaco does not question the reasonableness of the aforesaid costs, but does question the applicability of the 200 percent risk factor to these items, which are down-stream from the wellhead.

(12) That a fourth item included in the actual costs to date is entitled "Legal Expense to Date," and is in the amount of \$1,834.24.

(13) That Texaco does not object to the applicability of the 200 percent risk factor to the aforesaid legal expense if it was incurred in the forced pooling action.

(14) That of the three items under "ADDITIONAL ESTIMATED EXPENSE[S]" totalling \$16,100.00, only one item, "Legal expense-Operating Agreements-Division Order Title Examination etc. \$7,300.00," is questioned by Texaco as being a reasonable expense, and the remaining two items are presumed to be reasonable pending actual billing and receipt of invoices.

(15) That the first two paragraphs of Section 65-3-14, subsection (c) NMSA 1953 Comp. provide that "(c) When two (2) or more separately owned tracts of land are embraced within a spacing or proration unit, or where there are owners of royalty interests or undivided interests in oil and gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration

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Case No. 5622

Order No. R-

unit, the owner or owners thereof may validly pool their interests and develop their lands as a unit. Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the Commission, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, ~~xxx~~ shall pool all or any part of such lands or interest or both in the spacing or proration unit as a unit.

All orders effecting such pooling shall be made after notice and hearing, and shall be upon such terms and conditions as are just and reasonable and will afford to the owner or owners of each tract or interest in the unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil or gas, or both. Each order shall describe the lands included in the unit designated thereby, identify the pool or pools to which it applies and designate an operator for the unit. All operations for the pooled oil or gas, or both, which are conducted on any portion of the unit shall be deemed for all purposes to have been conducted upon each tract within the unit by the owner or owners of such tract. For the purpose of determining the portions of production owned by the persons owning interests in the pooled oil or gas, or both, such production shall be allocated to the respective tracts within the unit in the proportion that the number of surface acres included within each tract bears to the number of surface acres included in the entire unit. The portion of the production allocated to the owner or owners of each tract or interest included in a well spacing or proration unit formed by a pooling order shall, when produced, be considered as if produced from the separately owned tract or interest by a well drilled thereon."

second
further (16) That the ~~third~~ paragraph of aforesaid ^ssubsection (c) provides that "Such pooling order of the Commission shall make definite provision as to any owner, or owners, who elects not to pay

his proportionate share in advance for the pro rata reimbursement solely out of production to the parties advancing the costs of development ~~emphasis added~~ and operation which shall be limited to the actual expenditures required for such purpose ~~emphasis added~~ and may include a charge for the risk involved in the drilling of such well ~~emphasis added~~ which charge for risk shall not exceed two hundred percent (200%) of the non-consenting ~~xxx~~ owner or owners' pro rata share of the cost of drilling and completing ~~emphasis added~~ the well. **[Emphasis added]**

(17) That the aforesaid ^{see} ~~third~~ paragraph of subsection (c), in providing that the order of the Commission may include a 200 percent charge for the risk involved in the drilling ~~of~~ of such well, and also providing for withholding actual expenditures required for such purpose, is obviously relating such well and such purpose back to the original precept of this paragraph, i.e., that the order shall make provision for the carried interest owner to compensate, ~~1~~ out of production, the parties who advanced the costs of development of the pooled unit; in other words, that the "costs of development" of the pooled unit are synonymous to the "cost of drilling and completing" the unit well, and are to be compensated for out of production.

(18) That the "cost of drilling and completing" the unit well being synonymous to the "cost of development" of the pooled unit, it then follows that inasmuch as the cost of drilling ~~and~~ and completing the unit well is subject to the authorized risk factor, the cost of development of the unit is also subject to the authorized risk factor.

(19) That the pooled unit cannot be considered "developed" until it is on production or in producing condition.

(20) That a gas well may be considered as capable of producing gas when it has been completed and has installed thereon a well head, but it is illogical to consider that ^{the unit upon which it is located is in} ~~it is in~~ producing condition, and the unit is developed until all of the appurtenant equipment, flowlines, separators, tanks, etc., have been installed and are in producing condition.

(21) That such items as flowlines, separators, tanks, etc., are items necessary to the development of the unit.

(22) That although such items ^{are} normally purchased and installed only after production has been obtained, there is still risk involved in drilling and completing the well, i.e., development of the pooled unit, inasmuch as at the time such equipment is purchased and installed, there is no assurance that the well will produce in sufficient quantities to pay ^{out} the cost of development.

(23) That such items as flowlines, separators, tanks, etc., being items necessary to the development of the pooled unit, and also subject to possible non-payout as discussed in Finding No. (22) above, should also be subject to the risk factor authorized by Section 65-3-14(c) NMSA 1953 Comp.

(24) That the items described in Finding No. (10) above, being items necessary to the development of the pooled unit, should be subject to the 200 percent risk factor imposed by Order No. R-4980.

(25) That the item described in Finding No. (12) above, being legal expense incurred in the formation of the pooled unit, was also an expense necessary to the development of the pooled unit.

(26) That said item described in Finding No. (12) above should also be subject to the 200 percent risk factor imposed by Order No. R-4980.

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(27) That the item described in Finding No. (14) above as being "Legal Expense-Operating Agreements-Division Order Title Examination etc - \$7,300.00" is vague, and there exists insufficient information in the record of this case to determine what portion thereof is reasonable or unreasonable, what Texaco's proportionate share would be, and what portion, if any, should be subject to the 200 percent risk factor.

(28) That the remaining two items *mentioned* in Finding No. (14) above, being (1) additional estimated expense for additional well head equipment, \$2,300.00, and (2) additional estimated expense for well head hookup, dirt work, and trucking charges, \$6,500.00, are items necessary to the development of the pooled unit.

(29) That the actual expenditures finally incurred and invoiced for the items described in Finding No. (28) above should be subject to the 200 percent risk factor imposed by Order No. R-4980.

(30) That issuance of an order embodying the above findings is in the interest of conservation, will prevent waste, and will protect correlative rights, and should be effected.

DRAFT

RLS/jr

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. 5622

Order No. R-

APPLICATION OF TEXACO, INC. FOR
DETERMINATION OF CHARGES AND COSTS,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on February 4, 1976,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this _____ day of February, 1976, 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, Texaco, Inc., seeks the determination
by the Commission of reasonable well costs, and the applicability
of the charge for risk to certain items of expense, for the
William G. Ross A. Q. Rogers Well No. 1, located in Unit P of
Section 3, Township 18 South, Range 26 East, Eddy County, New
Mexico, to which is dedicated the E/2 of said Section 3, said
lands having been pooled by Commission Order No. R-4980.

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Case No. 5622
Order No. R-

(3) That the applicant seeks such Commission determination for only four specific charges being, a charge of \$7,354.59 for "Rental of Surface Equipment," a charge of \$14,181.00 for "Gas Production Unit," a charge of \$5,348.00 for "Storage Tanks," a charge of \$1,834.24 for "Legal Expense to Date," and for one additional estimated expense of \$7,300.00 for "Legal Expense - Operating Agreements - Division Order Title Examination."

(4) That each of the four charges set out in Finding (3) above is a reasonable charge.

(5) That each of the four charges and the eventual costs for legal expenses relating to the operating agreements, and division order title examination should be subject to the charge for risk set out in Order (7) of Commission Order R-4980 dated March 11, 1975.

IT IS THEREFORE ORDERED:

(1) That the charges of \$7,354.59 for "Rental of Surface Equipment," \$14,181.00 for a "Gas Production Unit," \$5,348.00 for "Storage Tanks," and \$1,834.24 for "Legal Expense to Date" all related to the drilling and completion of the William G. Ross, A. Q. Rogers Well No. 1 located in Unit P of Section 3, Township 18 South, Range 26 East, Eddy County, New Mexico are hereby approved as reasonable charges.

(2) That said charges, as well as ^{actual} reasonable ^{costs of} charges for ^{pooling order,} legal services related to the operating agreements, ^{and} division order title examination for said William G. Ross ^{A.Q. Rogers No. 1} Well shall be subject to the charge for risk described in Order (7) of Commission Order R-4980.

(3) 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 herein-
above designated.