

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

**IN THE MATTER OF THE APPLICATION  
OF SUNVALLEY ENERGY CORPORATION  
FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.**

CASE NO. 12804

**APPLICATION**

SunValley Energy Corporation ("SunValley"), through its undersigned attorneys, hereby makes application pursuant to the provisions of NMSA 1978, § 70-2-17 for an order pooling all mineral interests in all formations developed on 40-acre oil spacing in the SW/4 NW/4 of Section 12, Township 18 South, Range 38 East, N.M.P.M., Lea County, New Mexico which includes but is not necessarily limited to the Undesignated East Bishop Canyon-San Andres Pool and the Undesignated Bishop Canyon-Queen Pool; and in support of its application states:

1. SunValley is a working interest owner in the SW/4 NW/4 of Section 12 and has the right to drill thereon.
2. Applicant proposes to dedicate the above-referenced spacing or proration unit to its Monk Well No. 1 to be drilled at a standard location 1980 feet from the North line and 660 feet from the West line of said Section 12, to an approximate depth of 4,900 feet to test any and all formations for oil production from the surface to the base of the San Andres formation.
3. Applicant has been unable to either locate or, if located, to reach a voluntary agreement for pooling or farmout with certain owners of interest in the subject 40-acre spacing and proration unit.

4. SunValley seeks a pooling order under the alternative procedure authorized by Division Rule 1207.A(1) (b) and in support of its application states:

- A. no opposition is expected at the hearing because each owner subject to pooling cannot be located with the exception of Devon Energy Corporation which has advised SunValley that it will not oppose the pooling application;
- B. a diligent search has been conducted of all public records in the county where the well is located and of phone directories and computer searches to locate each interest owner as fully set out in Exhibit D to this application;
- C. pooling will permit the drilling of a well for oil production from the San Andres and Queen formations; and
- D. overhead and administrative charges (fixed combined rates) of \$3602 per month while drilling and \$398 per month while producing (the 2000-2001 Ernst & Young average well costs overhead rates for wells to this depth in this area) should be authorized for this well (Exhibit A).

5. Attached to this application and incorporated herein are the following:

- A. a map outlining the spacing unit to be pooled showing and location of the proposed well (Exhibit B);
- B. the nature and percentage of the ownership interests in the subject spacing and proration unit (Exhibit C);
- C. the names and last known addresses of the interest owners to be pooled, the nature and percent of their interest and a written

summary of the efforts of SunValley to identify and obtain the voluntary participation in the well of each interest owner (Exhibit D);

D. copies of all written evidence showing attempts to gain voluntary agreement for the development of the subject spacing unit (Exhibit E);

E. a structure map of the San Andres formation and an Executive Summary for this project which contains a written assessment of the risk involved in the drilling of the well (Exhibit F and Exhibit G);

F. an AFE for the well (Exhibit H); and

G. the Affidavit of Tony Krakauskas, Vice-President of SunValley Energy Corporation, attesting to the correctness and completeness of the information in the application and the submittals attached hereto (Exhibit I).

6. Said pooling of interests will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

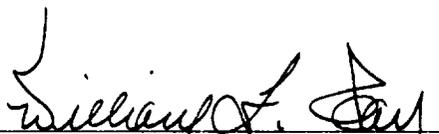
7. In order to permit the Applicant to obtain its just and fair share of the oil and gas underlying the subject lands, all mineral interests should be pooled, and Avra Oil Company, a working interest owner in the proposed spacing and proration unit and operator of offsetting San Andres and Queen wells, should be designated the operator of the well to be drilled.

WHEREFORE, SunValley Energy Corporation requests that this application be set for hearing before an Examiner of the Oil Conservation Division on February 7, 2002, and, after notice and hearing as required by law, the Division enter its order:

- A. pooling all mineral interests in the subject spacing and proration unit,
- B. designating Avra Oil Company operator of the unit and the well to be drilled thereon,
- C. authorizing Avra Oil Company to recover its costs of drilling, equipping and completing the well,
- D. approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures,
- E. adopting provisions for subsequent operations on the pooled lands, and
- F. imposing a penalty for the risk assumed by the Applicant in drilling and completing the well against any working interest owner who does not voluntarily participate in the drilling of the well.

Respectfully submitted,

HOLLAND & HART LLP

By:   
WILLIAM F. CARR  
Post Office Box 2208  
Santa Fe, New Mexico 87504  
Telephone: (505) 988-4421

ATTORNEYS FOR SUNVALLEY  
ENERGY CORPORATION

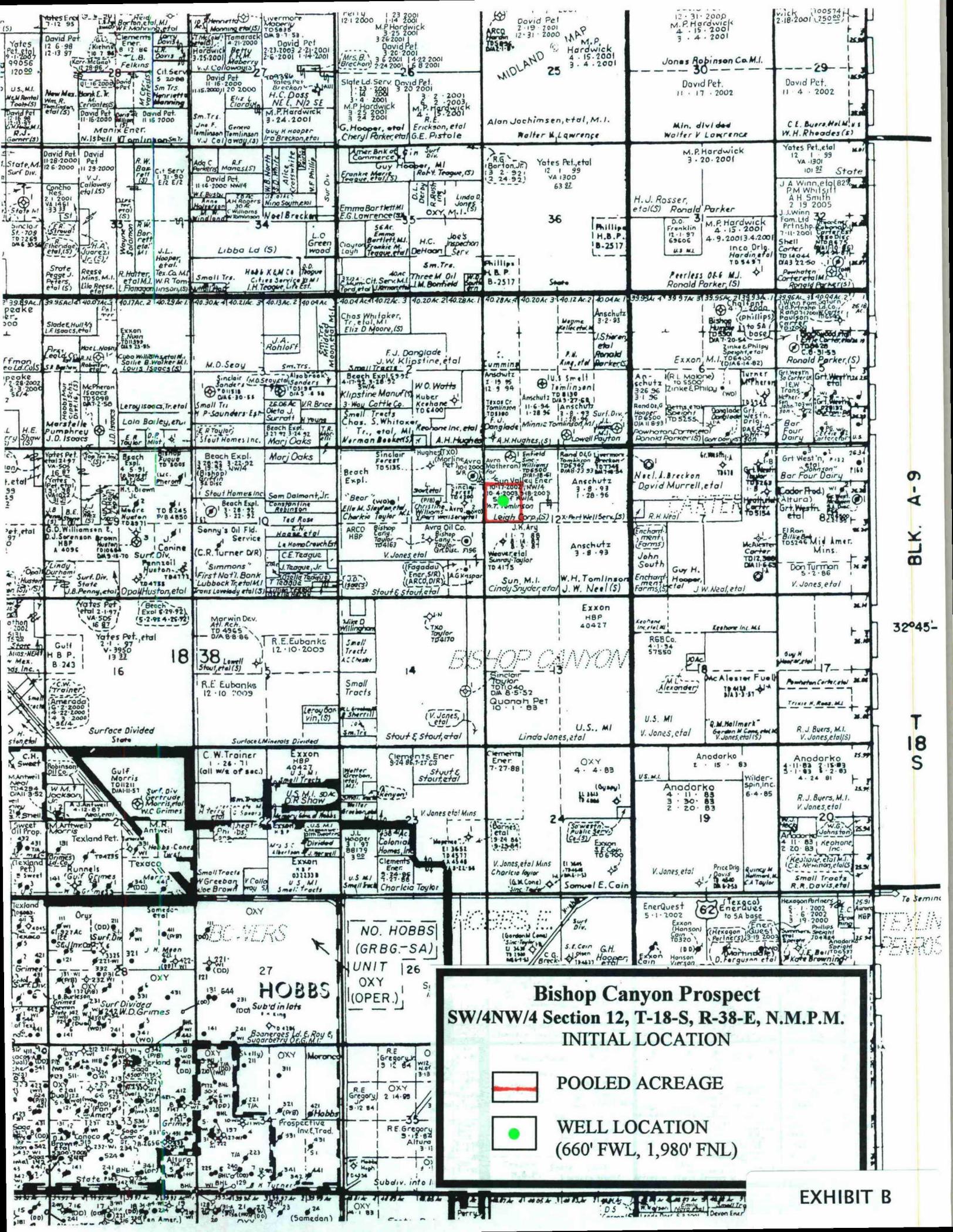
CASE 12804: Application of SunValley Energy Corporation for compulsory pooling, Lea County, New Mexico. Applicant in accordance with Division Rules 1207.A(1)(b), seeks an order pooling all mineral interests in all formations developed on 40-acre spacing in the SW/4 NW/4 of Section 12 Township 18 South, Range 38 East, NMPM, which includes but is not necessarily limited to the Undesignated East Bishop Canyon-San Andres Pool and the Undesignated Bishop Canyon-Queen Pool. Said unit is to be dedicated to its Monk Well No. 1 to be drilled at a standard location 1980 feet from the North line and 660 feet from the West line of said Section 12 to a depth sufficient to test all formations from the surface to the base of the San Andres formation. 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, designation of Avra Oil Company as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 2 miles northeast of Hobbs, New Mexico. **IN THE ABSENCE OF OBJECTION THIS MATTER WILL BE TAKEN UNDER ADVISEMENT.**

# New Mexico

## Monthly Drilling Well Fixed Overhead Rates

## Monthly Producing Well Fixed Overhead Rates

Responses	Wells	Depth	Monthly Drilling Well Fixed Overhead Rates				Monthly Producing Well Fixed Overhead Rates			
			Minimum	Average	Median	Maximum	Minimum	Average	Median	Maximum
25	318	0 – 5,000	\$1,430	\$3,602	\$3,500	\$6,000	\$100	\$398	\$334	\$656
25	300	5,001 – 10,000	\$2,000	\$4,759	\$5,014	\$7,000	\$200	\$573	\$525	\$2,011
14	130	10,001 – 15,000	\$5,500	\$6,751	\$6,750	\$7,605	\$540	\$718	\$700	\$1,039
5	6	15,001 – 20,000	\$8,000	\$8,123	\$8,000	\$8,614	\$800	\$870	\$800	\$1,150
		Over 20,000								
181	3,191	No Depth Limit	\$250	\$4,654	\$5,038	\$10,497	\$50	\$615	\$578	\$2,273



**Bishop Canyon Prospect**  
**SW/4NW/4 Section 12, T-18-S, R-38-E, N.M.P.M.**  
**INITIAL LOCATION**

- POOLED ACRES
- WELL LOCATION  
(660' FWL, 1,980' FNL)

BLK. A-9  
32°45'  
T 18 S

<b>BISHOP CANYON PROSPECT</b>				
<b>S/2NW/4 OF SECTION 12, T-18-S, R-38-E, LEA CO., NM</b>				
<b>OWNER</b>	<b>FRACTION OWNED</b>	<b>% OWNED</b>	<b>NET ACRES</b>	<b>STATUS</b>
<b>LEASED INTEREST</b>				
Summers Lease	1/32	3.1250%	2.5000	HBP
Williams Lease	19/32	59.3750%	47.5000	HBP
Dorothy Hoffman Wright	3/320	0.9375%	0.7500	Leased to SVE
W.A. Hoffman, Jr.	3/320	0.9375%	0.7500	Leased to SVE
Clarence Hoffman	3/320	0.9375%	0.7500	Leased to SVE
Wilba Hoffman Groves	3/320	0.9375%	0.7500	Leased to SVE
Louella Monk	3/320	0.9375%	0.7500	Leased to SVE
Modell Fulkerson	3/320	0.9375%	0.7500	Leased to SVE
William Clem	1/320	0.3125%	0.2500	Leased to SVE
Sandra Hardwick	1/320	0.3125%	0.2500	Leased to SVE
Eddie Clem	1/320	0.3125%	0.2500	Leased to SVE
James K. Lusk	1/40	2.5000%	2.0000	Leased to SVE
June Lykins	1/40	2.5000%	2.0000	Leased to SVE
Texaco Production Co.	9/80	11.2500%	9.0000	Leased to SVE
Ronald J. Byers	1/80	1.2500%	1.0000	Leased to SVE
James Millward (2)	1/16	6.2500%	5.0000	Unable to locate
Ruth E. Rouse (2)	1/16	6.2500%	5.0000	Unable to locate
Frankie Oldenburg (2)	3/320	0.9375%	0.7500	Unable to locate
<b>TOTAL</b>	<b>100%</b>	<b>100.0000%</b>	<b>80.0000</b>	
<b>HBP INTEREST</b>				
	<b>NET ACRES</b>			
SunValley Energy	32.1575			
Avra Oil Co. et al	14.7175			
Don Ingram	3.1250			
<b>TOTAL</b>	<b>50.0000</b>			
<b>TRACT SUMMARY</b>				
	<b>HBP</b>	<b>LEASE</b>	<b>MINERALS</b>	<b>TOTAL</b>
	<b>NET ACRES</b>	<b>NET ACRES</b>	<b>NET ACRES</b>	<b>NET ACRES</b>
SunValley Energy	14.7175	19.2500	0.0000	33.9675
Avra Oil Co. et al	32.1575	0.0000	0.0000	32.1575
Don Ingram	3.125	0.0000	0.0000	3.1250
Unable to Locate	0.000	0.0000	10.7500	10.7500
<b>TOTAL</b>	<b>50.000</b>	<b>19.2500</b>	<b>10.7500</b>	<b>80.0000</b>

## List of Pooled Parties

Initial Location - Monk #1  
SW/4NW/4 Section 12, T-18-S, R-38-E, N.M.P.M.  
Lea Co., New Mexico

	<u>Person &amp; Last Known Address</u>	<u>Mineral Interest</u>	<u>Net Acres</u>
1)	Ruth E. Rouse 1245 Cherry St. Denver, CO 80220 (Unlocated)	1/16	2.500
2)	James Millward Unknown Address (Unlocated)	1/16	2.500
3)	Frankie Oldenburg 8600 Conturas, Apt. 43 Paramount, CA 90723 (Unlocated)	3/320	.375
		<u>Leasehold Interest</u>	
4)	Devon Energy Corporation 20 N. Broadway Ave., Suite 1500 Oklahoma City, OK 73102-8296	7.8125%	3.125
			<u>Total Acres 8.500</u>

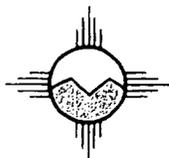
I hereby affirm that the following efforts were made to contact the above parties:

- 1) The last oil and gas lease given by Ruth E. Rouse was taken in 1980 listing the above address. A search of the Denver, CO phone book and online computer search services indicates Mrs. Rouse no longer lives at this address. I contacted the residents of adjoining properties and the current resident of the address listed. They all are unaware of her whereabouts with one neighbor stating that she may have moved to New Mexico approximately 15 years ago. A search of New Mexico telephone listings indicates no listing.
- 2) James Millward acquired his interest in 1930. There is no record of any oil and gas leases taken on this interest or any indication of subsequent conveyances from Mr. Millward. There is no address given on the original mineral deed.
- 3) Ms. Frankie Oldenburg is the only known direct heir of Clifton Clem (deceased 1988). No prior oil and gas leases has been given by Ms. Oldenburg. A sister of Mr. Clem provided the address listed above but stated that this address is 7-8 years old. She stated that she has lost contact with Ms. Oldenburg and does not know where she currently resides. A search of the Los Angeles area telephone and online computer services indicates no current listing.

- 4) By proposal letter dated March 6, 2001, Devon Energy Corporation was solicited by SunValley to sell all of the interest in the subject lands for adequate consideration. The staff of Devon was subsequently contacted numerous times inquiring as to the status of our proposal. Devon stated that they were unable to verify their interest by virtue of the incomplete files received from the recent acquisition of this interest. SunValley accommodated their request for documentation regarding their ownership by providing various instruments verifying their interest. Since then, there has been no response to our continued inquiries. Finally, a well proposal dated November 6, 2001, along with an AFE, was sent to Devon offering the opportunity to either: i) participate in the drilling of the Monk #2, or ii) sell their interest to SunValley under similar terms to the original offer, or iii) farmout their interest to SunValley. SunValley is again waiting on a response.

SunValley Energy Corporation

By: Tony Krakauskas  
Tony Krakauskas, Vice-President



**SunValley  
Energy Corporation**

P.O. Box 1000  
Roswell, New Mexico 88202  
505-625-9152  
(Fax) 505-625-2462

November 7, 2001

Mr. Richard Winchester  
c/o Devon Energy Corporation  
20 N. Broadway Ave., Suite 1500  
Oklahoma City, OK 73102-8296

405/228-4415

CONTACTED

12/10/01 - RICHARD WILL  
SEE CK ON  
REQUEST &  
GET BACK TO ME  
- 1 STAMP WE  
WILL FILE FP  
IN 2 WKS

RE: Well Proposal - Monk #1 & #2  
T-18-S, R-38-E, N.M.P.M.  
Section 12: NW/4  
Lea Co., New Mexico

Dear Mr. Winchester:

12/17/01

By correspondence dated March 6, 2001, SunValley Energy Corporation submitted an offer to Devon Energy Corporation proposing to purchase all of the interest of Devon, comprising 15.00 net HBP leasehold acres, under the captioned lands. To date, we have not received a response to our proposal. SunValley, along with Avra Oil Company as operator, are preparing to commence drilling operations on the Monk #1 well to be located at a legal location in the SW/4NW/4 of Section 12 to test the San Andres Formation at an approximate depth of 5,000 sub-surface. If the #1 well is successful, the Monk #2 well will be commenced in the SE/4NW/4 of Section 12.

In an effort to commence operations in a timely manner, SunValley hereby proposes the following for your consideration:

- 1) Devon may participate in the drilling of the Monk #1 and Monk #2, by paying their proportionate share (7.8125% WI) of the drilling and completion expenses as set out on the attached AFE and executing a governing Joint Operating Agreement; or,
- 2) Assign to SunValley all of Devon's HBP leasehold interest in the captioned lands for a consideration of \$100.00 per acre, executing a three (3) year term assignment and retaining, as an ORRI, the difference between existing burdens and 75%. Our records indicate the HBP leases are currently burdened by royalty and ORRI's of 23.625%; or,
- 3) Farmout said interest under mutually agreeable terms, retaining, as an ORRI, the difference between existing burdens and 75%. Upon completion of a 180 day continuous development program, SunValley will re-assign all non-producing proration units and all depths below 100' beneath the deepest depth drilled as to the producing proration units.

**EXHIBIT E**

Devon Energy Corporation  
November 7, 2001  
Page 2

SunValley is currently filing application for compulsory pooling of the S/2NW/4 of Section 12 and will name Devon as a pooled party. Therefore, your consideration of and timely response to our proposal is appreciated. Please feel free to contact me at (505) 625-9152 should you have any questions or comments. I look forward to visiting with you soon in this regard.

Sincerely yours,

SunValley Energy Corporation

A handwritten signature in cursive script that reads "Tony Krakauskas".

Tony Krakauskas

Enclosure



**SunValley  
Energy Corporation**

P.O. Box 1000  
Roswell, New Mexico 88202  
505-625-9152  
(Fax) 505-625-2462

March 6, 2001

Mr. Ken Gray  
c/o Devon Energy Corporation  
20 N. Broadway Ave., Suite 1500  
Oklahoma City, OK 73102-8296

RE: HBP Acreage  
T-18-S, R-38-E, N.M.P.M.  
Section 12: NW/4  
Lea Co., New Mexico

*KEN GRAY (LAND TECH)*  
*KELLY ROBERTSON*  
*405/552-4655*  
*405/552-4633*  
*KEN GRAY*

*CALLS 9/23/01*  
*- LOOKING @ OFFER - WILL CALL BACK*

Dear Ken:

SunValley Energy Corporation is developing a prospect which encompasses the captioned 160.00 acre tract, among other lands. We have already procured numerous oil & gas leases under these lands, however, we have determined that a substantial portion of the acreage is held by production (HBP) from the Avra Oil Co. operated Williams #1 & #2 wells located in the NE/4 of Section 11. Devon Energy Corp.'s predecessor, Snyder Oil Corporation, sold its working interest in the Williams wells some time ago, meanwhile, retaining its interest in the NW/4 of Section 12.

Our records indicate Devon to own the following interest in the captioned lands:

<u>TRACT</u>	<u>INTEREST</u>	<u>NET ACRES</u>	<u>DEPTH LIMIT</u>
N/2NW/4	12.5% x 70 net acres	8.75	None
S/2NW/4	12.5% x 50 net acres	<u>6.25</u>	None
		15.00 TOTAL	

The two original HBP oil & gas leases covering Devon's interest are burdened by a 3/16th royalty (81.25% NRI leases). The Assignment wherein Snyder received its working interest did not contain any reservations of overriding royalty interest. However, such Assignment did reference an unrecorded Letter Agreement dated June 11, 1981, which may have contained a contractual reservation of ORRI. We have been unable to secure a copy of this Letter Agreement to disclaim or verify the existence of any additional lease burdens other than the 18.75% royalty.

*DEVON'S NRI*  
*74.375%*

In an effort to aggregate the balance of the lands needed to fully develop our prospect, SunValley hereby asks for your consideration of the following proposal:

- 1) SunValley to pay Devon \$100.00 per acre for a three (3) year term assignment of Devon HBP leasehold interest in the captioned lands.
- 2) In said assignment, Devon to reserve as an overriding royalty interest the difference between existing lease burdens and 22% thereby delivering to SunValley an 78% NRI lease.
- 3) Upon completion of a 180 day continuous development program, SunValley will re-assign all non-producing proration units and all depths below 100' beneath the deepest depth drilled as to the producing proration units.

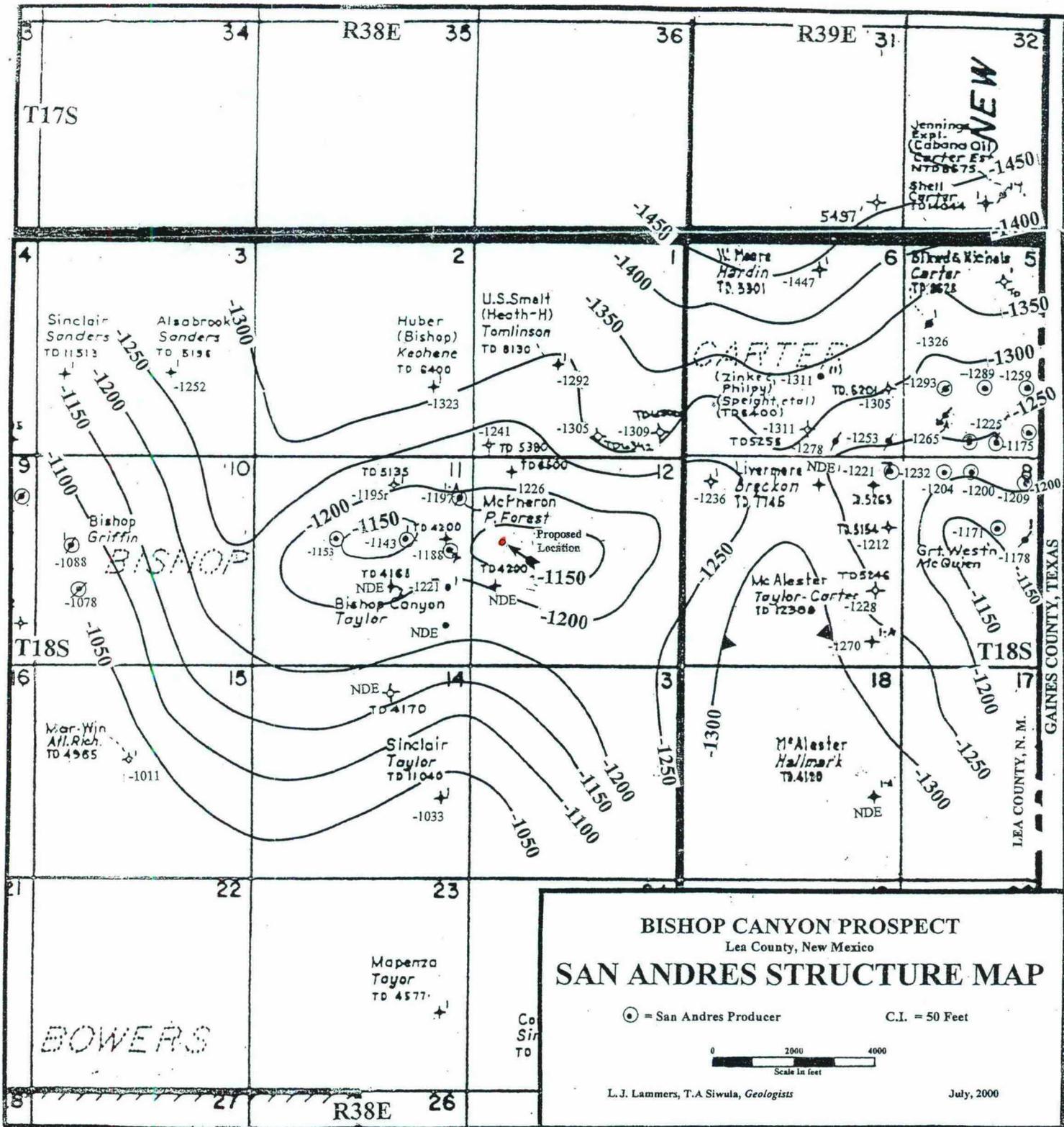
Your consideration of and timely response to our proposal is appreciated. Please feel free to contact me at (505) 625-9152 should you have any questions or comments. I look forward to visiting with you soon in this regard.

Sincerely yours,

SunValley Energy Corporation



Tony Krakauskas



**SUNVALLEY ENERGY CORP.**  
**BISHOP CANYON PROSPECT**  
Lea County, New Mexico

**BISHOP CANYON PROSPECT  
~ EXECUTIVE SUMMARY ~  
LEA CO., NEW MEXICO**

SunValley Energy Corporation ("SunValley") and Avra Oil Company ("Avra"), as operator, are proposing the drilling of the Monk No. 1 well located approximately 2 miles northeast of Hobbs, New Mexico in east central Lea County. The well will test a known San Andres structure with reserve potential of 125,000 BOE/well on 40 acre spacing. Geological mapping indicates that the test well is located on an eastern extension of this feature. In addition to the San Andres, the Queen sandstone could likely contribute significant oil production to the project.

The Bishop Canyon Prospect is situated between two major San Andres fields. Detailed mapping shows a well developed east-west ridge between the Bishop Canyon East Field in Section 11-T18S-R38E on the west and extending toward the Carter Field in Section 5 & 8-T18S-R39E to the east. The existence of this ridge is further bolstered by the proximity of two San Andres penetrations immediately to the north that are flat on the San Andres zone indicating the presence of this ridge to the south.

The New Mexico portion of the Carter Field has produced over 2,263,000 BO from 11 wells which averages to more than 200,000 BO per well. The best San Andres well in the Bishop Canyon East Field has produced, to date, 79,500 BO and 1.48 BCFG. The best Queen well in the Bishop Canyon East Field has produced, to date, 197,300 BO.

The proposed drilling of the Monk No. 1 presents an excellent opportunity to drill a low risk proven San Andres location at reasonable depth and cost. If successful, our assigned reserves of 125,000 BOE per well on 40 acre spacing should make for an excellent return on investment. Together with the Queen potential, the reserves for a single San Andres penetration could easily exceed 200,000 BOE. If we are successful in the initial well, there are additional offset locations available with the existing leasehold being offered. Avra Oil Company, the operator of this project, also operates several offset wells in Section 11 to the west and is well qualified and extremely knowledgeable regarding the drilling and operating procedures for the target zones.

SunValley and Avra request that a 200% charge for risk be imposed on any interest not voluntarily committed to the well. This penalty is justified because the subject well must be completed in the San Andres Queen formations on a narrow structural ridge. Failure to penetrate these formations on this structural high can result in the well being wet and non-productive. This risk is underscored by two offsetting wells in the S/2 NE/4 of Section 11. The San Andres formation well in the SE/4 NE/4 of Section 11 at a depth of -1143 feet is a commercial well whereas the offsetting San Andres well in the SW/4 SE/4 of Section 11 at a depth of -1183 is wet.

**AUTHORITY FOR EXPENDITURE**

Lease Name: **MONK** Well No: **1** Date: **10-25-01**  
 Location: **660' FWL & 1,980' FNL, SEC. 12, T-18-S, R-38E**  
 County: **LEA** State: **NM** Total Depth: **4900'** Field: **N.E. BISHOP SAN ANDRES**

**DRILLING INTANGIBLES**

	<u>CASING POINT</u>	<u>PRODUCER</u>
Prepare Location, Road Damages & Legal	\$ 5,000	5,000
Footage 4900 ft. @ \$ 15/ft.	73,500	73,500
Day Work 1 Days WPD @ \$ 7000/Day	7,000	7,000
Day Work 1 Days WOPD @ \$ 7000/Day	7,000	7,000
Drilling Mud & Chemicals	5,000	5,000
Fuel, Water & Power	7,500	7,500
Well Logging Services	6,000	6,000
Mud Logging	2,500	2,500
Drill Stem Testing	1,500	1,500
Casing Crew	1,000	1,000
Float Equipment, Centralizers, etc.	1,000	1,000
Cement & Services-Cond., Surface, Inter.	3,000	3,000
Trucking & Labor	2,500	2,500
Overhead & Supervision (Engineer & Geologist)	2,500	2,500
Restore Location, Plug & Abandon	4,000	
Miscellaneous Costs & Contingencies	5,000	5,000
<b>TOTAL DRILLING INTANGIBLES</b>	<b>\$ 134,000</b>	<b>130,000</b>

**COMPLETION INTANGIBLES**

Cement & Services - Production Casing	\$ 8,000	8,000
Completion Unit 5 Days @ \$ 2000/Day	12,000	12,000
Perforating & Cased Hole Logging	2,500	2,500
Frac Tanks	1,000	1,000
Frac Fluids	1,000	1,000
Stimulation (Acidizing, Fracturing)	3,000	3,000
Tool Rentals	1,000	1,000
Engineering Supervision	2,500	2,500
Trucking & Labor	2,500	2,500
Miscellaneous	5,000	5,000
<b>TOTAL COMPLETION INTANGIBLES</b>	<b>\$ 38,500</b>	<b>38,500</b>

**TOTAL INTANGIBLES** **\$ 172,500** **168,500**

**TANGIBLES**

Casing: Surface 400 ft. of 8 5/8" @ \$8 /ft.	3,200	3,200
Prod 4900 ft. of 5 1/2" @ \$5 /ft.		24,500
Tubing 4900 ft. of 2 3/8" @ \$1.5 /ft.		7,350
Float Equipment, Centralizers, etc.		1,000
Wellhead Assembly	500	1,000
Pumping Unit, Prime Mover, Electrification		15,000
Subsurface Equipment, Packer, Rods, Pump etc.		10,000
Tanks		10,000
Separators & Treater		2,500
Line Pipe, Connectors & Miscellaneous		1,500
Installation of Surface Facilities		2,500
<b>TOTAL TANGIBLES</b>	<b>\$ 3,700</b>	<b>78,550</b>

**TOTAL TANGIBLES & INTANGIBLES** **\$ 176,200** **247,050**

**TOTAL WELL COSTS** **\$ 176,200** **247,050**

**APPROVALS:**

Operator: Avra Oil Company

By: *Saeed Afghahi*  
 Saeed Afghahi, President

Date: *10-28-01*

