

MILNESAND ABO FIELD
LEA AND ROOSEVELT COUNTIES, NEW MEXICO
ECONOMICS OF DRILLING ON
40 ACRE VS 80 ACRE SPACING

1. 80 ACRE SPACING:

RECOVERABLE RESERVES = 130,000 BARRELS OF OIL
DRILLING COST = \$510,000

ECONOMICS:

INCOME 130,000 X .80 X 20 X .925 = \$1,924,000
OPERATING EXPENSE 15 X 12 X 2500 = 450,000
NET OPERATING INCOME = 1,474,000
DRILLING COST = 510,000
NET PROFIT = \$964,000

PROFIT TO INVESTMENT RATIO = $\frac{964,000}{510,000} = 1.89$

2. 40 ACRE SPACING:

RECOVERABLE RESERVES = 65,000 BARRELS OF OIL
DRILLING COST = \$500,000

ECONOMICS:

INCOME 65,000 X .80 X 20 X .925 = \$962,000
OPERATING EXPENSE 10 X 12 X 2500 = 300,000
NET OPERATING INCOME = 662,000
DRILLING COST = 500,000
NET PROFIT = 162,000

PROFIT TO INVESTMENT RATIO = $\frac{162,000}{500,000} = .32$

NOTE THAT THE PROFIT TO INVESTMENT RATIO IS JUST BARELY ACCEPTABLE FOR EIGHTY ACRE SPACING, AND THAT THE PROFIT TO INVESTMENT RATIO IS COMPLETELY UNACCEPTABLE FOR FORTY ACRE SPACING. THIS FIELD CANNOT BE ECONOMICALLY DEVELOPED ON ANY SPACING LESS THAN 80 ACRES.

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
<u>KNOY</u>	EXHIBIT NO. <u>7</u>
CASE NO. <u>10280</u>	

Post-It™ brand fax transmittal memo 7671 # of pages 1

To <i>Mary Alice Knox</i>	From <i>Frank Novy</i>
Co.	Co.
Dept.	Phone #
Fax #	Fax #

KNOX INDUSTRIES, INC.

POST OFFICE BOX 3023 • MIDLAND, TEXAS 797

M. A. KNOX
PRESIDENTTELEPHONE: (915) 682-62
FAX: (915) 682-31

September 12, 1991

Petroleum Production Management, Inc.
209 E. Williams, Suite 200
Wichita, Kansas 67202

Attention: Frank Novy

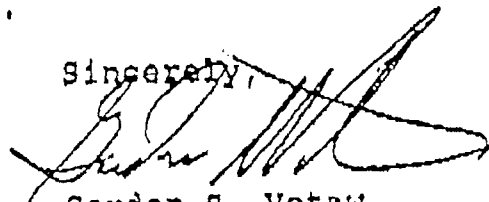
Re: Milnesand Abo Field
Lea & Roosevelt Counties,
New Mexico

Dear Frank:

Knox Industries, Inc. is applying for 80 acre spacing in the
above referenced field.

If PPM concurs that one (1) well every 80 acres will
sufficiently drain this field, please so indicate by signing
in the space provided below.

Sincerely,



Gordon S. Votaw
Land Department

GSV/jp

AGREED AND ACCEPTED:

By: *Frank E. Novy - Sr. V.P.*
Petroleum Production Management, Inc.

GSV-PPM

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
<i>Knox</i>	EXHIBIT NO. <i>8</i>
CASE NO. <i>10280</i>	