

Case Number

5895

Application

Transcripts

Small Exhibits

ETC.



600 C & K PETROLEUM BUILDING  
POST OFFICE DRAWER 3546  
MIDLAND, TEXAS 79702  
(915) 683-3311

October 4, 1978

Mr. K. M. Davis, President  
Alfalfadale, Inc.  
1505 Boyd Drive  
Carlsbad, New Mexico 88220

Dear Mr. Davis:

Ms. Lynn Teschendorf with the New Mexico Oil Conservation Commission has furnished our attorney a copy of your letter to the Commission concerning our Carlsbad "12" lease. I am writing in an effort to answer the questions you raised in your letter to the Commission.

First, let me say that we have no record of receiving any letter dated on or about August 25 raising these points with us. Not only have I checked our files in this office, but our Houston office has checked their files and we can find no letter making these inquiries. Since receiving the copy of your letter directed to the Commission I have checked with our Houston office in an effort to answer your questions. Your first statement indicates that you have not received your payments on time. Our royalty checks are written each month on or about the 28th of the month, and your check should reach you three to four days later, depending on the mail service. I do not know what you mean by "late", but if you are not receiving your checks in this time frame I suggest you contact Mr. Cliff Zeno in our Houston office (telephone number 713/654-4466) and discuss this matter with him. You indicate you have received no payment for the month of June. Our records indicate that your June check was mailed on July 28. The check was in the total amount of \$2,795.96. Of this amount, \$439.08 was for the June runs. The remainder was money withheld from previous runs to satisfy possible refunds that would be necessary in the event the court did not uphold the price ordered by the Federal Power Commission. Your third complaint indicates that you feel you have not received the correct amount due you. Since you do not make any specific allegations I do not know on what you base this complaint. So far as I know you have been paid everything that is due to your interest. Your check stub shows the interest being used to determine your payment. It also shows the net amount being paid. Your interest times the net amount should give the net value or the amount of your check. The difference in the net value that you receive and the gross value shown on the check is the amount paid on your interest in taxes. You can calculate this amount by multiplying your interest by the amount shown as being deducted for taxes. If you have a question about any specific payment I am sure the people in our accounting department would be glad to talk to you about it. Again, I suggest that you talk to Mr. Zeno.


Mr. K. M. Davis  
October 4, 1978  
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I have discussed your royalty account with our accounting people in Houston. I am told that your first payment was made on June 28, 1978, and was in the amount of \$3,314.87. This payment included payment for production during the month of November, 1977, through May, 1978. You will recall that there was some delay in getting all of the necessary signatures on the division order. Payment was made in the first month after we were in receipt of your division order. The next payment was made July 28, 1978, and was in the amount of \$2,795.96. I have explained the breakdown of this check above. Our records show that you have received a check written on or about August 28, 1978, and September 28, 1978, each check being in payment for the previous month's production. Each check was somewhat more than \$400.00.

Mr. Davis, in spite of Mr. Taylor's allegations C & K has no wish or intent to deprive you or any other royalty owner of any amount that is due. Perhaps when you refer to a late payment you are expressing concern about the money withheld because of the Federal Power Commission's regulations. This money was set aside to repay any amounts required as a refund to the purchaser under a court ordered review of the price increase allowed by the Federal Power Commission. This money was released to the royalty owners as soon as the courts ruled in favor of the Federal Power Commission and the price increase granted. Until the court decision the money was subject to refund and C & K, as operator of the Carlsbad "12" lease, was required to be in a position to refund this money if so ordered. I hope the explanations above answer all of your questions. If you do have other questions I hope you will contact me personally. It is difficult to answer your questions when they are submitted through a third party.

Yours very truly,

C & K PETROLEUM, INC.

  
G. C. Tompson,  
Manager of Production

GCT/meb

cc: Ms. Lynn Teschendorf  
General Counsel  
Energy and Minerals Department  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Cliff Zeno  
C & K Petroleum, Inc.  
One Houston Center - Suite 2600  
Houston, Texas 77002

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



STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

JERRY APODACA  
GOVERNOR

September 27, 1978

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-2434

NICK FRANKLIN  
SECRETARY

Mr. K. M. Davis  
Alfalfadale, Inc.  
1505 Boyd Drive  
Carlsbad, New Mexico 88220

5895

Re: Order No. R-5415

Dear Mr. Davis:

Thank you for your letter dated September 20. Unfortunately, I'm afraid there is nothing the Division can do to help you. Have you contacted Mr. G. C. Thompson with C & K concerning your royalty payments? I'm sure he would be able to help you.

Mr. Davis, the Division is not a judicial body and is unable to adjudicate titles or make any other decisions concerning amounts of money due to you as a royalty interest owner. Nor do we have the authority to compel C & K to make timely payments of your royalties. Only a court has the authority to accomplish these things. I would suggest that you contact C & K, and if this matter cannot be worked out to your satisfaction, that you retain legal counsel and seek your remedy in court.

I'm sorry that I cannot be of assistance.

Very truly yours,

(Ms.) LYNN TESCHENDORF  
General Counsel

LT/dr

cc: G. C. Thompson

From the desk of ...

K. M. DAVIS

SEP 25 1978  
Sept. 20, 1978

N. M. Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, N.Mex. 87501

Attention: Mr. Joe Ramey

Dear Sir:

I am owner of royalty interest in C & K Petroleum, Inc. Carlsbad "12" No.1 well, located in S/2 of Section 12, T-22-S, R-26-E, NEPM, Eddy County, N.M. namely 80 acres at 1/8 royalty.

This well was connected to the transmission line very early in November 1977, and since then I have two problems:

1. The C & K Petro., Inc. have not paid their royalty payments on time, i.e. I have no record of their payment for the month of June, 78. Others were late.
2. From what information I am able to secure, their payments have been less than the correct amount due me.

Further, I last wrote them about Aug. 25th and have not, as of this date, received an answer - asking they give me a full explanation of their payments and basis for same.

May I respectfully request your assistance to secure the correct amount due me and that it be paid timely? Mr. Bill G. T aylor of Carlsbad had dealings with this Corp. and suggested I write you for help.

Sincerely,

cc.B.G.Taylor

Alfalfadele, Inc.

*K. M. Davis*  
K. M. Davis, President

1505 Boyd Drive  
Carlsbad, N.Mex. 88220



BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE NO. 5895  
Order No. R-5415

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

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 6, 1977,  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 12th day of April, 1977, the Commission, a  
quorum being present, having considered the testimony, the record,  
and the recommendations of the Examiner, and being fully advised  
in the premises,

FINDS:

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

(2) That the applicant, C&K Petroleum, Inc., seeks an  
order pooling all mineral interests in the Wolfcamp and  
Pennsylvanian formations underlying the S/2 of Section 12,  
Township 22 South, Range 26 East, NMPM, South Carlsbad Field,  
Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes  
to drill a well at an unorthodox location 840 feet from the South  
line and 1760 feet from the East line of said Section 12.

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

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

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

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

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

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

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

(11) That \$1000.00 per month while drilling and \$200.00 per month while producing should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1977, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp and Pennsylvanian formations underlying the S/2 of Section 12, Township 22 South, Range 26 East, NMPM, South Carlsbad Field, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 840 feet from the South line and 1760 feet from the East line of said Section 12.



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Case No. 5895  
Order No. R-5415

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of July, 1977, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp and Pennsylvanian formations;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of July, 1977, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Commission for good cause shown.

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

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

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

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

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

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

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

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

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

(9) That \$1000.00 per month while drilling and \$200.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

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

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

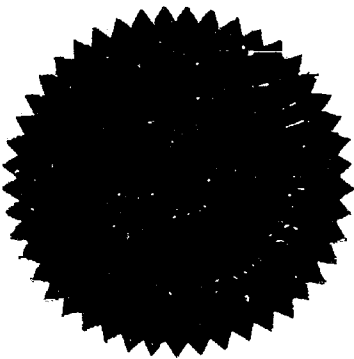
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Case No. 5895

Order No. R-5415

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, 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  
April 6, 1977

EXAMINER HEARING

IN THE MATTER OF:

Application of C & K Petroleum, Inc., ) CASE  
for compulsory pooling and an unorthodox ) 5895  
location, Eddy County, New Mexico. )

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil  
Conservation Commission:

Lynn Teschendorf, Esq.  
Legal Counsel for the Commission  
State Land Office Building  
Santa Fe, New Mexico

For the Applicant:

W. Thomas Kellahin, Esq.  
KELLAHIN & FOX  
Attorneys at Law  
500 Don Gaspar  
Santa Fe, New Mexico

3id morrish reporting service

General Court Reporting Service  
825 Calle Meja, No. 122, Santa Fe, New Mexico 87501  
Phone (305) 982-9212

I N D E XPageEARL GABRTNER

Direct Examination by Mr. Kellahin

3

Cross Examination by Mr. Nutter

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EXHIBIT INDEXOffered      Admitted

Applicant's Exhibit One, Plat

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Applicant's Exhibit Two, List

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Applicant's Exhibit Three, Land Plat

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Applicant's Exhibit Four, Location Plat

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Applicant's Exhibit Five, Letters

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Applicant's Exhibit Six, Production Map

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Applicant's Exhibit Seven, Structure Map

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Applicant's Exhibit Eight, Cross Section

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Applicant's Exhibit Nine, AFE

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Phone (505) 982-9212

1 MR. NUTTER: We will call Case Number 5895.

2 MS. TESCHENDORF: Case 5895, application of C & K

3 Petroleum, Inc., for compulsory pooling and an unorthodox  
4 location, Eddy County, New Mexico.

5 MR. KELLAHIN: Tom Kellahin of Kellahin and Fox,  
6 Santa Fe, New Mexico, appearing on behalf of the applicant and  
7 we have one witness to be sworn.

8 (THEREUPON, the witness was duly sworn.)

9  
10 EARL GAERTNER

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

13  
14 DIRECT EXAMINATION

15 BY MR. KELLAHIN:

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

18 A My name is Earl Gaertner, I'm a consulting geologist  
19 in Midland and I'm employed by C & K Petroleum.

20 Q Mr. Gaertner, have you previously testified before  
21 this Commission and had your qualifications as an expert  
22 witness accepted and made a matter of record?

23 A Yes, I have.

24 Q Have you made a study of and are you familiar with  
25 the facts surrounding this particular application?

1 A. Yes, I have.

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

4 MR. NUTTER: Yes, they are.

5 Q. (Mr. Kellahin continuing.) Mr. Gaertner, would you  
6 make reference to what has been marked as Exhibit Number  
7 One, identify it and tell us what C & K Petroleum is seeking  
8 to accomplish?

9 A. Yes, Exhibit Number One is an orientation plat showing  
10 the position of three hundred and twenty acres that C & K is  
11 currently pooling for a three hundred and twenty acre standard  
12 proration unit in the south half of Section 12, Township  
13 22 South, Range 26 East, Eddy County, New Mexico.

14 This is on the southwest edge of the town or the city  
15 of Carlsbad but outside of the city limits.

16 Q. Okay. Would you refer to Exhibit Number Two and  
17 identify it?

18 A. Exhibit Number Two is a list of the people that we  
19 are requesting a forced pooling hearing on.

20 Q. You ought to go through each one of these entries  
21 and explain what efforts you have made to obtain voluntary  
22 joinder in your unit.

23 A. Number one on the list is Lee Voight who was unleased  
24 at the time that we presented this petition. We have since  
25 worked out an agreement with Mr. Voight.

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1 MR. NUTTER: To lease the property or to come in as  
2 a working interest owner?

3 A. No, it is actually approximately the same terms as  
4 forced pooling, a hundred and twenty percent penalty.

5 MR. NUTTER: But he would be a working interest  
6 owner?

7 A. Yes.

8 Q (Mr. Kellahin continuing.) All right, how about  
9 Cities Service?

10 A. Cities Service, this is a questionable tract of  
11 land, we really have not a certain title to this tract.  
12 According to our examination Cities Service owns this half  
13 acre, according to Cities Service they have no record of it.  
14 I'm sure if they dig deep enough they will find it.

15 Q All right, how about Mr. McKinney?

16 A. Mr. McKinney, we have made a number of efforts to  
17 lease from Mr. McKinney and so far have not been successful.

18 Q Mr. Grace?

19 A. Mr. Grace probably needs no explanation, we've been  
20 in contact with Mr. Grace and that's it. I shouldn't say that  
21 we've been in contact with Mr. Grace, we've been in contact with  
22 his office manager who we hope has been in contact with  
23 Mr. Grace.

24 Q Would you explain for the benefit of the Examiner  
25 the effort made to obtain the approval of Michael Grace and

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Phone (505) 962-9212



1 Corinne Grace, did you not have a partially completed  
2 assignment from them?

3 A. Yes, approximately one year ago we thought we had  
4 an agreement whereby we would exchange five and a half acres  
5 that we owned in the north half of Section 12 for five and a  
6 half acres, this five and a half or five, point, six, five  
7 acres that we are now forced pooling that was owned by the  
8 Graces in the south half and due to an assignment failure,  
9 this instrument, of course, was not valid. The lawyer, the  
10 man who prepared the instrument assigning Mr. Grace's  
11 interest in it to us failed to place Mrs. Grace's signature line  
12 on the assignment which we understand makes it illegal, not  
13 illegal but certainly not a --

14 Q. You had a defective assignment, did you not?

15 A. That's right.

16 Q. What is the Exhibit Three?

17 A. Exhibit Three is a land plat showing the offset  
18 operators.

19 Q. And Exhibit Four?

20 A. We have also requested not only a forced pooling  
21 hearing but also a change in location. Due to topography in  
22 the alfalfa field where this location was to be staked, we  
23 found it necessary or it would be a much more desirable  
24 location to move approximately two hundred and fifty feet to  
25 the northeast.

1 Q This change has been made as an effort to accommodate  
2 the surface owner, is that correct?

3 A That is correct.

4 Q All right, sir, would you refer to Exhibit Number  
5 Five and explain what it is?

6 A Exhibit Number Five is a number of letters addressed  
7 to offset operators and they are asking them to waive this  
8 location or our proposed change in location and we have sent  
9 out and received signed copies from all offset operators  
10 stating that it was permissible as far as they were concerned  
11 to move this location.

12 Q Would you identify Exhibit Number Six?

13 A Exhibit Number Six is a production map that I have  
14 prepared. It includes the first eight months' production of  
15 1976. Actually the upper figure is the average monthly  
16 production for the first eight months of 1976. The lower  
17 figure, the figure in parentheses, is the number of producing  
18 months, total producing months and the second figure is the  
19 cumulative production from the well. The purpose of presenting  
20 this map, of course, is to show the erratic depositional  
21 nature and production potential of the Morrow sand. This  
22 proposed test is a Morrow test projected to approximately  
23 eleven thousand, six hundred feet.

24 The colored barrier on the west side of the plat  
25 here where I state, permeability barrier, Morrow sands tight,

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1 this has been confirmed by four wells along this barrier. We  
2 hope, of course, that it does not extend into the area that  
3 we are drilling or are going to be drilling in but we see  
4 that possibility.

5 The Morris Antweil well up in Section 11 is a  
6 relatively new well. We understand that it is probably making  
7 seven to maybe eight hundred thousand cubic feet of gas per  
8 day.

9 Our No. 2 Well which we just recently, No. 2 on the  
10 cross section, we do not have a potential on that well but we  
11 feel it is going to be a good well. The Texas Oil & Gas well  
12 to the south has been a very poor well.

13 So by reviewing these figures through the field, you  
14 will note that there are very good wells, mediocre wells and  
15 some very poor wells, so we are facing the normal hazards that  
16 you do face when you drill for the Morrow in here.

17 Q Please refer to what has been marked as Exhibit Number  
18 Seven and identify it?

19 A Number Seven is a structural map contoured on what I  
20 termed the middle Morrow unit which is the unit which usually  
21 contains the pay sands in this South Carlsbad area and, of  
22 course, it simply shows the structural configuration of the  
23 area. We realize that the stratigraphy really is the most  
24 important function in exploring for the Morrow.

25 Q Exhibit Number Eight?

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Phone (505) 982-9212

1           A.     Exhibit Number Eight is a cross section of that  
2 area outlined on Exhibits Six and Seven and on this particular  
3 cross section the only thing that I'm really emphasizing is  
4 the Morrow sands since it is our primary and probably our  
5 only objective and through the use of color here I have  
6 designated some of the limestone above the Morrow and then the  
7 productive sands are colored in yellow, the non-productive  
8 sands are the sands colored in green. So wherever you see  
9 green on the cross section those are the nonproductive, the  
10 yellow have been the productive sands or are the productive  
11 sands and the blue are simply some limestone members, either  
12 above the sands or perhaps mixed in with the sand.

13                 But this gives you a visual presentation, I think,  
14 of the erratic pattern of the sands or if you will look to  
15 the far right on your cross section, Well No. 6, it had sand  
16 development but all sands were tight and throughout this area  
17 this occurs occasionally. We hope it doesn't occur, of course,  
18 on our next location.

19           Q.     Based upon your study, Mr. Gaertner, do you have a  
20 percentage recommendation for a risk factor to be assigned  
21 to drilling this well?

22           A.     Yes, we would like to ask for two hundred percent.

23           Q.     Please refer to Exhibit Number Nine and identify it?

24           A.     Yes, Exhibit Number Nine is an AFE worked up for  
25 this proposed test in Section 12. I think it's a very

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1 realistic AFE. You will note here, the estimated cost, the  
 2 total intangible drilling cost, three hundred and eighty  
 3 thousand dollars; completed well, drilling and completed,  
 4 six hundred and twenty-five thousand dollars. And we have  
 5 drilled several wells in this area very recently and this is  
 6 a very realistic figure.

7 Q Do you have a recommendation for the charges to be  
 8 made while drilling the well and then while producing the well  
 9 as charges for supervision?

10 A Yes, we feel that while drilling the well that one  
 11 thousand dollars a month is a fair figure and supervision  
 12 afterwards on a monthly basis, two hundred dollars a month.

13 Q All right, sir, C & K Petroleum will be the operator  
 14 of the well?

15 A Yes, that is correct.

16 Q In your opinion, Mr. Gaertner, will the approval of  
 17 this application be in the best interests of conservation,  
 18 prevention of waste and the protection of correlative rights?

19 A Yes.

20 Q Were Exhibits One through Nine prepared under your  
 21 direction and supervision?

22 A Yes.

23 MR. KELLAHIN: We move the introduction of Exhibits  
 24 One through Nine.

25 MR. NUTTER: Applicant's Exhibits One through Nine

1 will be admitted into evidence.

2 (THEREUPON, Applicant's Exhibits One through  
3 Nine were admitted into evidence.)

4 MR. KELLAHIN: That concludes our direct examination.  
5

6 CROSS EXAMINATION

7 BY MR. NUTTER:

8 Q Mr. Gaertner, referring to your Exhibit Number Six  
9 where you've got accumulative production indicated on this  
10 exhibit, I notice up here in Section 11 to the northwest of  
11 your proposed location that you do state that is a new well,  
12 there is no cum production shown on it. However, the well  
13 immediately south of this proposed location is a C & K  
14 Petroleum well; do you have any cumulative production on it  
15 yet?

16 A The well to the south of Section 14 was barren in  
17 the Morrow.

18 Q No, the one in Section 13?

19 A In 13, no, this is a new well completed approximately  
20 two weeks ago and it is not on the line yet.

21 Q Okay, do you have an api on it yet?

22 A No, they intend to just hook it up and api it in  
23 the line, is my understanding.

24 Q Is it a well?

25 A Yes, it will be a good well.

1 Q Well, that's what I was going to ask you. You show  
2 here that the barrier, the permeability barrier, is west of  
3 the proposed location and coming up the east side of this row  
4 of sections that is the subject of the hearing today, Sections  
5 12, 13, 24, 25, 36 and 1 on down there, they all appear to have  
6 pretty good cumulative production, so I wonder what's the  
7 basis for requesting a maximum penalty that the Commission  
8 can authorize, the two hundred percent, when you are apparently  
9 on a rather productive trend here, well east of the impermeable  
10 section of the Morrow?

11 A Yes, in Section 13, as I previously mentioned, we  
12 feel that we do have a good well in the north half of Section  
13 13 but the well in the south half of Section 13 is a very  
14 weak well and then if you drop down into Section 24, of course,  
15 Mr. Grace has two extremely good wells. I would use this  
16 analogy in saying that there is a possibility that by moving  
17 north of a good well we may end up with another sorry well.  
18 That happens all through the field so we feel that there is  
19 a great deal of hazard involved and if this permeability  
20 barrier does extend in this area -- we hope it doesn't, we  
21 sure hope it doesn't.

22 Q Or at least if it does that it goes straight north?

23 A That it goes someplace else but that's the basis  
24 really. We feel from our experience up there that every well  
25 is a wildcat.

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

1 Q Now, it's rather difficult from looking at your  
 2 Exhibit Number One, I believe it is, to tell which tracts are  
 3 being pooled and we don't have a detailed ownership map, can  
 4 you furnish us with a detailed ownership map showing where  
 5 these interests lie that you've listed on Exhibit Number Two?

6 A Yes, I can tell you in what part of Section 12 those  
 7 interests lie. Part of the interest lies in the northwest of  
 8 the southwest quarter of that section and part of it, well, I  
 9 should say in the northwest-northwest of the southwest.

10 Q Well, we've really only got three tracts that we are  
 11 concerned with here today, haven't we?

12 A Yes.

13 Q The Cities Service tract, the McKinney tract and  
 14 the Grace tract?

15 A Right.

16 Q Could you furnish us with a map showing the locations  
 17 of these small tracts?

18 A Yes, we sure can.

19 Q Now, the only reason for the unorthodox location  
 20 is consideration of this irrigated and cultivated field?

21 A Yes, that's right and the fact that if we drill in  
 22 the standard location we would be splitting this guy's  
 23 terrace and it is a convenience to him and to us too, of  
 24 course, it's a better location, it would be up on top. We  
 25 don't show it here on the plat but on the standard location



1 we've got the Carlsbad Irrigation District canal just to the  
2 south of us there, on our back door, so to speak, and we will  
3 get a little further away from it too, but mainly it is  
4 consideration for the land owner.

5 MR. NUTTER: Are there any further questions of the  
6 witness? He may be excused.

7 (THEREUPON, the witness was excused.)

8 MR. NUTTER: Do you have anything further,  
9 Mr. Kellahin?

10 MR. KELLAHIN: No, sir.


11 MR. NUTTER: Does anyone have anything they wish  
12 to offer in Case Number 5895? We will take the case under  
13 advisement.

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

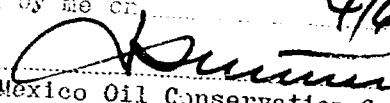
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REPORTER'S CERTIFICATE

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 Examiner Hearing of Case No. 5895  
heard by me on 4/6 1977  
, Examiner  
New Mexico Oil Conservation Commission

BEFORE THE  
OIL CONSERVATION COMMISSION OF NEW MEXICO

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

A P P L I C A T I O N

COMES NOW, C & K Petroleum, Inc., and applies to the Oil Conservation Commission of New Mexico for an order pooling all mineral interests, whatever they may be, from the surface of the ground down to and including the Pennsylvanian formation underlying the S/2 of Section 12, Township 22 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, with approval of the S/2 as a drilling and proration unit, since the section involved is irregular.

Applicant proposes to drill a well to be located at an *unorthodox* location on the unit, *840 feet from the South line and 1760 feet from the East line* projecting the well to the Pennsylvanian formation, as a development well.

The irregular size of the S/2 of Section 12 is due to variation in the governmental resurvey of Township 22 South, Range 26 East, N.M.P.M.

Applicant is the holder of the right to drill and develop the above acreage, has made diligent effort to obtain voluntary participation from all interest owners, but there are interest owners in the proposed unit who have not agreed to pool their interests.

The non-consenting owners and the interests which they own, to the best of applicant's information and belief, are as follows:

Lee Voight 7.46 acres  
6095 Sixth Street  
Carlsbad, New Mexico 88220

James L. McKenney .875 acre  
748 Standpipe Road  
Carlsbad, New Mexico 88220

Cities Service Oil Company .5 acre  
P. O. Box 1919  
Midland, Texas 79701

Michael P. Grace and Corinne Grace 5.83 acres  
Cavern Highway  
Carlsbad, New Mexico 88220

Approval of this application is necessary to enable applicant to recover its just and equitable share of the oil and gas underlying its lands. The correlative rights of all interest owners will be protected, and approval of this application will prevent waste and is in the interests of conservation.

WHEREFORE applicant prays that this application be set for hearing before the Commission or the Commission's duly appointed examiner, and that after notice and hearing as required by law the Commission enter its order approving the S/2 of Section 12 as a proration unit, as requested, pooling all of the mineral interests therein from the surface down to and including the Pennsylvanian formation, together with a provision designating applicant as operator, providing for the recovery of the costs of drilling the well, and equipping it, together with a reasonable charge for the risk involved in the drilling of the well; a provision for recovery of costs of operating the well with a reasonable charge for supervision, and such other and further provisions as may be proper.

Respectfully submitted,

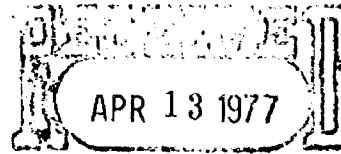
C & K PETROLEUM, INC.

By Jason W. Kellahin  
Kellahin & Fox  
P. O. Box 1769  
Santa Fe, New Mexico

ATTORNEYS FOR APPLICANT



POST OFFICE DRAWER 3546  
600 C & K PETROLEUM BUILDING  
MIDLAND, TEXAS 79701  
(915) 683-3311  
April 11, 1977



OIL CONSERVATION COMM.  
Santa Fe

*Case 5895*

Oil Conservation Commission of  
New Mexico  
Santa Fe, New Mexico 87501

RE: Forced Pooling Hearing held  
April 6, 1977  
S/2 Section 12, T-22-S, R-26-E,  
Eddy County, New Mexico  
Docket No.: Unknown

Gentlemen:

Mr. Earl Gaertner, who was C & K Petroleum, Inc.'s representative at the subject hearing has advised that you require a map of the S/2 Section 12 showing the location of all known acreage to be pooled.

Accordingly, there is enclosed a map with the names and known interests indicated thereon. We trust that this will meet your requirement. If not, please let us know and we will provide additional information if requested by you.

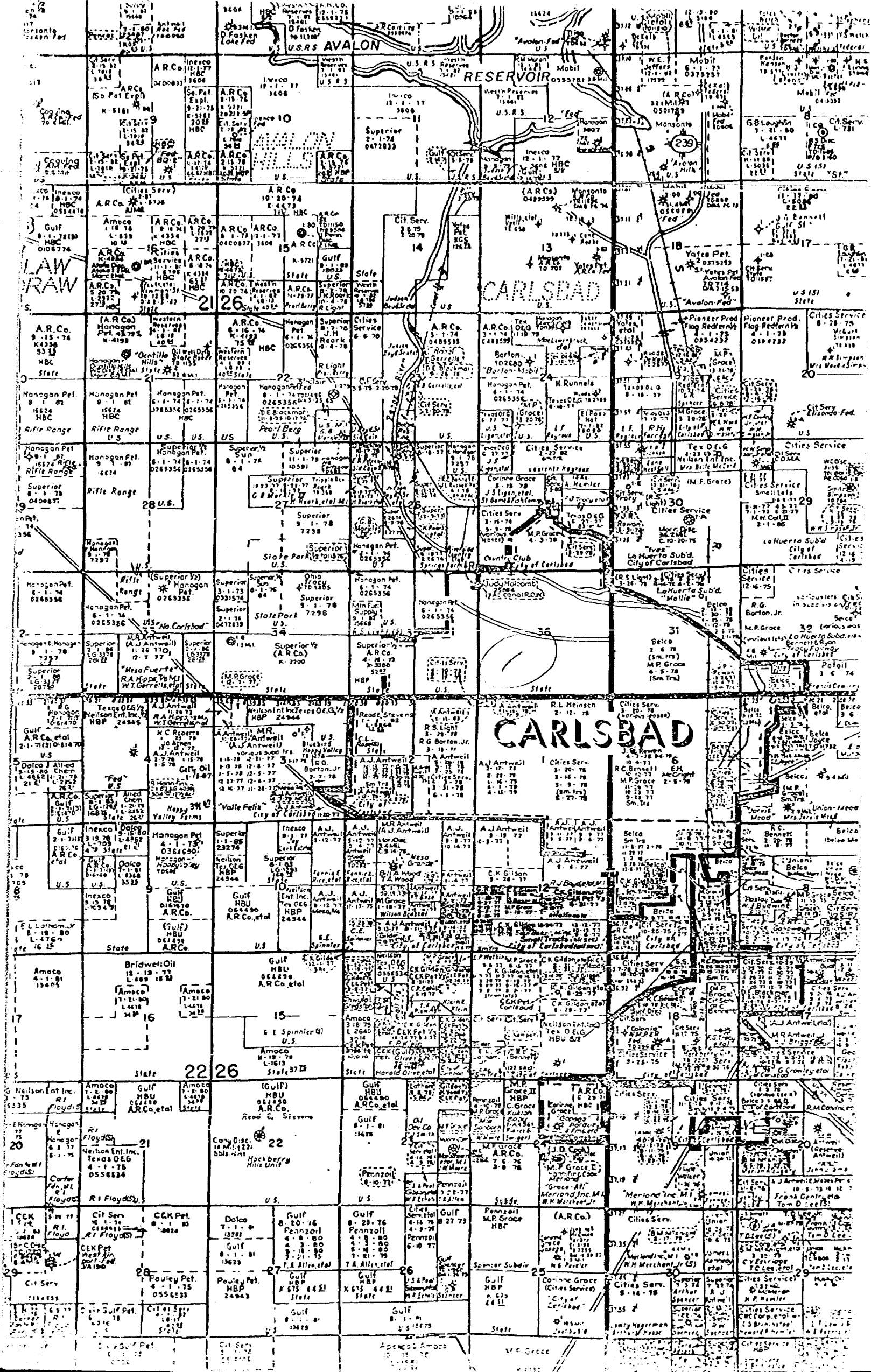
Very truly yours,

C & K PETROLEUM, INC.

A handwritten signature in cursive script that reads 'Danie Lebow'.

(Mrs.) Danie Lebow  
Senior Landman

DML:kj  
Enclosure



(2)

LIST OF KNOWN OWNERSHIP included in Forced Pooling Hearing (March 23, 1977)

CARLSBAD "12" #1 - S/2 Sec. 12, T-22-S, R-26-E

Lee Voigt - unleased  
609 South 6th Street  
Carlsbad, New Mexico 76934 approx. 7.46 acres

Cities Service Oil Company - owns lease  
800 Vaughn Building  
Midland, Texas 79701  
Attn: Mr. J. Frank Riney approx. 1/2 acre  
(minerals owned by:  
Marie Wright  
1108 Kentucky NE  
Albuquerque, New Mexico 87110)

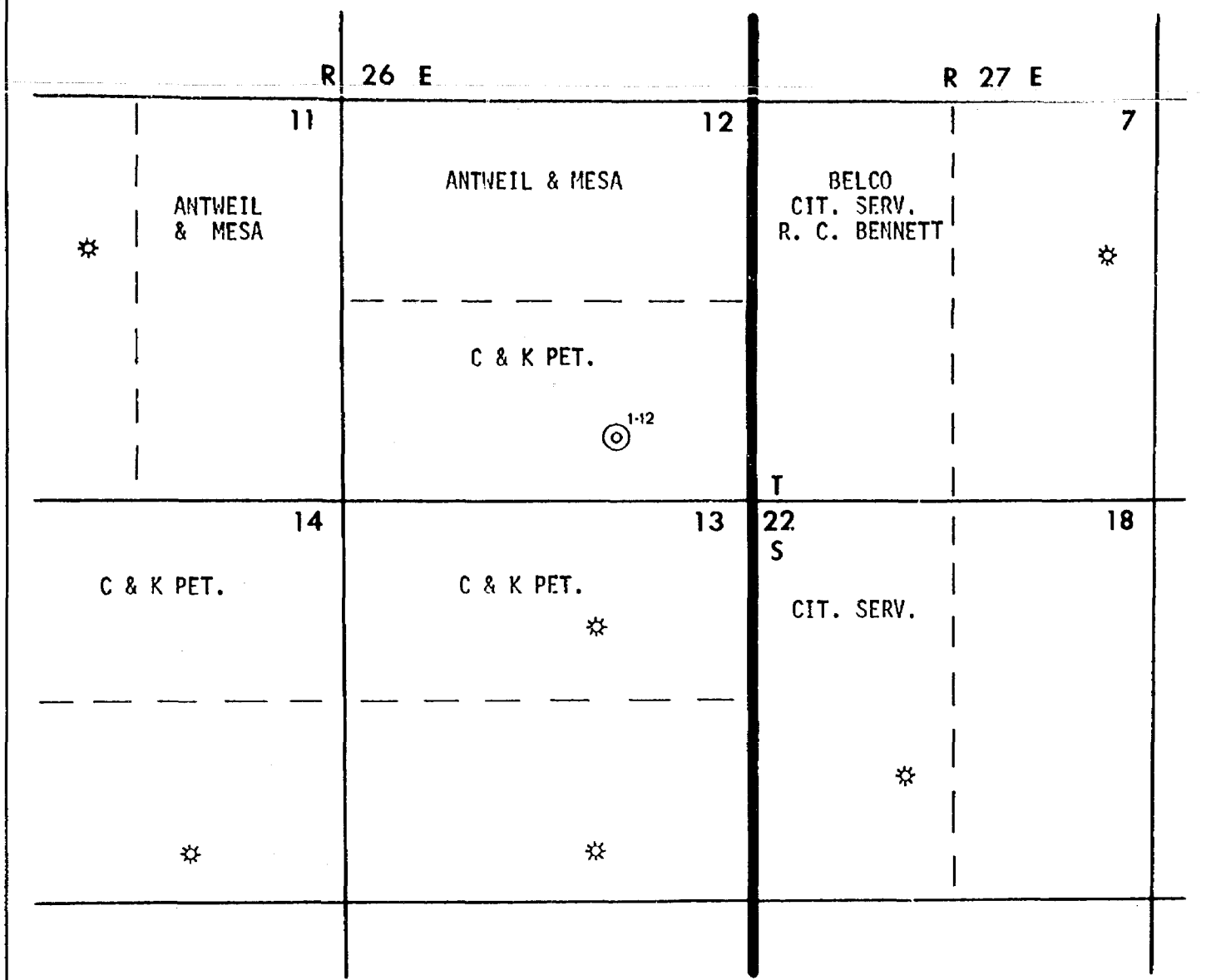
James L. McKenney - unleased  
748 Standpipe Road  
Carlsbad, New Mexico 76934 claims approx. 7/8 acre

Michael P. Grace (assignment failed) Oil & Gas Leases  
P. O. Box 1418  
Carlsbad, New Mexico 88220  
Attn: Mrs. Juanita L. Jones approx. 5.65 acres

14.485 acres.

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
C+K	EXHIBIT NO. 2
CASE NO.	5895

(3)



BEFORE EXAMINED BUTTER  
OIL CONSERVATION COM. 1944  
**C+K** EXHIBIT NO. **3**  
CASE NO. **5895**

**C & K Petroleum, Inc.**  
OPERATORS OFFSETTING  
C & K - Carlsbad #1-12  
Proposed Location  
1760 FEL 840 FSL Sec. 12  
Scale: 1" = 2000'





POST OFFICE DRAWER 3546  
600 C & K PETROLEUM BUILDING  
MIDLAND, TEXAS 79701  
(915) 683-3311

March 24, 1977

REC'D

R. C. Bennett  
102 Permian Building  
Midland, Texas 79701

MAR 29 1977

C & K Petroleum, Inc.

Re: Carlsbad "12" #1  
1760' FEL and 840' FSL,  
Sec. 12, T-22-S, R-26-E,  
Eddy County, New Mexico

Gentlemen:

Attached is a copy of our Application to Drill caption well that we are filing with the New Mexico Oil Conservation Commission. This well site is located in a terraced field and we have made an effort to locate the well site at a location that would do as little damage as possible to the terraced terrain.

It will be noted the well site selected results in an unorthodox location.

In the event you have no objections to this unorthodox location, it would be appreciated if you would so indicate in the space provided below. Your signature will serve as your waiver to any objection to this location.

Please return one signed copy of this letter to us for our future handling. We are enclosing a stamped addressed envelope for your convenience.

Anything done to expedite the handling of this request will be appreciated.

Approved this 28<sup>th</sup> day of March, 1977.

Signature: [Signature]

Company: \_\_\_\_\_

Yours very truly,

C & K Petroleum, Inc.

[Signature]  
D. E. Cooper  
Administrative Supervisor

DEC/vb  
Attachments

BEFORE EXAMINER MUTTER	
OIL CONSERVATION COMMISSION	
CXK	EXHIBIT NO. <u>5</u>
CASE NO.	<u>5895</u>



POST OFFICE DRAWER 3546  
600 C & K PETROLEUM BUILDING  
MIDLAND, TEXAS 79701  
(915) 683-3311

RECEIVED

March 24, 1977

MESA-P30

Mesa Petroleum Company  
1000 Vaughn Building  
Midland, Texas 79701

Re: Carlsbad "12" #1  
1760' FEL and 840' FSL,  
Sec. 12, T-22-S, R-26-E,  
Eddy County, New Mexico

Gentlemen:

Attached is a copy of our Application to Drill caption well that we are filing with the New Mexico Oil Conservation Commission. This well site is located in a terraced field and we have made an effort to locate the well site at a location that would do as little damage as possible to the terraced terrain.

It will be noted the well site selected results in an unorthodox location.

In the event you have no objections to this unorthodox location, it would be appreciated if you would so indicate in the space provided below. Your signature will serve as your waiver to any objection to this location.

Please return one signed copy of this letter to us for our future handling. We are enclosing a stamped addressed envelope for your convenience.

Anything done to expedite the handling of this request will be appreciated.

Approved this 28th day of March, 1977.

Signature:

M. E. Causey

Company:

Mesa Petroleum Co.

Yours very truly,

C & K Petroleum, Inc.

D. E. Cooper  
D. E. Cooper  
Administrative Supervisor

DEC/vb  
Attachments

REC'D

MAR 29 1977

C & K Petroleum, Inc.



POST OFFICE DRAWER 3546  
600 C & K PETROLEUM BUILDING  
MIDLAND, TEXAS 79701  
(915) 683-3311

March 24, 1977

REC'D

MAR 30 1977

A. T. Antwell  
P.O. Box 2010  
Hobbs, New Mexico 88240

C & K Petroleum, Inc.

Re: Carlsbad "12" #1  
1760' FEL and 840' FSL,  
Sec. 12, T-22-S, R-26-E,  
Eddy County, New Mexico

Gentlemen:

Attached is a copy of our Application to Drill caption well that we are filing with the New Mexico Oil Conservation Commission. This well site is located in a terraced field and we have made an effort to locate the well site at a location that would do as little damage as possible to the terraced terrain.

It will be noted the well site selected results in an unorthodox location.

In the event you have no objections to this unorthodox location, it would be appreciated if you would so indicate in the space provided below. Your signature will serve as your waiver to any objection to this location.

Please return one signed copy of this letter to us for our future handling. We are enclosing a stamped addressed envelope for your convenience.

Anything done to expedite the handling of this request will be appreciated.


Approved this 29<sup>th</sup> day of March, 1977.

Signature: R. M. Williams

Company: Alan J. Antweil

Yours very truly,

C & K Petroleum, Inc.

  
D. E. Cooper  
Administrative Supervisor

DEC/vb  
Attachments



POST OFFICE DRAWER 3546  
600 C & K PETROLEUM BUILDING  
MIDLAND, TEXAS 79701  
(915) 693-3311

March 24, 1977

RECEIVED

MAR 28 1977

Belco  
411 Petroleum Building  
Midland, Texas 79701

MIDLAND OFFICE

Re: Carlsbad "12" #1  
1760' FEL and 840' FSL,  
Sec. 12, T-22-S, R-26-E,  
Eddy County, New Mexico

Gentlemen:

Attached is a copy of our Application to Drill caption well that we are filing with the New Mexico Oil Conservation Commission. This well site is located in a terraced field and we have made an effort to locate the well site at a location that would do as little damage as possible to the terraced terrain.

It will be noted the well site selected results in an unorthodox location.

In the event you have no objections to this unorthodox location, it would be appreciated if you would so indicate in the space provided below. Your signature will serve as your waiver to any objection to this location.

Please return one signed copy of this letter to us for our future handling. We are enclosing a stamped addressed envelope for your convenience.

Anything done to expedite the handling of this request will be appreciated.

Approved this 28<sup>th</sup> day of March, 1977.

Signature: Don C. Bundy

Company: Belco Pet. Corp.

Yours very truly,

C & K Petroleum, Inc.

  
D. E. Cooper  
Administrative Supervisor

DEC/vb  
Attachments

REC'D

MAR 30 1977

C & K Petroleum, Inc.



POST OFFICE DRAWER 3546  
600 C & K PETROLEUM BUILDING  
MIDLAND, TEXAS 79701  
(915) 683-3311

March 24, 1977

Mr. K. D. Van Horn  
Cities Service Oil Company  
P.O. Box 1919  
Midland, Texas 79702

Re: Carlsbad "12" #1  
1760' FEL and 840' FSL,  
Sec. 12, T-22-S, R-26-E,  
Eddy County, New Mexico

Gentlemen:

Attached is a copy of our Application to Drill caption well that we are filing with the New Mexico Oil Conservation Commission. This well site is located in a terraced field and we have made an effort to locate the well site at a location that would do as little damage as possible to the terraced terrain.

It will be noted the well site selected results in an unorthodox location.

In the event you have no objections to this unorthodox location, it would be appreciated if you would so indicate in the space provided below. Your signature will serve as your waiver to any objection to this location.

Please return one signed copy of this letter to us for our future handling. We are enclosing a stamped addressed envelope for your convenience.

Anything done to expedite the handling of this request will be appreciated.

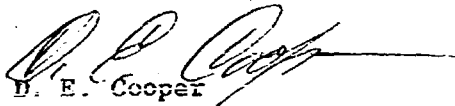
Approved this 4th day of April, 1977.

Signature:  REGION ENGINEER

Company: CITIES SERVICE OIL CO.

Yours very truly,

C & K Petroleum, Inc.

  
D. E. Cooper  
Administrative Supervisor

DEC/vb  
Attachments

Dockets Nos. 12-77 and 14-77 are tentatively set for hearing on April 20 and May 11, 1977. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 6, 1977

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

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

CASE 5884: (Continued & Readvertised)

Application of BCO, Inc., for an unorthodox location and downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Greenhorn, Graneros and Dakota production in the wellbore of its Dunn Well No. 1 at an unorthodox Dakota location in Unit M of Section 10, Township 23 North, Range 7 West, Rio Arriba County, New Mexico.

CASE 5894: Application of Consolidated Oil & Gas, Inc., for an unorthodox gas well location, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Jicarilla Well No. 5-34, at a point 790 feet from the South line and 1850 feet from the East line of Section 34, Township 26 North, Range 3 West, Blanco Mesaverde Pool, Rio Arriba County, New Mexico, to be dedicated to the E/2 of said Section 34.

CASE 5895: Application of C & K Petroleum, Inc., for compulsory pooling and an unorthodox location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the S/2 of Section 12, Township 22 South, Range 26 East, Eddy County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 840 feet from the South line and 1760 feet from the East line of said Section 12. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5896: Application of Exxon Company, USA, for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of a special gas-oil ratio limit of 6000 cubic feet of gas per barrel of oil for the Wantz-Abo Pool, Lea County, New Mexico.

CASE 5897: Application of Read & Stevens, Inc., for an unorthodox gas well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Rose Well No. 2 to be located 1650 feet from the South line and 990 feet from the West line of Section 18, Township 15 South, Range 28 East, Buffalo Valley-Pennsylvanian Gas Pool, Chaves County, New Mexico.

CASE 5653: (Reopened)

In the matter of Case 5653 being reopened pursuant to the provisions of Order No. R-5191 which order established temporary special pool rules for the Daisy-Wolfcamp Pool, Lea County, New Mexico. All interested parties may appear and show cause why said pool should not be developed on 40-acre spacing units.

CASE 5898: Application of Chace Oil Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Ballard-Pictured Cliffs and South Lindrith Gallup-Dakota production in the wellbore of its Jicarilla 70 Well No. 3 located in Unit C of Section 33, Township 24 North, Range 4 West, Rio Arriba County, New Mexico. In the alternative, applicant seeks authority to commingle said production at the surface without prior measurement and waiver of the gas-oil ratio test requirement.

CASE 5899: (This case will be continued and will be heard by the Commission at 2 p.m. on April 20, 1977, Oil Conservation Commission Conference Room, State Land Office Building, Santa Fe, New Mexico)

Application of Robert P. Wallach, Ray A. Wallach, and Patricia Louise Wallach House for an exception to Order No. R-3221, Lea County, New Mexico. Applicants, in the above-styled cause, seek, as an exception to the provisions of Commission Order No. R-3221, permission to construct and operate several earthen evaporation pits in the gravel pits in the SW/4 of Section 29, Township 21 South, Range 38 East, Lea County, New Mexico, for the disposal of produced salt water from oil and gas wells in Lea County, New Mexico.

Case 5895

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

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

MAR - 7 1977  
TELEPHONE 982-4315  
AREA CODE 505

March 8, 1977

Mr. Joe Ramey, Director  
New Mexico Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Dear Mr. Ramey:

Enclosed is the application of C & K Petroleum, Inc.,  
for compulsory pooling of the S/2 of Section 12, Township  
22 South, Range 26 East, Eddy County, New Mexico.

It is requested that this application be set for  
hearing on April 6, 1977.

Yours very truly,

*Jason W. Kellahin*

Jason W. Kellahin

JWK:kfm

Enclosure

DRAFT

dr/

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE NO. 5895

Order No. R- 5415

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

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 6, 1977  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this        day of April, 1977, the Commission,  
a quorum being present, having considered the testimony, the record,  
and the recommendations of the Examiner, and being fully advised  
in the premises,

FINDS:

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

(2) That the applicant, C & K Petroleum, Inc.,  
seeks an order pooling all mineral interests in the Wolfcamp  
and Pennsylvanian formations        underlying the S/2  
of Section 12, Township 22 South, Range 26 East,  
NMPM, South Carlsbad Field, Eddy County, New  
Mexico.



(3) That the applicant has the right to drill and proposes to drill a well/ at an unorthodox location 840 feet from the South line and 1760 feet from the East line of said Section 12.

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

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

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

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

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

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

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

while drilling and \$200.00 per month  
while producing

(11) That \$1000.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1977, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, Pennsylvanian in the Wolfcamp and /                      formations underlying the S/2 of Section 12, Township 22 South, Range 26 East, NMPM, South Carlsbad Field, Eddy County, New Mexico, are hereby pooled to form a standard 320 - acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 840 feet from the South line and 1760 feet from the East line of said Section 12.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of July, 1977, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp and Pennsylvanian formations;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of July, 1977, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Commission for good cause shown.

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

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

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

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

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

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

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

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

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

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs. while drilling and \$200.00 per month while producing are

(9) That \$1000.00 per month <sup>^</sup> hereby fixed as a reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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Case No.

Order No. R-

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

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

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

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

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

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Case No.  
Order No. R-

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