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BEFORE EXAMINER STAMETS OIL CONSERVATION EDITION EDITION CASE NO. 7973 Supplied by Historing Date

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BEFORE EXAMINER STAMETS
OIL CONSENVATION DIVISION
EXHIBIT NO. 2
CASE NO. 7973
Submitted by
Hearing Date



(915) 685-3368 300 West Texas St.—Suite 533 Midland, Texas 79701 (505) 623-2733 P. O. Box 1136 ROSWELL, NEW MEXICO 88201

April 26, 1983

Marathon Oil Company P.O. Box 552 Midland. TX 79702

Attention: Mr. E. L. Brimberry

Re:

Section 18: W/2 SE/4

T-18-S, R-34-E

Lea County, New Mexico

Gentlemen:

As we discussed last Friday, Santa Fe Exploration Company is forming a working interest unit composed of Section 17 and the E/2 of Section 18 (960 acres \pm) Township 18 South, Range 34 East. The purpose of the unit is to test the Bone Spring, Wolfcamp and Morrow formations. The initial test site is located 1980' FNL and 660' FEL of Section 18 and will be drilled to approximately 13,500'.

The following is a listing of prospective participants and their respective ownerships in the unit:

Marathon Oil Company	80A/960A	=	8.3333%
Stumhoffer and Carr	120A/960A	=	12.5000%
Superior Oil Company	240A/960A	=	25.0000%
Santa Fe Exploration Co.	520A/960A	=	54.1667%

Santa Fe requests that you farmout your acreage or join in the working interest unit. Should you determine to farmout, Santa Fe proposes to Marathon an overriding royalty interest of 10.5% proportionately reduced (77% NRI to the working interest unit). Marathon would also have the option after payout on the initial well to convert the override to a 25% working interest proportionately reduced. The conversion option would apply only on a Morrow well. On Bone Spring or Wolfcamp wells, Marathon would have a straight 10.5% override. The above terms are proposed on the same basis as Santa Fe's farmout from Amoco.

If you have questions or I can help in any way, please call me in Roswell.

Sincerely,

William A. McAlpine, Jr.

WAM: jam

BEFORE EXAMINER STAMETS
OIL CO MSERVATION DIVISION
EXHIBIT NO 3
CASE NO. 7973
Submitted by
Hearing Date



(915) 685-3368 300 West Texas St.—Suite 533 Midland, Texas 79701 (505) 623-2733 P. O. Box 1136 Roswell, New Mexico 88201

May 13, 1983

Marathon Oil Company P.O. Box 552 Midland, TX 79702

Attention: Mr. E. L. Brimberry

Re: Section 18: W/2 SE/4

T18S, R34E, Lea County, New Mexico

Gentlemen:

As we have discussed, Santa Fe Exploration Company is forming a working interest unit composed of Section 17 and the E/2 of Section 18 (960 acres \pm) T18S, R34E. Your acreage in Section 18 would be included in the unit. The initial purpose of the unit is to test the Bone Spring, Wolfcamp and Morrow formations. The initial test site is located 1980' FNL & 660' FEL of Section 18 and will be drilled to an approximate depth of 13,500'. The unit would begin immediately below the Queen formation and extend to all depths.

Santa Fe requests that you farmout your acreage or join in the working interest unit. Should you determine to farmout, Santa Fe proposes to Marathon an overriding royalty interest of 10.5% proportionately reduced (77% NRI to the working interest unit). Marathon would also have the option after payout on the initial well to convert the override to a 25% working interest proportionately reduced. The conversion option would apply only to a Morrow or deeper completion. On a completion above the Morrow, Marathon would have a straight override. By drilling the initial well, Santa Fe proposes to earn 100% of your interest below the Queen formation, save and except your override and option to convert, on your acreage in Section 18. The above terms are proposed on the same basis as Santa Fe's farmout from Amoco.

Santa Fe proposes that subsequent wells under the working interest unit would be developed on the following working interest basis:

Marathon	8.33% of acreage x 25% conversion =	2.0825% WI
Stumhoffer & Carr	12.5% of acreage x 25% conversion =	3.125% WI
Superior	25.0% of acreage x 25% conversion =	6.25% WI
Атосо	54.167% of acreage x 25% conversion =	13.54175% WI
Santa Fe	· · · · · · · =	75.00075% WI

The above calculations are presented assuming each participant in the working interest unit would elect to convert their override to a working interest after payout.

Should you elect to join, your working interest would be 8.33% and would be subject to the 25% reversionary interests after payout held by Amoco, Superior and Stumhoffer & Carr in a Morrow well.

Santa Fe will prepare an operating agreement for participants of the working interest unit. However, so that we may move forward with the operations and negotiations, please sign below indicating your acceptance and approval of the general terms described above.

If you have questions, please call me in Roswell.

Sincerely,

SANTA FE EXPLORATION COMPANY

William A. McAlpine, Jr.
WAM:jam
APPROVED AND ACCEPTED THIS DAY OF, 1983.
MARATHON OIL COMPANY
V + F (t)
RY

(915) 685-8368 800 West Texas St.—Suite 638 Midland, Texas 79701 (505) 623-2733 P. O. Box 1136 Roswell, New Mexico 88201

June 10, 1983

Mr. John P. Duddleston District Landman Marathon Oil Company P.O. Box 552 Midland, Texas 79702

Re:

W/2 SE/4 Section 18, T-18-S, R-24-E

Lea County, New Mexico

Dear Mr. Duddleston:

Thanks for your letter of June 9, 1983 regarding the above captioned property. As we discussed today on the telephone, we have agreed to alter our original proposal to accomodate Superior Oil Company. Principally the trade changes to allow for a conversion in the override to all depths in the unit rather than just the Morrow and deeper as outlined in my letter of May 13, 1983.

Again we appreciate your interest in this matter and hopefully the above will encourage Marathon to allow us to move forward with the drilling of a test well.

Sincerely,

William A. McAlpine, Jr.

WAM: jam



P.O. Box 552 Midland, Texas 79702 Telephone 915/682-1626

June 9. 1983

Santa Fe Exploration Co. P. O. Box 1136 Roswell, New Mexico 88201

Attention: Mr. William A. McAlpine, Jr.

Re: W/2 SE/4 Section 18, T-18-S, R-24-E Lea County, New Mexico

Gentlemen:

Reference is made to your letter of May 13, 1983 requesting that Marathon Oil Company either farmout its acreage or join in your proposed 960 acre working interest unit in Sections 17 and the E/2 of 18, T-18-S, R-34-E.

Marathon has reviewed your proposal and has determined that we have no interest in farming out our acreage or joining the proposed unit at this time.

Yours very truly,

MARATHON OIL COMPANY

John P. Duddleston District Landman

JPD/kb

Union Texas Petroleum Corporation

MEMORANDUM

DATE:

September 8, 1983

TO:

All Landmen

SUB IECT.

Drilling and Producing Well Overhead Rates

Joint Operating Agreements

We have been advised by our Houston office to be guided by the following when determining appropriate drilling and producing well overhead rates to be inserted in the COPAS form attached as Exhibit "C" to JOA's.

DEPTH	DRILLING RATE	PRODUCING RATE
to 12,000'	\$4945	\$495
below 12,000'	\$5495	\$550

LDC:gld

(915) 685-3368 300 West Texas St.—Suite 533 Midland, Texas 79701

(505) 623-2733 P. O. Box 1136 Roswell, New Mexico 88201

August 25, 1983

Mr. John P. Duddleston District Landman Marathon Oil Company P.O. Box 552 Midland, TX 79702

Re:

W/2 SE/4 Section 18, T-18-S, R-34-E Lea County, New Mexico

Dear Mr. Duddleston:

As we discussed on the phone several days ago, Santa Fe Exploration Company now has the approval of all lessees with the exception of Marathon to form a unit starting at the base of the Queen comprised of all of Section 17 and the E/2 of Section 18. We again request Marathon to join the unit and farmout to us on the same basis as Amoco, Superior and the independents who owned leases in this unit.

The trade would be Marathon to receive an overriding royalty interest of 10.5% proportionately reduced (77% NRI to the working interest unit). Marathon would also have the option after payout on the initial well to convert their override to a 25% working interest proportionately reduced.

Upon completion of the necessary papers we are prepared to move on a rotary rig for an immediate test of the Bone Spring, Wolfcamp and Morrow formations.

Thanks for your assistance in this regard.

Sincerely,

William A. McAlpine, Jr.

WAM: jam

Midland District Houston Division Production Exploration, U.S. & Canada



P.O. Box 552 Midland, Texas 79702 Telephone 915/682-1626

September 28, 1983

Santa Fe Exploration Co. P. O. Box 1136 Roswell, New Mexico 88201

Attention: Mr. William A. McAlpine, Jr.

Re: Marathon's Lease NM-1065 - State E-2444

W/2 SE/4 Section 18, T-18-S, R-34-E, N.M.P.M. Our E. K. Queen Area Lea County, New Mexico

Gentlemen:

Reference is made to your initial letter of May 13, 1983, and subsequent letters, meetings, and phone conversations concerning the formation of a working interest unit comprised of Section 17 and the E/2 of Section 18 (960 acres \pm), T-18-S, R-34-E, Lea County, New Mexico, from the base of the Queen formation to extend to all depths, to drill a well to test the Bone Spring, Wolfcamp, and Morrow formations at a location 1980' FNL and 660' FEL of Section 18.

You have requested that Marathon either farm out or join in said unit as to its acreage in the W/2 of SE/4 of Section 18, T-18-S, R-34-E. By letters dated June 9 and June 13, 1983, Marathon has advised that we have no interest in your proposal. However, in an effort to minimize the problems associated with the drilling of said well, Marathon would be willing to recommend to its management for final approval, that we proceed as if a Force Pooling Order has been issued by the New Mexico Conservation Commission allowing for a 150% risk penalty plus well cost (a 250% payout) proportionately reduced for the Morrow rights only or any zones allocated to a 320 acre proration unit, and a well rate of not more than \$5,000.00 per month drilling and \$500.00 per month producing, with Marathon receiving all well information and a call on production as to its interest.

If this alternative is acceptable to you, please advise.

Yours very truly,

MARATHON OIL COMPANY

John P. Duddleston District Landman

JPD:dkr

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WELI	COST ESTIM	OTHER					DATE	st 5, 1983
	State #1	No. W. Airstrip Prospect		COUNT Lea	Ÿ		STATE New Me	The state of the s
		980' FNL, Section 18, T-18-S, R-34-E						SUPPLEMENT NO.
	NZW EX	PLORATORY DEVELOPMENT W/O NO.	EST	. TOTAL DEP	500	10. (3-7)		LEASE NO.
DIREC	TIONS TO LOCA	rion			·			
		TANGIBLE EQUIPMENT		T				E 13 (1-2)
	ACCOUNT (8-14)	DESCRIPTION	MOM	QUANTITY	PRICE		DUCER OST 5 - 23)	DRY HOLE COST (24-32)
		13-3/8" 54.5# K-55 ST&C Surface		420	27.00	11,3	340	11,340
		8-5/8" 24# K-55 ST&C Intermediate		2200	13.00	28,6	00	28,600
ING.		8-5/8" 24# S-80 ST&C Intermediate		600	15.00		000	9,000
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-		TOTAL CASING	_	2000	14.00	39,0		93,140
ļ		2-7/8" 6.4# N-80 EUE - Production Tub	ing	13,000	6.00	78,0	000	0
		5000 PSI WP Wellhead				20,0	000	0
		Baker Model "D" Packer with 2 "F" Nip	ples			5,0	000	
		Flowline				5,0	000	
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OTHER THAN CASING		500 Barrel Steel Oil Tanks		2	6000	12,0	000	0
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ОТН		Miscellaneous Pipe Valves and Fitting	s			15,0	000	0
TUBING AND EQUIPMENT		Contingency 15%				26,2	260	13,860
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	16-500-70	TOTAL EQUIPMENT OTHER THAN CASING	+			199,2	260	13,860
		TOTAL TANGIBLE COSTS				462,0		107,000

BEFORE EXAMINER STAMETS OIL CONSERVATION DIVISION EXHIBIT NO. 4 CASE NO. 7973 Submitted by Hearing Dale_

Amoco State #1

		INTANGIBLE COS	TS		co state		
	ACCOUNT	DESCRIPTION	МОМ	QUANTITY	PRICE	PRODUCER COST (15-23)	DRY HOLE COST (24-37)
:		Turnkey Drilling Cost					
		Fontage 13,500 Ft @ 21.00 Per Ft.	<u> </u>			283,500	283,500
·# •		Dav Work W/DP 12 Days @ 5000 Per Day	_			60,000	60,000
. 2		Day Work WO/DP Days @ Per Day	_				
-			↓				
\dashv	18-310-21	TOTAL DRILLING CONTRACTOR SERVICES	┼			343,500	343,500
ន	16-310-31	Bits and Drilling Equipment Rental Drilling Mud and Chemicals	-			20,000	20,000
37	18-310-30	Power, Fuel and Water	┼			80,000	80,000
SE	18-310-32	Other Materials and Supplies	+-			20,000	20,000
MATERIAL ND SUPPLIES	18-310-32	· ·	+-			20,000	20,000
۲		TOTAL MATERIALS AND SUPPLIES				140,000	140,000
$\overline{}$	18-310-34	Drillsite Preparation	+-	<u> </u>			15,000
ľ	18-310-36	Equipment Rental	1				20,000
ľ	18-310-35	Logging and DST 5 DST's					80,000
Ī	18-310-37	Cementing Services and Cement]		15,000 20,000 80,000 60,000 10,000 20,000 10,000 20,000 50,000 10,000 20,000	40,000	
<u>"</u> [18-310-38	Fracing Services					
<u> </u>	18-310-39	Perforating Services	Π			10,000	0.
VICES	18-310-40	Squeezing Services	\prod				
ER [18-310-41	Acidizing Services				30,000	0
S	18-310-42	Trucking Services .				20,000	15,000
6	19-310-44	Welding and Roustabout	↓_				0
ACT	18-310-47	Gunna Chance Inspection	\perp				20,000
	18-310-48	Coring 3-60' Cores in B. Sprin	8				50,000
CONTR	18-310-49	Dama ges	1				
8 .	18-310-50	Parling Geodesians / Wellsite Geologists Mud Logging	_		· ·	20,000	
-	18-310-51	Adabiliaasias P&A	╄			0	20,000
1	18-310-52	Demobilization	┼-		ļ	50 000	/2 000
-	18-310-43	Other Services Contingency 15%	┼	<u> </u>	<u> </u>	50,000	40,000
}		TOTAL CONTRACTOR SERVICES	}			395,000	300,000
		TOTAL CONTRACTOR SERVICES Backfill Pits—Restore Location	╁	<u> </u>		10,000	10,000
N S		Completion Unit 20 Days @ 1500 Per Day	+			30,000	0
APLETION CLEANUP RVICES		20 bass e 1500 rei bas	十	-		30,000	
NO.			+-				
ဂ္ဂဆက	18-310-24	TOTAL COMPLETION & CLEANUP SERVICES	╁		 	40,000	10,000
		Field Supervision 80 Days @ \$ 50 /Day	+-			4,000	3,000
		Houston, Overhead 80 Days @ \$ 50 /Day		<u> </u>		4,000	3,000
50			\top	<u> </u>			
PEN	18-310-46	TOTAL OVERHEAD	T			8,000	6,000
AX A		District Expense 80 Days @\$ 25 /Day				2,000	1,500
COMPANY SOR EXPENSOVERHEAD		Geological Expense 80 Days @ \$ /Day				2,000	1,500
5							
_ [18-310-43	TOTAL COMPANY LABOR AND EXPENSES	L			4,000	3,000
[TOTAL COMPANY LABOR, EXPENSE, OVERHEAD				12,000	9,000
⊢∢×	18-836-00	TOTAL SALES TAX N. M. Sta	te	Tax		55,500	35,500
		TOTAL INTANGIBLE COSTS			·	986,000	838,000
		TOTAL TANGIBLE COSTS (From Page 1)				462,000	107,000
		GRAND TOTAL (GROSS)				1,448,000	
		UNION TEXAS-0-0 (8-12)				(13-21)	(22-30)
		UNION TEXAS 50.00 ACP %	1_			881,500	630,000

UTP-986-D