

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF OCCIDENTAL PERMIAN LTD.
FOR CANCELLATION OF A DRILLING
PERMIT, FOR A DETERMINATION OF
THE RIGHT TO DRILL, AND APPROVAL
OF A DRILLING PERMIT,
LEA COUNTY, NEW MEXICO

CASE NO. 13945

APPLICATION

OCCIDENTAL PERMIAN LTD. ("OPL") by its undersigned attorneys, Miller, Stratvert P.A., (J. Scott Hall) hereby makes application for an order canceling the drilling permit for the EOG Resources, Inc. Cimarron "17" State Well No. 1 located 1650' FNL and 330' FWL (Unit E) of Section 17, Township 18 South, Range 34 East, NMPM, Lea County, New Mexico.

Applicant also seeks a determination of its right to drill on the S/2 N/2, N/2 SW/4 and NE/4 NW/4 of Section 17, Township 18 South, Range 34 East, NMPM ("the Subject Lands"), and approval of its drilling permit for the OPL Desert Bighorn 17 State Well No. 1 to be drilled to the Bone Spring formation at a standard location in the SW/4 NW/4 (Unit E) of said Section 17 T-18-S, R-34-E. In support thereof, Applicant would show the Division:

1. OPL is the owner of one hundred percent of the working interest in the SW/4 NW/4 of Section 17, T18S, R35E, NMPM and has the right to drill thereon. Applicant plans to drill the OPL Desert Bighorn 17 State Well No. 1 to the Bone Spring formation at a location 1,650 feet from the North line and 330 feet from the West line of said Section 17 with the SW/4 NW/4 of Section 17 being dedicated thereto.

2. Previously, on approximately March 14, 2007, EOG Resources, Inc., (“EOG”), filed with the Division its application for permit to drill for the Cimarron “17” State Well No. 1 to be drilled to the Bone Spring formation from a location 1650 feet from the north line and 330 feet from the West line (Unit E) of said Section 17. EOG’s APD was approved by the Division’s District I office on March 15, 2007. As of this date, drilling of the Cimarron “17” State Well No. 1 has not commenced.

3. As part of its application for permit to drill, EOG made the following “Operator’s Certifications” on the Division’s Form C-102:

“I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location(s) or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the Division.”

At the time EOG filed its APD, EOG owned no interest in the SW/4 NW/4 of Section 17 or elsewhere in the Subject Lands and did not have the right to drill thereon. Consequently, EOG’s APD should not have been approved.

4. OPL is the successor in interest to Amoco Production Company in the Subject Lands. Amoco owned 100% of the lease interests in the SW/4 NW/4 of Section 17. Previously, on January 21, 1985 Amoco Production Company assigned 75% of its operating rights in those depths from the base of the Queen formation down to 14,100’ subsurface to Santa Fe Exploration Company (37.5%) and Union Texas Petroleum Corporation (37.5%). The assignments to Santa Fe Exploration and Union Texas included re-assignment provisions and were made subject to that Joint Operating Agreement dated September 30, 1983 under which Union Texas Petroleum Corporation was designated operator. Through various mesne assignments EOG Resources, Inc. purports to have succeeded to the interests, if any, of Santa Fe Exploration Company and Union

Texas Petroleum Corporation in the Subject Lands under the January 21, 1985 Amoco assignment. Notably, the January 21, 1985 assignment from Amoco to Santa Fe Exploration and Union Texas provided that the rights of the assignees were “*conclusively presumed*” to have been abandoned in the event of the cessation of production or operations for more than sixty consecutive days.

5. Previously, in approximately January of 1984, Union Texas Petroleum Corporation drilled and completed the Amoco State No. 1 Well in the SE/4 NE/4 of Section 18, T18S, R34E on the Subject Lands. The Amoco State No. 1 Well was subsequently plugged and permanently abandoned on October 31, 1997. For a period exceeding sixty days subsequent to October 31, 1997, no subsequent production or operations to restore production from the Amoco State No. 1 Well occurred. As a consequence of the cessation of production and the subsequent plugging and abandonment of the Amoco State No. 1 Well, all rights that EOG Resources, Inc.’s predecessors had previously owned in the subject lands became abandoned at that time.

6. Under the terms of the January 21, 1985 assignment, following abandonment, the assignee was obliged to immediately deliver a reassignment of its rights when requested to do so by the assignor. The terms of the assignment further provide that “[I]n *the event assignee fails or refuses to deliver a reassignment to assignor as provided herein, assignor may execute and record a document relating the facts and describing the title involved and upon the filing of such document in the county records where the lease acreage is located, all rights granted hereunder to assignee shall terminate absolutely and shall revert to and revest in assignor.*”

7. On April 11, 2007, OPL requested a reassignment of all right, title and interest in the assignment from EOG Resources, Inc. To date, EOG has failed and refused to deliver a reassignment to OPL. On April 30, 2007, OPL filed of record with the Lea County Clerk’s office

that Termination of Assignment of Operating Rights dated April 26, 2007 and effective sixty days after October 31, 1997. (Exhibit 1, attached).

8. As a result of the events described in paragraphs 1 through 7, above, EOG Resources, Inc. is without the right to drill on the subject lands. The right to drill instead belongs exclusively to OPL. Correspondingly, the ministerial approval by the Division's District I office of EOG's APD for the Cimarron 17 State Well No. 1 was in error and will prevent approval of the APD for the OPL Desert Bighorn 17 State Well No. 1.

9. In Order No. R-12108-C, the Oil Conservation Commission stated "that an applicant for permit to drill must have a good faith claim of title."¹ Order No. R-12108-C also set forth a specific administrative procedure to allow the agency to make a determination whether or not a good faith claim of title exists:

(f) Although the Division can and should cancel an APD when it properly determines that no such good faith claim exists, as the Commission determined, based on a district court judgment, in Order No. R-11700-B, it should not make that determination, which necessarily cannot be made on the face of the APD or from division records, without first giving the applicant notice and an opportunity for hearing.

(Order No. R-1208-C, ¶ 8). In Order No. R-12343-E,² the agency further clarified the operation of its APD's:

(30) In Application of Pride Energy Company, etc. the Commission found that an operator could file an application for permit to drill before it filed a pooling application. It did not find that an operator could actually drill a well on acreage on which it had no interest before the division or commission decided a pooling application....

(33) To prevent further misunderstandings in the interpretation of the Commission's orders, particularly in Case No. 13153, Application of Pride

¹ Application of Pride Energy Company for Cancellation of a Drilling Permit and Reinstatement of a Drilling Permit, etc., Lea County, New Mexico; Case No. 13153 de novo.

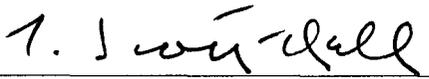
² Application of Samson Resources Company, Kaiser-Francis Oil Company and Mewbourne Oil Company for Cancellation of Two Drilling Permits and Approval of a Drilling Permit, Lea County, New Mexico, Case No. 13492 de novo and Application of Chesapeake Operating, Inc. for Compulsory Pooling, Lea County, New Mexico, Case No. 13493 de novo.

Energy Company, etc., Order No. R-12108-C and Application of TMBR/Sharp, Inc., Order No. R-11700-B, the Commission approves of the language on Division form C-102, field 17, concerning the operator's certification and asked the division to continue its use and to notify the commission of its plans to discontinue its use. That certification states "I hereby certify that the information contained herein is true and correct to the best of my knowledge and belief and that the organization either owns a working interest or unleased mineral interest in the land, including the proposed bottom-hole location, or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest or in a voluntary pooling agreement or compulsory hereto entered by the division".

10. As the owner of all right, title and interest in and to the Subject Lands, including the exclusive right to drill, OPL is entitled to approval of its APD for the OPL Desert Bighorn 17 State Well No. 1 on the SW/4 NW/4 of Section 17 T18S, R35E. As EOG is unable to demonstrate any basis to a claim to title to the lands, the previous approval of the APD for the Cimarron 17 State Well No. 1 must be revoked and rescinded.

WHEREFORE Applicant requests that this Application be set for hearing before a duly appointed examiner of the Oil Conservation Division on June 21, 2007 and that after notice and hearing as required by law, the Division enter its Order (1) determining that EOG Resources, Inc. is without the right to drill on the subject lands, (2) canceling the application for a permit to drill issued for the EOG Resources, Inc. Cimarron State "17" Well No. 1 (API No. 30-025-38347), (3) approving the APD for the OPL Desert Bighorn 17 State Well No. 1, and (4) making such other provisions as maybe proper.

MILLER STRATVERT P.A.

By: 
J. Scott Hall
Attorneys for Occidental Permian LTD
Post Office Box 1986
Santa Fe, New Mexico 87504-1986
(505) 989-9614

Termination of Assignment of Operating Rights

County of Lea §
 State of New Mexico §

Whereas, by Assignment of Operating Rights dated January 21, 1985, recorded in Book 455, page 664, Miscellaneous Records (**"the Assignment"**), Amoco Production Company assigned 75% of its operating rights in the lease insofar as it covers the NW/4 SE/4 Section 7, SW/4SW/4 Section 8, NW/4 Section 21, S/2 N/2, N/2SW/4 and NE/4NW/4 Section 17, N/2NE/4, SW/4NE/4 and E/2SE/4 Section 18, Township 18 South, Range 34 East, Lea County, New Mexico, limited to depths from the base of the Queen formation down to 14,100' subsurface (**"the Lease Acreage"**) to the following parties in the stated percentages: Santa Fe Exploration Company (37.5%) and Union Texas Petroleum Corporation (37.5%).

Whereas, such interest was subject to two unrecorded joint operating agreements (JOA) both of which expired 60 days after October 31, 1997, to wit:

JOA dated March 1, 1983 (as amended July 30, 1983)

- **Contract Area:** NW/4SE/4 Section 7, SW/4SW/4 Section 8, NW/4 Section 21, T18S, R34E
- **Operator:** Santa Fe Exploration Company
- **Non-Operators:** Amoco Production Company

JOA dated September 30, 1983

- **Contract Area:** Section 17 and the E/2 of 18, T18S, R34E
- **Operator:** Union Texas Petroleum Corporation
- **Non-Operators:** Amoco Production Company et al

Whereas, Occidental Permian Limited Partnership (**"OPL"**) successor in interest of Amoco Production Company under chain of title.

Whereas, the interest conveyed by the Assignment has been re-assigned to EOG Resources, Inc. and various other parties.

OPL, as successor in interest to Amoco Production Company as Assignor under the Assignment does hereby state and certify the following:

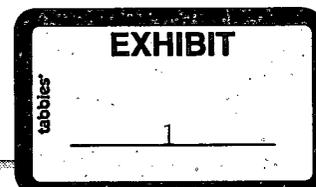
1. The Amoco State #1 well was drilled and located on the Lease Acreage and notice of plugging and abandonment was filed with the New Mexico Oil Conservation Division on October 31, 1997. Said well was the only well located on the Lease Acreage and there has been no production or operations to restore production for more than 60 days subsequent to October 31, 1997.
2. Amoco reserved in the Assignment a right of reassignment requiring the assignees to reassign their interest in the Leased Acreage within 60 days from the date the assignees elect to surrender or abandon the interest assigned therein or at such time as the lands assigned are no longer producing. Article V of the Assignment specifically provides:

Assignee shall not surrender, let expire, abandon, release, or fail to maintain by proper payment of delay rentals, royalties, shut-in gas well royalties, operations, or otherwise as may be necessary to maintain the interests of both Assignor and Assignee hereunder, all or any of its rights in said Lease Acreage, or any part thereof, unless Assignee has given Assignor written notice thereof at least sixty (60) days prior to such surrender, expiration, abandonment, or release, or to the time such payment, operations or other action is necessary to maintain said rights; **and thereafter, if requested so to do by Assignor, Assignee shall immediately reassign such rights in said Lease Acreage, or such part thereof, to Assignor.**

When (and if) production from the Lease Acreage has been established, it shall be conclusively presumed that Assignee has abandoned all rights hereunder unless Operations, as hereinafter defined, are thereafter conducted upon said Lease Acreage **with no cessation for more than sixty (60) consecutive days**

In the event Assignee fails or refuses to deliver a reassignment to Assignor as provided herein, Assignor may execute and record a document relating the facts and describing the title involved and upon the filing of such document in the County Records where the Lease Acreage is located, **all rights granted hereunder to Assignee shall terminate absolutely and shall revert to and revest in Assignor.**

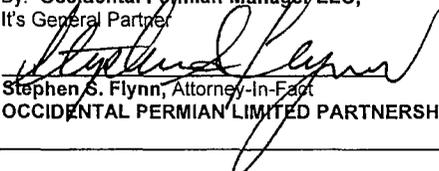
In the event any rights in the Lease Acreage revert or are assigned to Assignor under the provisions of this paragraph, **the same shall be free and clear of any and all overriding royalties, production or other payments, and other interests or rights acquired from and under Assignee, all of which shall be acquired subject to this limitation, and shall be extinguished and terminated upon such reversion or assignment.**



3. By letter dated April 11, 2007, OPL requested a re-assignment of all right, title and interest in the Assignment from EOG Resources, Inc. ("EOG") and advised EOG, that OPL intended to execute and record a document in the county records documenting the termination of the subject agreement per Article V, because of the diversity of the current title. To date, EOG has failed and/or refuses to deliver a reassignment to OPL as provided in the Assignment.
4. In such event, the Assignment expressly provides that "Assignor may execute and record a document relating the facts and describing the title involved and upon the filing of such document in the County Records where the Lease Acreage is located, **all rights granted hereunder to Assignee shall terminate absolutely and shall revert to and revest in Assignor.**"

Now, Therefore, pursuant to the express provisions of the Assignment, upon the filing of this instrument in the County Records of Lea County, New Mexico, all rights, titles and interests of Santa Fe Exploration Company and Union Texas Petroleum Corporation and their successors in interest, notwithstanding whether such successors are correctly identified hereinabove, in the Operating Rights of the Lease Acreage, are hereby absolutely terminated and extinguished and that all such rights, title and interest shall revert to and revest in OPL.

This Termination of Assignment of Operating Rights is executed this 26 day of April 2007 but shall be effective for all purposes as of 60 days after October 31, 1997.

OCCIDENTAL PERMIAN LIMITED PARTNERSHIP
 By: **Occidental Permian Manager LLC,**
 It's General Partner

 Stephen S. Flynn, Attorney-in-Fact
 OCCIDENTAL PERMIAN LIMITED PARTNERSHIP

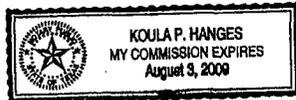
STATE OF TEXAS §
 §
 COUNTY OF HARRIS §

This instrument was acknowledged before me on this 26 day of April 2007, by **Stephen S. Flynn**, Attorney-In-Fact of Occidental Permian Manager LLC, a Delaware limited liability company, as General Partner of Occidental Permian Limited Partnership, a Texas Limited partnership, on behalf of Occidental Permian Limited Partnership.

Witness my hand and official seal.



Notary Public for the State of Texas
 My Commission Expires:



STATE OF NEW MEXICO
 COUNTY OF LEA
 FILED

APR 30 2007
 at 12:17 o'clock P M
 and recorded in Book _____
 Page _____
 Melinda Hughes, Lea County Clerk
 By RP Deputy

38223

