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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9977

EXAMINER HEARING

IN THE MATTER OF:

Application of Pacific Enterprises Oil Company
(USA) for compulsory pooling, Eddy County, New
Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

July 25
~~August 7~~, 1990

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18
19 ALSO PRESENT:

20 JAMES MORROW
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23 State Land Office Building
24 Santa Fe, New Mexico 87504

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BEFORE: DAVID R. CATANACH, EXAMINER

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SANTA FE, NEW MEXICO

June 27, 1990

A P P E A R A N C E S

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	I N D E X	Page Number
1		
2		
3	Appearances	2
4	Exhibits	3
5	TERRY GANT	
6	Direct Examination by Mr. Pearce	5
7	Cross-Examination by Mr. Carr	11
8	Redirect Examination by Mr. Pearce	16
9	Examination by Examiner Catanach	17
10	RICK RICKETTS	
11	Direct Examination by Mr. Pearce	19
12	Examination by Examiner Catanach	25
13	Certificate of Reporter	31
14	* * *	
15		
16	E X H I B I T S	
17	APPLICANT'S EXHIBITS:	
18	Exhibit 1	6
19	Exhibit 2	6
20	Exhibit 3	8
21	Exhibit 4	9
22	Exhibit 5	20
23	Exhibit 6	20
24	Exhibit 7	23
25	* * *	

1 WHEREUPON, the following proceedings were had
2 at 11:40 a.m.:

3

4 EXAMINER CATANACH: At this time we'll call
5 Case 9977.

6 MR. CARROLL: Application of Pacific
7 Enterprises Oil Company (USA) for compulsory pooling,
8 Eddy County, New Mexico.

9 EXAMINER CATANACH: Are there appearances in
10 this case?

11 MR. PEARCE: May it please the Examiner, I'm
12 W. Perry Pearce with the law firm Montgomery and
13 Andrews, appearing in this matter on behalf of the
14 Applicant.

15 I have two witnesses to be sworn.

16 MR. CARR: May it please the Examiner, my
17 name is William F. Carr with the law firm Campbell and
18 Black, P.A., of Santa Fe.

19 I represent Yates Petroleum Corporation, and
20 I do not intend to call a witness.

21 EXAMINER CATANACH: Any other appearances?
22 Will the two witnesses please stand and be
23 sworn in?

24 (Thereupon, the witnesses were sworn.)

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TERRY GANT,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. PEARCE:

Q. For the record, sir, would you please state your name and your employment?

A. Terry Gant. I work for Pacific Enterprises.

Q. Mr. Gant, what's your responsibility with Pacific Enterprises?

A. I'm a landman.

Q. And have you previously appeared before the New Mexico Oil Conservation Division as a petroleum landman and had your education and experience made a matter of record, and have you been accepted as an expert in that field?

A. Yes.

Q. And are you familiar with the Application filed by Pacific Enterprises in Case 9977 that's being heard today?

A. Yes.

MR. PEARCE: Mr. Examiner, at this time I would ask that Mr. Gant be again recognized as an expert in the field of petroleum land matters.

EXAMINER CATANACH: He is so qualified.

1 Q. (By Mr. Pearce) Mr. Gant, at this time I
2 would like you, please, to look at what we have
3 previously marked as Exhibit Number 1 to this
4 proceeding. Please explain what the first page of that
5 exhibit reflects.

6 A. The first page is going to reflect basically
7 ownership on a plat basis. Underneath, then, will be
8 basically a more detailed breakout.

9 Q. And that reflects all interest owners in the
10 tract you're proposing to pool today?

11 A. Yes, sir.

12 Q. Let's turn quickly to what we've marked as
13 Exhibit Number 2, please. What is that exhibit?

14 A. That will be the first letter I sent to the
15 remaining -- or the other working-interest owners in
16 the east half of Section 34, which basically spells out
17 that we'd like to drill a 10,800-foot Morrow test well
18 at a standard location, being 1980 from the south, 1980
19 from the east line of said Section 34.

20 Also attached was an AFE or estimated well
21 cost for that well, and basically stating that we would
22 like to place all mineral interests from below the base
23 of the Abo Formation to the base of the Morrow
24 Formation into such unit.

25 Q. All right, sir. If I may interrupt the

1 witness for a moment, Mr. Examiner, and explain a
2 problem.

3 The legal advertisement for this case
4 specifies only a portion of the formations that were
5 set forth in this notice letter, and there's some lack
6 of clarity in the Application itself.

7 It appears to me that readvertisement as to a
8 part of the formations will be necessary, and I'd like
9 the witness to describe to us his understanding of the
10 legal advertisement of this case, which is shown on the
11 docket, and what's reflected in your letter.

12 A. Okay. In the letter, actually in Exhibit 2
13 and Exhibit 3, in both letters that went out, again we
14 were talking about pooling or using, I guess, or
15 forming a standard 320 gas unit for the formations
16 being below the base of the Abo to the base of the
17 Morrow Formation.

18 And in the Application it states basically,
19 if I remember correctly, it would be the Empire --
20 Empire-Pennsylvania Gas Pool which, again, to my
21 understanding, covers all formations except for the
22 Wolf Camp.

23 Q. Okay.

24 A. And the Wolf Camp we would like to be
25 included.

1 Q. And therefore it's your understanding that
2 the legal advertisement needs to be expanded to include
3 the Wolf Camp; is that correct?

4 A. Yes, sir.

5 MR. PEARCE: Mr. Examiner, at this time we'd
6 like permission to present evidence on this case in
7 total with the understanding that subsequent to
8 additional advertising I would appear at that call and
9 see if there's additional testimony.

10 EXAMINER CATANACH: You may proceed, Mr.
11 Pearce.

12 Q. (By Mr. Pearce) All right, sir.

13 The May 7th letter, then, was sent to the
14 interest owners reflected and gave notice that we are
15 seeking to drill this acreage?

16 A. Yes, sir.

17 Q. Could you please look at what we've marked as
18 Exhibit Number 3 --

19 A. Okay.

20 Q. -- and discuss this letter for us?

21 A. Basically in this letter what I've done is
22 gone back. The same parties have actually increased,
23 if the people did not want to participate, increased by
24 farmout terms in this letter.

25 Also attached is a draft of the JOA for

1 people that did desire to participate to review.

2 Q. And once again, that went to all of the
3 interested parties?

4 A. Yes, sir.

5 Q. Mr. Gant, have you reviewed the normal
6 administrative and overhead costs in this area to
7 determine reasonable rates?

8 A. Yes, sir.

9 Q. And what rates is Pacific Enterprises seeking
10 in this case?

11 A. Drilling rates of \$5000 and producing rates
12 of \$500.

13 Q. And is it your opinion, after your study,
14 that those rates are in line with other rates charged
15 by operators in the area?

16 A. Yes, sir.

17 Q. I would ask you now, please, to look at what
18 we've marked as Exhibit Number 4 to this proceeding,
19 and could you describe that for us, please?

20 A. Actually, on the second -- I'll say with page
21 1 of 3, it shows the Authority For Expenditure. That
22 is the estimated cost to drill said well, which was
23 sent out, again, to all the other working-interest
24 owners.

25 And then on the top of page 1 will be a memo

1 that was basically set out by our operations engineer
2 to verify that the costs are within reason.

3 Q. All right, sir. And will a subsequent
4 witness testify about the risk associated with drilling
5 a well of this type in this area?

6 A. Yes, sir.

7 Q. After reviewing those matters quickly, Mr.
8 Gant, do you have other items which you would like to
9 highlight for the Examiner or those in attendance?

10 A. I'd probably like to state that you can see
11 back on Exhibit 1, we have had response from Yates
12 Petroleum Corporation who has advised us that they
13 would desire to participate in this well. However, we
14 have not yet signed a JOA with said company.

15 Also Fina Oil and Chemical Company has
16 advised us that they desire to farm out. Again, we do
17 not have a formal agreement setting out the farmout.
18 For that reason, we'd like to keep everybody, I guess,
19 and force-pool everybody still.

20 Q. All right, sir. Anything further?

21 A. No, sir.

22 MR. PEARCE: No further questions of this
23 witness, Mr. Examiner.

24 I would move the admission of Exhibits 1
25 through 4 in this proceeding.

1 EXAMINER CATANACH: Exhibits 1 through 4 will
2 be admitted as evidence.

3 Mr. Carr?

4 CROSS-EXAMINATION

5 BY MR. CARR:

6 Q. Mr. Gant, you have received a signed AFE from
7 Yates Petroleum Corporation, have you not?

8 A. Yes, sir.

9 Q. In fact, that was received on about the 19th
10 of this month?

11 A. I believe that's correct.

12 Q. Prior to that time, you received an executed
13 joint operating agreement from Yates, did you not?

14 A. I received an executed draft, yes, sir.

15 Q. And the operating agreement was tendered to
16 you with a transmittal letter. Let me just hand you a
17 letter dated June the 12th --

18 A. I have a copy.

19 Q. The first sentence in that letter indicated
20 -- reads as follows: Yates Petroleum Corporation
21 agrees to join and drill the 34 State Comm Number 1
22 Well; isn't that right?

23 A. Yes, sir.

24 Q. Then they propose a couple of amendments to
25 the operating agreement.

1 A. Yes, sir.

2 Q. Has Pacific responded to those proposed
3 amendments to the operating agreement as of this time?

4 A. No, sir.

5 Q. Do you know if Pacific has any objection to
6 any of those proposals?

7 A. Right now we're reviewing the proposals.

8 Q. And you don't know whether you have an
9 objection or not?

10 A. Not at this time, sir.

11 Q. If you had no objection, then you would have
12 complete agreement with Yates, you would have an AFE
13 and an operating agreement, would you not?

14 A. That would be correct, sir.

15 The only -- Excuse me for one second. The
16 only thing, I would like to point out again that the
17 JOA that was signed was a draft. It was not completely
18 filled out, and it was sent out as a draft.

19 But you are correct, the form basically would
20 be an agreement.

21 Q. When you say that it is a draft and it has a
22 total on it of \$622,050 for the well --

23 A. We're talking -- I'm talking about the JOA.

24 Q. Oh, okay, all right.

25 A. Yeah, the AFE, no, we're fine.

1 Q. When you say it was a draft, was it a draft
2 submitted by Pacific?

3 A. Yes, sir.

4 Q. And was it indicated as being just a draft by
5 Pacific?

6 A. Yes, sir.

7 Q. Is it subject to further change by Pacific?

8 A. Not so much further change by Pacific. It is
9 a draft of the JOA that Pacific would like to use.
10 However, I do not know if there's other participants in
11 this well.

12 Yates has advised as of this date that they
13 would like to participate. These are the changes that
14 Yates would like to make to the JOA.

15 As to another participant, there may be
16 additional changes that, again, we'd like to keep it
17 uniform to an operating agreement in the area.

18 Q. When might Yates know whether or not these
19 agreements or proposals are acceptable and they have a
20 final deal?

21 A. I would say shortly after the Order comes
22 out. We have no -- You know, the intent here is not
23 to, you know, try to keep force- -- or force-pool
24 Yates. It's basically to have an agreement as to
25 payment of drilling costs and things like that, which I

1 think is normal in the industry.

2 Once we have an idea as to who the other
3 participants are going to be and we've got a JOA that
4 is more or less mutually acceptable to the majority of
5 the parties, then I'd say we would dismiss them from
6 the force-pooling.

7 Q. At that time you would dismiss them?

8 A. Yes, sir.

9 Q. You're unwilling to do that now, based on the
10 agreement that you have?

11 A. Yes, sir.

12 Q. The agreement that you have does cover how
13 costs are going to be paid and things of that nature;
14 isn't that right?

15 A. Yes, sir.

16 Q. And if you get a force-pooling order and
17 Yates would go nonconsent, they would just have to pay
18 the AFE costs and then presumably be under the -- avoid
19 the penalty in the pooling order; isn't that right?

20 A. If they signed a JOA and we both accepted,
21 yes.

22 Q. Even if they get a pooling order, and you're
23 given just the option -- or they're given just the
24 option to pay their share of costs, they wouldn't have
25 any penalty imposed on them, would they?

1 A. They'd have a penalty under the joint
2 operating agreement.

3 Q. But not if there's no joint operating
4 agreement, just a pooling order; isn't that right?

5 A. I think I'm losing my -- losing track a
6 little bit. In other words, you're --

7 Q. Are you familiar with how a pooling order
8 works?

9 A. Yes, sir.

10 Q. And if Yates' interest is pooled and a risk
11 penalty is imposed, then they would be subject to their
12 share of the cost, plus a risk penalty based on those?

13 A. Correct.

14 Q. And customarily they're given an option
15 within a period of time after the order is entered to
16 pay their share?

17 A. Correct.

18 Q. And if they're asked to pay their share, will
19 this be the AFE that's going to be used by your company
20 as a basis for that?

21 A. Yes, sir.

22 Q. And if they paid that share, then they would
23 be in the well, would they not?

24 A. Yes, sir.

25 Q. And there would be no penalty or no operating

1 in that situation?

2 A. Correct, he'd be under the force-pooling
3 order.

4 Q. And basically you'd be right where you are
5 now with a party paying its share but no contract
6 governing the relationship?

7 A. You would -- we would have a -- I guess it
8 would be set up, the administrative and producing are
9 your overhead rates, you'd also have to set up the
10 prepayment. You would have that set up. But that's
11 correct, that would be all we'd have.

12 Q. And you object to any dismissal of yates at
13 this time?

14 A. Yes, sir.

15 MR. CARR: That's all I have.

16 MR. PEARCE: If I may?

17 EXAMINER CATANACH: Yes, sir.

18 REDIRECT EXAMINATION

19 BY MR. PEARCE:

20 Q. One more question, just if I may. When does
21 Pacific plan to spud the well? Do you know?

22 A. I would say we're right now subject to a
23 farmout agreement, probably sometime around on or
24 before August 31.

25 Q. So the proposal from Yates that has an August

1 31st date in it, that date is not a problem as of this
2 time?

3 A. I don't think it's a problem at this time,
4 no, sir.

5 Q. Thank you.

6 Mr. Gant, can you give me some indication of
7 timing? If Yates were dismissed from this force-
8 pooling case and subsequently was unable to reach
9 agreement on a joint -- on joint-operating-agreement
10 terms -- would that necessarily delay the drilling of
11 this well on the August 31st date?

12 A. Yes, it could.

13 MR. PEARCE: Nothing further at this time,
14 Mr. Examiner.

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. Okay. Mr. Gant, besides -- Aside from Yates,
18 who are the parties that haven't signed up for the well
19 yet?

20 A. Have not signed up?

21 Q. Right.

22 A. DeKalb Energy Corporation, Marathon Oil
23 Company, the Moore Trust, Arco Oil and Gas Company, and
24 I believe that's it. And, excuse me, Conoco, Inc.

25 Q. So those, in fact, are the parties that

1 you're here force-pooling today?

2 A. Primarily, yes, sir.

3 Q. Has Pacific Enterprises drilled similar
4 Morrow wells in this area?

5 A. Yes, sir.

6 Q. You have recently?

7 A. Yes, sir.

8 Q. And are these well costs in line with those
9 wells that you've previously drilled?

10 A. Yes, sir.

11 Q. Let me just clarify the problem with the
12 advertisement. Pacific also sought to pool the
13 interests in the Wolf Camp Formation?

14 A. Yes, sir.

15 Q. So it would just be Wolf Camp and
16 Pennsylvanian? Or --

17 A. The intent, I guess, for the force-pooling is
18 to force-pool all formations from below the base of the
19 ABO through the base of the Morrow Formation.

20 EXAMINER CATANACH: Okay, I have no further
21 questions of the witness.

22 MR. PEARCE: Thank you, sir.

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RICK RICKETTS,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. PEARCE:

Q. For the record, would you please state your name and your employer?

A. My name is Rick Ricketts. I'm employed by Pacific Enterprises.

Q. In what capacity are you employed, sir?

A. Petroleum geologist.

Q. And, Mr. Ricketts, have you previously appeared before the Division and its examiners and had your qualifications as a petroleum geologist accepted and made a matter of record?

A. Yes, I have.

Q. And are you familiar with the Application of Pacific Enterprises Oil Company (USA) filed today as Case Number 9977?

A. Yes.

MR. PEARCE: Mr. Examiner, I tender this witness as an expert in the field of petroleum geology.

EXAMINER CATANACH: He is so qualified.

Q. (By Mr. Pearce) Mr. Ricketts, if you would, please, turn to what we have marked as Pacific

1 Enterprises Exhibit Number 5 to this proceeding. Would
2 you describe this exhibit and the information reflected
3 on it?

4 A. Yes, it's a structure map contoured on the
5 base of the Lower Morrow shale, contour interval of 50
6 feet.

7 Q. I notice the proposed location highlighted
8 with a red well circle outlined in yellow?

9 A. Right.

10 Q. There are a number of other well spots
11 reflected on this data. Some of them appear to be
12 colored?

13 A. Yes.

14 Q. Would you describe that for us?

15 A. Yes, the ones that are producing out of the
16 Morrow Formation are colored a light blue color.

17 And I also might add that the current
18 production on the surrounding wells around our proposed
19 drill site are also indicated on the map.

20 Q. All right, sir. Let's keep that open in
21 front of you, but please also open Exhibit Number 6 at
22 this time.

23 A. Okay.

24 Q. And what is Exhibit Number 6?

25 A. Exhibit Number 6 is an isopach map of the

1 Lower Morrow channel or what we call the Lower Morrow
2 channel.

3 It's essentially the basal channel or the
4 lowermost channel in the Morrow shale, or the Morrow
5 section in that area. It's a 10-foot contour interval.

6 On this map the colored well symbols are the
7 ones that produce only from the Lower Morrow channel.
8 The Lower Morrow channel is basically our main
9 objective on this well.

10 Q. All right, sir. Looking at Exhibit Number 6,
11 there are a number of wells that appear to be outside
12 the isopached area. Can you describe the production
13 history or results of drilling those wells that
14 penetrated the Morrow?

15 A. The wells that did not produce out of the
16 Lower Morrow channel -- in this particular area, all of
17 them were fairly poor wells. Either dry holes, or at
18 least marginal producers.

19 Q. Okay. I notice there is a well in Section
20 29, highlighted in blue. There appear to be a number
21 of wells surrounding that well.

22 A. Yes, this is the old Stanland, which is now
23 Amoco State "B" Gas Com. Number 1.

24 The well was drilled in the Fifties. It's
25 produced a little over 30 BCF of gas to date.

1 Essentially, it's the well we're keying off
2 of. It produces out of a large, thick point bar on the
3 Lower Morrow channel, and we think we're going to have
4 a -- hopefully, we'll have an equivalent accumulation
5 of the Lower Morrow channel in our proposed location.

6 The thing you need to note about this, this
7 well drilled, like I said, in the Fifties, and in about
8 a mile-and-a-half radius around there, there have been
9 ten additional wells drilled for -- essentially seeking
10 the Lower Morrow channel. They have all been dry holes
11 except for two, and those two are, you know, minor.
12 Minor producers.

13 Q. All right, sir. Would you just describe
14 those wells and how they're reflected on the exhibit
15 for us?

16 A. Okay.

17 Q. Both of the two that are small producers and
18 the other --

19 A. Okay. I stand corrected, there's only one
20 that's actually producing out of the Lower Morrow
21 channel.

22 As you'll note, the wells that do not produce
23 out of the Lower Morrow channel, they're either outside
24 of the channel itself, either the channel is absent or
25 else very thin. You have a number of wells, the wells

1 in Section 30, the east half of Section 30, and there
2 is also a well in the northwest quarter of Section 32
3 that did penetrate a Lower Morrow channel thickness of
4 15 to 25 feet, but it happened to be tight in those
5 particular wells and nonproductive.

6 In the southwest quarter of Section 20 there
7 is a well that produced 87 million cubic feet of gas
8 out of the Lower Morrow channel. That was a 17-foot
9 zone there. It too was tight, as reflected by the poor
10 production.

11 Basically, what we're saying is that you can
12 hit a real home run here, but your chances aren't that
13 good, and I think this exhibits that pretty well.

14 Q. All right. It appears on Exhibit 6 that
15 there is a line of cross-section. I'd ask you to refer
16 to that and open to what we've marked as Exhibit Number
17 7 to the proceeding, please.

18 A. Yes. Going from your left to your right,
19 from A to A prime, my cross-section goes from the Amoco
20 State "B" Gas Com. Number 1.

21 As you can see, it's got in excess of 70 feet
22 of this Lower Morrow channel that is productive. It
23 goes to the southeast, to the Atlantic Richfield Empire
24 Abo Unit "G" Number 1, and you can see the channel is
25 essentially absent there. One little two-foot stringer

1 is present in that well.

2 And as you go further to the east, the Costa
3 Resources Two Fork State Number 1, again, has several
4 thin stringers from the Lower Morrow channel and is --
5 That's a pretty good well. It's produced 4 BCF.

6 Again, what -- The problem you have looking
7 for this particular zone in this area is that it can
8 come and go very quickly, and I think that's reflected
9 as you look from the Amoco well to the Atlantic
10 Richfield well. It's not much more than a mile away,
11 and you go from about 75 foot of pay down to a two-foot
12 stringer.

13 Q. Mr. Ricketts, after your geological review of
14 this area, would you characterize the drilling of a
15 Morrow test well at the proposed location to be a high-
16 risk venture?

17 A. I think it's fairly high-risk. I do think
18 it's got, you know, high potential along with it, but
19 it is high-risk.

20 Q. Do you believe that the maximum statutory
21 risk penalty of 200 percent is the appropriate risk
22 penalty for application in this matter to non-
23 participating parties?

24 A. Yes, I do, based on the -- what happened
25 around -- the wells around the Amoco "B" State, I

1 believe that's justified.

2 Q. Mr. Ricketts, were Exhibits 5, 6 and 7
3 prepared by you or under your direction and
4 supervision?

5 A. Yes.

6 Q. Do you have any further information from
7 these exhibits you'd like to highlight for the
8 Examiner?

9 A. Not at this time.

10 MR. PEARCE: Mr. Examiner, I have nothing
11 further of the witness at this time.

12 I would move the admission of Pacific
13 Enterprises Exhibits 5, 6 and 7.

14 EXAMINER CATANACH: Exhibits 5, 6 and 7 will
15 be admitted as evidence.

16 MR. CARR: No questions.

17 EXAMINER CATANACH: No questions, Mr. Carr?

18 EXAMINATION

19 BY EXAMINER CATANACH:

20 Q. Mr. Ricketts, the information you've got, is
21 that just based on well control or do you have other
22 information that you utilized?

23 A. No, it's strictly subsurface well control.
24 There's no seismic or anything of that nature involved.

25 Q. And there's never been a well drilled in

1 Section 34; is that correct?

2 A. Not to the Morrow Formation.

3 EXAMINER CATANACH: I believe that's all the
4 questions I have of the witness. You may be excused.

5 MR. PEARCE: One further matter, Mr.
6 Examiner.

7 My office did not file this Application. The
8 Application itself states that notice was provided to
9 the parties described in Exhibit A to that Application.
10 I have in my file a letter which says that certified
11 return receipt copies were sent to the parties.

12 I will, if you would like for your record,
13 have an affidavit prepared for signature saying that
14 those notices were sent, and we'll see what certified
15 receipts we have received back. But I do not have
16 those for you today.

17 EXAMINER CATANACH: Okay, if you'll submit
18 those whenever you get those --

19 MR. PEARCE: All right.

20 EXAMINER CATANACH: -- Mr. Pearce, that would
21 be fine. And --

22 MR. CARR: May it please the Examiner, I have
23 also a motion I'd like to make.

24 EXAMINER CATANACH: Please do.

25 MR. CARR: Yates Petroleum Corporation has

1 executed an AFE for the drilling of the proposed well
2 and has signed an operating agreement. Exhibit 1
3 offered by Pacific Enterprises indicates that Yates
4 Petroleum Corporation has elected to participate in the
5 well.

6 Because of this and because we believe we've
7 done all that we can to indicate our willingness to
8 participate and to commit ourselves to the well, we
9 would request that we be dismissed from the compulsory-
10 pooling Application.

11 MR. PEARCE: If I may, Mr. Examiner?

12 EXAMINER CATANACH: Yes, sir.

13 MR. PEARCE: Yates has in fact signed the AFE
14 and returned it, indicating that they expect to
15 participate in this well. They have signed an
16 incomplete JOA and have attached some conditions to
17 that.

18 The Applicant in this case is in the process
19 of reviewing those conditions to see if it and other
20 participants can agree to the conditions set forth in
21 that acceptance.

22 If those conditions are not acceptable, the
23 parties do not have an agreement.

24 In the absence of agreement, force-pooling is
25 the remedy which is available. Ultimately, if the

1 parties proceed to negotiate and enter into a joint
2 operating agreement, this pooling order would have no
3 effect on the Yates interest.

4 In the absence of a force-pooling order, if
5 the parties do not reach agreement on that joint
6 operating agreement, the drilling of this well will be
7 delayed, as the witness has testified.

8 In such instance, we believe it is
9 appropriate to have the pooling order effective to the
10 Yates interest in the event that agreement is not
11 reached, and Pacific Enterprises is taking all steps it
12 can to see that the agreement is implicated.

13 But to dismiss Yates out, we run the risk of
14 having to come back several months from now and redo
15 this, when in fact Yates has obviously received notice
16 of this proceeding, and has participated, and the
17 matter is ready, we believe, for entry of the pooling
18 order.

19 MR. CARR: Our position is very simple.
20 We've done everything we think we prudently can to
21 indicate our willingness and to commit ourselves to the
22 well.

23 We find out that the operating agreement
24 we've signed now is just a draft. It's been back with
25 them for two weeks. We think that we shouldn't be

1 subject to pooling when we are willing and ready to
2 participate and go forward with this well.

3 EXAMINER CATANACH: Mr. Pearce, is your
4 client still actively trying to reach an agreement, as
5 far as the JOA, with Yates at this time?

6 MR. GANT: Yes.

7 EXAMINER CATANACH: And it's your client's
8 opinion that they do not in fact have an agreement
9 until the JOA is executed?

10 MR. PEARCE: That's correct.

11 EXAMINER CATANACH: Then I'll have to decline
12 your motion, Mr. Carr, and go ahead with the force-
13 pooling at this --

14 MR. CARR: Our concern is, it's just hard to
15 know when we've signed a JOA that's fine. When we sign
16 one and find later it's a draft --

17 EXAMINER CATANACH: Well, I would advise your
18 client, Mr. Pearce, to try and work on the agreement in
19 the interim period, even before the Order is issued in
20 this case, try and get that resolved.

21 MR. PEARCE: We will attempt to do that, Mr.
22 Examiner.

23 EXAMINER CATANACH: And this case will be
24 continued, probably for four weeks?

25 MR. PEARCE: Yes, I think that's the next

1 advertisement we can get, Mr. Examiner.

2 EXAMINER CATANACH: And we'll leave the
3 record open till then.

4 Mr. Pearce, I would also ask you to get with
5 Mr. Stogner, if you would, and try and correct the --
6 do the advertisement correctly.

7 MR. PEARCE: I will do that. Thank you, Mr.
8 Examiner.

9 EXAMINER CATANACH: And I guess we'll break
10 for lunch at this point, till one o'clock.

11 (Thereupon, these proceedings were concluded
12 at 12:10 p.m.)

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CASE NUMBER 9977
E/2 OF SECTION 34, T-17-S, R-28-E, EDDY COUNTY, NEW MEXICO,
LIMITED TO DEPTHS BELOW THE BASE OF THE ABO FORMATION

ELECTION OF OWNERS

<u>OWNER NAME AND ADDRESS</u>	<u>WI-LEASE</u>	<u>WI-UNIT</u>	<u>OWNER ELECTION</u>
<u>TRACT 1 - W/2NE/4, CONTAINING 80 ACRES, MORE OR LESS</u>			
State of New Mexico Lease E-7116			
PACIFIC ENTERPRISES OIL COMPANY (USA) (Through Amoco Production Company Farmout) Post Office Box 3083 Midland, Texas 79702 ATTN: Mr. Terry Gant	75.00000%	18.75000%	Applicant
YATES PETROLEUM CORPORATION 105 South Fourth Street Artesia, New Mexico 88210 ATTN: Mr. Robert H. Bullock	9.02778%	2.25695%	Participate
DEKALB ENERGY CORPORATION 1625 Broadway Denver, Colorado 80202-4731 ATTN: Mr. Keith C. Ranum	7.98611%	1.99652%	No Election
MARATHON OIL COMPANY Post Office Box 552 Midland, Texas 79702 ATTN: Mr. Curtis Smith	7.98611%	1.99653%	No Election
SUBTOTAL	100.00000%	25.00000%	

TRACT 2 - NE/4NE/4, CONTAINING 40 ACRES, MORE OR LESS
State of New Mexico Lease E-7832

PACIFIC ENTERPRISES OIL COMPANY (USA) (Through Amoco Production Company Farmout) Post Office Box 3083 Midland, Texas 79702 ATTN: Mr. Terry Gant	100.00000%	12.50000%	Applicant
---	------------	-----------	-----------

<u>OWNER NAME AND ADDRESS</u>	<u>WI-LEASE</u>	<u>WI-UNIT</u>	<u>OWNER ELECTION</u>
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TRACT 3 - SE/4NE/4, CONTAINING 40 ACRES, MORE OR LESS
State of New Mexico Lease B-2071

PACIFIC ENTERPRISES OIL COMPANY (USA) (Through Amoco Production Company Farmout) Post Office Box 3083 Midland, Texas 79702 ATTN: Mr. Terry Gant	50.0000%	6.25000%	Applicant
THE MOORE TRUST 310 West Wall Suite 404 Midland, Texas 79701 ATTN: Mr. Ms. Cynthia L. Bennett	50.0000%	6.25000%	No Election

SUBTOTAL	100.00000%	25.00000%	

TRACT 4 - N/2SE/4, CONTAINING 80 ACRES, MORE OR LESS
State of New Mexico Lease 647

ARCO OIL & GAS COMPANY Post Office Box 1610 Midland, Texas 79702 ATTN: Mr. Tim Derigo	50.00000%	12.50000%	No Election
YATES PETROLEUM CORPORATION 105 South Fourth Street Artesia, New Mexico 88210 ATTN: Mr. Robert H. Bullock	18.05556%	4.51389%	Participate
DEKALB ENERGY CORPORATION 1625 Broadway Denver, Colorado 80202-4731 ATTN: Mr. Keith C. Ranum	15.97222%	3.99306%	No Election
MARATHON OIL COMPANY Post Office Box 552 Midland, Texas 79702 ATTN: Mr. Curtis Smith	15.97222%	3.99305%	No Election

SUBTOTAL	100.00000%	25.00000%	

<u>OWNER NAME AND ADDRESS</u>	<u>WI-LEASE</u>	<u>WI-UNIT</u>	<u>OWNER ELECTION</u>
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TRACT 5 - S/2SE/4, CONTAINING 80 ACRES, MORE OR LESS
State of New Mexico Lease B-11538

FINA OIL AND CHEMICAL COMPANY Post Office Box 2990 Midland, Texas 79702 ATTN: Mr. Kevin Pfister	50.00000%	12.50000%	Farmout
CONOCO INC. Post Office Box 1959 Midland, Texas 79702 ATTN: Mr. Warren D. Richardson	50.00000%	12.50000%	No Election
-----		-----	
SUBTOTAL	100.00000%	25.00000%	
<u>TOTAL</u>		100.00000%	

<u>OWNERSHIP RECAP</u>	<u>WI-UNIT</u>	<u>OWNER ELECTION</u>
Pacific Enterprises Oil Company (USA)	37.50000%	Applicant
Fina Oil and Chemical Company	12.50000%	Farmout
Arco Oil & Gas Company	12.50000%	No Election
Conoco Inc.	12.50000%	No Election
Yates Petroleum Corporation	6.77084%	Participate
The Moore Trust	6.25000%	No Election
Dekalb Energy Corporation	5.98958%	No Election
Marathon Oil Company	5.98958%	No Election

TOTAL	100.00000%	

PACIFIC ENTERPRISES OIL COMPANY (USA)

May 7, 1990

SOUTHWEST REGION

200 N. Loraine #400

P.O. Box 3083

Midland TX 79701-3083 EXAMINER

(915) 684-3861

(915) 684-6426 (Fax)

OIL CONSERVATION DIVISION

To: See Attached List

Parent EXHIBIT NO. 2

CASE NO. 9977

RE: Empire South Prospect #6254
Eddy County, New Mexico

E/2 Section 34, T-17-S, R-28-E
34 State Com #1 Well

Gentlemen:

Pacific Enterprises Oil Company (USA) desires to drill a 10,800' Morrow test well 1980' FSL and 1980' FEL of Section 34, T-17-S, R-28-E, Eddy County, New Mexico, with estimated drilling and completion well costs being \$395,350.00 and \$266,700.00 respectively (see attached AFE), with said test well's drilling unit (from below the base of the Abo formation to the base of the Morrow formation) being a Communitized Unit covering the E/2 of said Section 34 (see attached plat).

According to our information, you are the owner of a leasehold interest under the E/2 of said Section 34.

Therefore, we respectfully request your advisement as to your election to either (1) participate in this proposed operation through the formation of a Working Interest Unit covering the E/2 of said Section 34, limited to rights below the base of the Abo formation to the base of the Morrow formation, or 100' below said test well's TD, whichever is the lesser, subject to a mutually acceptable Joint Operating Agreement, or (2) farmout your interest under the E/2 of said Section 34 to Pacific on the following terms:

1. Term - 90 days (actual drilling).
2. Required depth and location - 10,800' or to a depth sufficient to penetrate and test the Morrow Formation, whichever is the lesser, at the legal location stated above.
3. Produce to earn - 100% of Farmor's rights in and to said test well's drilling unit, limited to rights from below the base of the Abo formation to 100' below total depth drilled, at a 80% net revenue interest, proportionately reduced.
4. Conversion option - At payout of said test well, Farmor shall have the option to convert its overriding royalty interest to a 25% working interest, proportionately reduced.

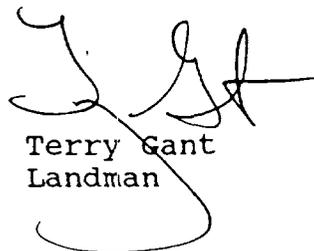
5. Unit Basis - Farmor agrees to allow Farmee the right to pool and unitize its interest into a 320 acre drilling unit consisting of the E/2 of said Section 34, with Farmor's overriding royalty interest and conversion working interest being proportionately reduced to such unit.
6. Additional Development - If said test well does not earn all of Farmor's rights in the E/2 of said Section 34, then Farmee shall have the option to drill additional wells pursuant to a 180 day continuous drilling program, earning in the same manner and fashion as said test well, with the required depth for such additional wells being the same as said test well or to the deepest productive horizon encountered in any preceding well, whichever is lesser.

In as much as Pacific desires to commence the drilling of the above mentioned test well on or before July 31, 1990, we respectfully request that you advise Pacific in writing of your respective election as soon as possible. If you should desire to participate, please execute and return the enclosed AFE, and after receiving same, Pacific will forward to you our proposed JOA. In the absence of voluntary agreement by all parties, Pacific shall submit an application for a compulsory force pooling hearing.

If you have any questions or need any additional information, please contact the undersigned.

Very truly yours,

PACIFIC ENTERPRISES
OIL COMPANY (USA)



Terry Gant
Landman

TG/mp

Enclosure

bcc: Ralph Moore
Rick Ricketts

34 State Com #1 Well
E/2 Section 34, T-17-S, R-28-E
Eddy County, N.M.

The Moore Trust
310 W. Wall, Suite 404
Midland, TX 79701
Attn: Ms. Cynthia L. Bennett

Conoco Inc.
P. O. Box 460
Hobbs, New Mexico 88240
Attn: Mr. Mike Boney

Fina Oil and Chemical Co.
P. O. Box 2990
Midland, TX 79702
Attn: Mr. Kevin Pfister

ARCO Oil & Gas Company
P. O. Box 1610
Midland, TX 79702
Attn: Mr. Tim Derigo

Yates Petroleum Corporation
105 South Forth Street
Artesia, New Mexico 88210
Attn: Mr. Randy G. Patterson

DeKalb Energy Company
1625 Broadway
Denver, CO 80202-4731
Attn: Mr. Keith C. Ranum

Marathon Oil Co.
P. O. Box 552
Midland, TX 79702
Attn: Mr. Curtis Smith

PACIFIC ENTERPRISES OIL COMPANY (USA)

ORIGINAL

AUTHORITY FOR EXPENDITURE

SOUTHWEST REGION
 200 N. Loraine, #400
 P.O. Box 3083
 Midland TX 79702-3083
 (915) 684-3861
 (915) 684-6426 (Fax)

DIVISION: Permian Basin Exploration Team **DATE:** 5-4-90
DEPARTMENT: Exploration and Development **Midland, Texas**
PROSPECT: Empire South Prospect #6254 **WELL NAME:** 34 State Com #1
LOCATION: 1980' FSL and 1980' FEL of Section 34, T-17-S, R-28-E
 Eddy County, New Mexico

Drill and Test Cost	\$395,350.00
Completion	<u>266,700.00</u>
TOTAL	\$622,050.00

JUSTIFICATION:

Proposed 10,800' well to test the Morrow Formation.
 See attached detailed Drilling and Completion Cost Estimate.

PARTICIPANTS	WORKING INTEREST	COST	GROSS AFE AMOUNT	\$662,050.00
PEOC	.3750000	\$248,268.75	APPROVED	DISAPPROVED
THE MOORE TRUST	.0625000	41,378.13		
CONOCO INC.	.1250000	82,756.25		
FINA OIL & CHEMICAL CO.	.1250000	82,756.25		
ARCO OIL & GAS CO.	.1250000	82,756.25		
YATES PETROLEUM CORP.	.0677084	44,826.35		
DEKALB ENERGY CO.	.0598958	39,654.01		
MARATHON OIL CO.	<u>.0598958</u>	<u>39,654.01</u>		
	1.0000000	\$662,050.00		
			COMPANY REPRESENTATIVE	
			COMPANY	
			DATE	

4/May/1990

PACIFIC ENTERPRISES OIL CO. (USA)
DRILLING & COMPLETION DETAILED COST ESTIMATE

Prospect: PEOC 34 State Comm #1 Field Empire South Morrow

Well Location 1980' FSL & 1980' FEL Legal Description Sec 34, T17S, R28E

County Eddy State NM Proposed Depth 10,800'

Objective Formation Morrow AFE No. _____ Terra H.I. _____

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	TOTAL
Survey - Stake Location	1	1,000	xxx	0	1,000
Permits & Hearings	2	100	83	0	100
Building Road, bridges, canals	3	4,000	84	0	4,000
Building Location & Pits	4	10,000	85	3,500	13,500
Insurance (for Terra only)	5	3,300	86	0	3,300
Move in - Rig up - Rig down - Move out	6	0	87	0	0
Rat Hole	7	0	xxx	0	0
Footage Contract <u>10,800' @ \$16.25/ft</u>	8	175,500	xxx	0	175,500
Day work contract <u>5/3 days @ \$3,900/day</u>	9	17,600	88	9,800	27,400
Turnkey Agreement	10	0	90	0	0
Rig for Completion <u>\$1400/day x 8 days</u>	xxx	0	101	11,200	11,200
Drill Bits	12	0	102	500	500
Rental Equipment	13	10,000	103	3,500	13,500
Fishing Tools & Service	14	0	104	0	0
Company Labor	15	0	107	2,400	2,400
Auto & Travel	16	100	108	0	100
Contract Labor	17	15,900	113	3,100	19,000
Trucking, Hauling, Service Equipment	18	2,500	114	3,500	6,000
Power & Fuel	19	0	115	0	0
Water	20	8,500	116	1,500	10,000
Mud & Chemicals	21	16,000	117	2,000	18,000
Drill Pipe, Casing, Rod Inspection	22	2,000	125	3,500	5,500
Formation Testing (incl 2 DST)	23	8,000	xxx	0	8,000
Coring _____ ft of core @ \$_____/ft	24	0	xxx	0	0
Mud Logging	25	7,500	xxx	0	7,500
Logs	26	22,000	126	3,500	25,500
Temperature Survey	27	0	148	0	0
Bottom Hole Pressure Test	28	0	149	2,500	2,500
Directional Services	29	0	152	0	0
Engineering, Geological, Geophysical	30	1,000	153	500	1,500
Cmtg, Conductor or Surf Csg (incl Float equip)	31	6,000	xxx	0	6,000
Cmtg, Interm or Prod Csg (incl Float equip)	32	10,000	154	15,000	25,000
Squeeze Jobs	33	0	155	0	0
Perf or Shooting	34	0	156	3,500	3,500
Frac	xxx	0	157	4,000	4,000
Swabbing	36	0	158	0	0
Plugging, if dry	37	6,000	159	0	6,000
Damage Claims	38	1,900	165	0	1,900
Cleaning Location	39	2,500	166	1,500	4,000
District Expense	40	9,000	172	1,200	10,200
Communications	41	200	177	200	400
Environmental & Safety Equipment	42	0	178	0	0
Misc Material & Service (Contingency)	43	10,000	179	2,600	12,600
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TOTAL INTANGIBLES		350,600		79,000	429,600

4/May/1990

PACIFIC ENTERPRISES OIL CO. (USA)
 DRILLING & COMPLETION DETAILED COST ESTIMATE

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	
TOTAL					
Surface Casing					
500' of 13-3/8" OD H-40 48#/ft., 8rd, ST&C @ \$18.5/ft.	50	9,250	xxx	0	9,250
Intermediate Casing					
2600' of 8-5/8" OD, 32#/ft., 8rd ST&C @ \$10.8/ft.	51	28,000	xxx	0	28,000
Production Casing					
10,800' 5-1/2" OD, 17#/ft, N-80 @ \$7.5/ft. Liner	xxx	0	52	81,000	81,000
___ ft of ___" OD, ___#/ft @ \$ ___/ft	xxx	0	53	0	0
Tubing					
10,600' of 2-3/8" OD, N-80, 4.7#/ft, 8rd, EUE @ \$3.02/ft	xxx	0	54	32,000	32,000
Xmas Tree & Tubing Head Components	55	3,500	182	12,000	15,500
Pumping Unit or Prime Mover	xxx	0	56	0	0
Production Platform - Mat. & Labor	xxx	0	58	0	0
Rods	xxx	0	59	0	0
Subsurface Pump	xxx	0	60	0	0
Tanks	xxx	0	61	15,000	15,000
Circulating Pump	xxx	0	63	0	0
Dehydrator	xxx	0	64	0	0
Heater Treater or Gunbarrel (Stakpac)	xxx	0	65	10,000	10,000
Separator/FHKO	xxx	0	66	0	0
Flowline & Connection 500' ft of 2" OD FG Linepipe @ \$2/ft	xxx	0	68	1,000	1,000
Meter, Meter Run & Connections	xxx	0	70	5,000	5,000
Buildings	xxx	0	71	0	0
Packer	xxx	0	72	8,000	8,000
Miscellaneous Equipment (fittings, etc.)	73	4,000	185	6,700	10,700
TOTAL TANGIBLES		44,750		170,700	215,450
Installation of Tubing	xxx	0	54	0	0
Installation of Pumping Unit & Prime Mover	xxx	0	56	0	0
Installation of Tanks	xxx	0	61	5,000	5,000
Installation of Dehydrator	xxx	0	64	0	0
Installation of Heater Treater or Gun Barrel	xxx	0	65	5,000	5,000
Installation of Separator/FHKO	xxx	0	66	0	0
Installation of Flowline	xxx	0	68	5,000	5,000
Installation of Miscellaneous Equipment	73	0	185	2,000	2,000
TOTAL INTANGIBLE INSTALLATION COSTS		0		17,000	17,000
		350,600		79,000	429,600
		44,750		170,700	215,450
		0		17,000	17,000
TOTAL WELL COST COMPLETED		395,350		266,700	662,050

Prepared by: _____

Date _____

Approved by: A. B. [Signature]

Date 5/4/90

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. (Extra charge)
 2. Restricted Delivery (Extra charge)

3. Article Addressed to: THE MOORE TRUST 310 W. WALL, SUITE 404 MIDLAND, TX 79701 MS. CYNTHIA L. BENNETT	4. Article Number P 911 798 890
5. Signature - Address X	Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise
6. Signature - Agent X <i>Cynthia L. Bennett</i>	Always obtain signature of addressee or agent and DATE DELIVERED.
7. Date of Delivery 5-10	
8. Addressee's Address (ONLY if requested and fee paid)	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. (Extra charge)
 2. Restricted Delivery (Extra charge)

3. Article Addressed to: CONOCO INC. P.O. BOX 460 HOBBS, NM 88240 MR. KIRK BONEY	4. Article Number P 546 959 969
5. Signature - Address X <i>Kirk Boney</i>	Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise
6. Signature - Agent X	Always obtain signature of addressee or agent and DATE DELIVERED.
7. Date of Delivery 5-10-90	
8. Addressee's Address (ONLY if requested and fee paid)	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

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1. Show to whom delivered, date, and addressee's address. (Extra charge)
 2. Restricted Delivery (Extra charge)

3. Article Addressed to: FINA OIL & CHEMICAL CO. P.O. BOX 2990 MIDLAND, TX 79702 MR. KEVIN PFISTER	4. Article Number P 546 959 968
5. Signature - Address X	Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise
6. Signature - Agent X <i>Kevin Pfister</i>	Always obtain signature of addressee or agent and DATE DELIVERED.
7. Date of Delivery MAY 10 1990	
8. Addressee's Address (ONLY if requested and fee paid)	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. (Extra charge) 2. Restricted Delivery (Extra charge)

3. Article Addressed to: ARCO OIL & GAS CO. P.O. BOX 1610 MIDLAND, TX 79702 MR. TIM DERIGO	4. Article Number P 546 959 967
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Address X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Tim Derigo</i>	
7. Date of Delivery MAY 10 1990	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
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1. Show to whom delivered, date, and addressee's address. (Extra charge) 2. Restricted Delivery (Extra charge)

3. Article Addressed to: YATES PETROLEUM CORP. 105 S. 4TH STREET ARTESIA, NM 88210 MR. RANDY G. PATTERSON	4. Article Number P 546 959 966
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Address X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Randy G. Patterson</i>	
7. Date of Delivery 5-10-90	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. (Extra charge) 2. Restricted Delivery (Extra charge)

3. Article Addressed to: DeKalb Energy Company 1625 Broadway Denver, CO 80202 Mr. Keith C. Ranum	4. Article Number P 546 960 157
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Address X <i>Keith C. Ranum</i>	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>[Signature]</i>	
7. Date of Delivery 5/19/90	

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

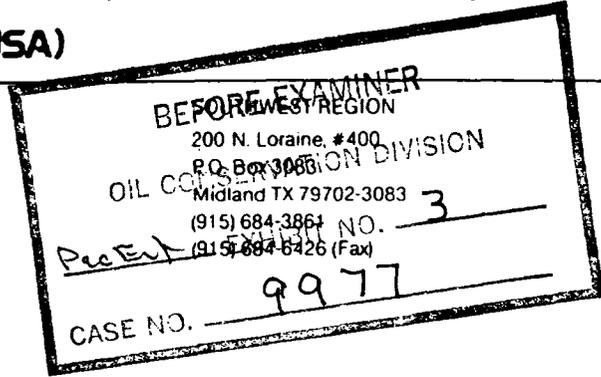
SENDER: Complete Items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery (Extra charge)

<p>3. Article Addressed to:</p> <p>MARATHON OIL CO. P.O. BOX 552 MIDLAND, TX 79702</p> <p>MR. CURTIS SMITH</p>	<p>4. Article Number</p> <p>P 911 798 891</p> <p>Type of Service:</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Return Receipt <input type="checkbox"/> Express Mail <input type="checkbox"/> Merchandise</p>
<p>5. Signature — Address</p> <p>X</p>	<p>8. Addressee's Address (ONLY if requested and fee paid)</p>
<p>6. Signature — Agent</p> <p><i>Sammy Edwards</i></p>	
<p>Date of Delivery</p> <p>MAY 10 1990</p>	

PACIFIC ENTERPRISES OIL COMPANY (USA)

May 23, 1990



To: See Attached List

RE: Empire South Prospect #6254
Eddy County, New Mexico

E/2 Section 34, T-17-S, R-28-E
34 State Com #1 Well

Ladies and Gentlemen:

Reference is made to our May 7, 1990 letter regarding the captioned well proposal and to recent telephone conversations regarding same.

As discussed, Pacific Enterprises Oil Company (USA) has acquired a Farm-in of Amoco Production Company's leasehold rights in the E/2 of said Section 34, which required the spudding of said test well on or before July 31, 1990. Pacific therefore was ready to apply for a June 13, 1990 Compulsory Force Pooling Hearing. However, Pacific has recently received verbal approval from Amoco to extend the Farmin's spud date to August 31, 1990.

We therefore respectfully request your advisement as to your election to either (1) participate in this proposed operation as outlined under our May 7, 1990 letter, or (2) farmout your interest under the E/2 of said Section 34 to Pacific on the following terms:

1. Term - 90 days (actual drilling).
2. Required depth and location - 10,800' or to a depth sufficient to penetrate and test the Morrow Formation, whichever is the lesser, at the legal location stated above.
3. Produce to earn - 100% of Farmor's rights in and to said test well's drilling unit, limited to rights from below the base of the Abo formation to 100' below total depth drilled, at a 75% net revenue interest, proportionately reduced.
4. Conversion option - At payout of said test well, Farmor shall have the option to convert its overriding royalty interest to a 30% working interest, proportionately reduced.

5. Unit Basis - Farmor agrees to allow Farmee the right to pool and unitize its interest into a 320 acre drilling unit consisting of the E/2 of said Section 34, with Farmor's overriding royalty interest and conversion working interest being proportionately reduced to such unit.
6. Additional Development - If said test well does not earn all of Farmor's rights in the E/2 of said Section 34, then Farmee shall have the option to drill additional wells pursuant to a 180 day continuous drilling program, earning in the same manner and fashion as said test well, with the required depth for such additional wells being the same as said test well or to the deepest productive horizon encountered in any preceding well, whichever is lesser.

Due to Pacific's drilling deadline, we respectfully request that you advise Pacific in writing of your respective election as soon as possible. If you should desire to participate, please execute and return the Authority For Expenditure attached to the May 7, 1990 letter and review the attached proposed Joint Operating Agreement. Please advise if the Joint Operating Agreement meets with your approval.

In the absence of a voluntary agreement by all parties, please be advised that Pacific shall submit an application for a June 27, 1990 Compulsory Force Pooling Hearing.

If you have any questions or need any additional information, please contact the undersigned.

Very truly yours,

**PACIFIC ENTERPRISES
OIL COMPANY (USA)**



Terry Gant
Landman

TG/dsr

Enclosure

34 State Com #1 Well
E/2 Section 34, T-17-S, R-28-E
Eddy County, N.M.

The Moore Trust
310 W. Wall, Suite 404
Midland, TX 79701
Attn: Ms. Cynthia L. Bennett

Conoco Inc.
P. O. Box 460
Hobbs, New Mexico 88240
Attn: Mr. Mike Boney

Fina Oil and Chemical Co.
P. O. Box 2990
Midland, TX 79702
Attn: Mr. Kevin Pfister

ARCO Oil & Gas Company
P. O. Box 1610
Midland, TX 79702
Attn: Mr. Tim Derigo

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Attn: Mr. Robert H. Bullock

DeKalb Energy Company
1625 Broadway
Denver, CO 80202-4731
Attn: Mr. Keith C. Ranum

Marathon Oil Co.
P. O. Box 552
Midland, TX 79702
Attn: Mr. Curtis Smith

EMPIRE SOUTH 34 State Com #1 Eddy Co NM

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery
 †(Extra charge)† †(Extra charge)†

3. Article Addressed to: THE MOORE TRUST ATTN: MS. CYNTHIA L. BENNETT 310 WEST WALL, SUITE 404 MIDLAND TX 79701	4. Article Number P 546 959 993 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Candice Williams</i>	
7. Date of Delivery 5-29	

PS Form 3811, Mar. 1987 U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT

EMPIRE SOUTH 34 STATE COM #1 Eddy Co NM

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
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1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery
 †(Extra charge)† †(Extra charge)†

3. Article Addressed to: CONOCO, INC. ATTN: MIKE BONEY P. O. BOX 460 HOBBS, NM 88240	4. Article Number P 546 959 994 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee X <i>Candice Williams</i>	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X	
7. Date of Delivery 5-29-90	

PS Form 3811, Mar. 1987 U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT

EMPIRE SOUTH 34 STATE COM #1 Eddy Co NM

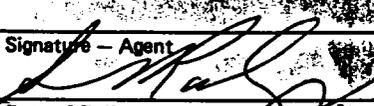
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1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery
 †(Extra charge)† †(Extra charge)†

3. Article Addressed to: FINA OIL & CHEMICAL ATTN: KEVIN PFISTER P. O. BOX 2990 MIDLAND TX 79702	4. Article Number P 546 959 995 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>K P</i>	
7. Date of Delivery 5-30-90	

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. Restricted Delivery
†(Extra charge)† †(Extra charge)†

3. Article Addressed to: ARCO OIL & GAS COMPANY ATTN: MR. TIM DERIGO P. O. BOX 1610 MIDLAND TX 79702	4. Article Number p 546 959 996
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X 	
7. Date of Delivery MAY 29 1990	

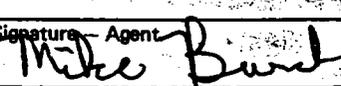
PS Form 3811, Mar. 1987

* U.S.G.P.O. 1987-178-288

DOMESTIC RETURN RECEIPT

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1. Show to whom delivered, date, and addressee's address. Restricted Delivery
†(Extra charge)† †(Extra charge)†

3. Article Addressed to: YATES PETROLEUM CORPORATION ATTN: MR. ROBERT H. BULLOCK 105 SOUTH FOURTH STREET ARTESIA, NEW MEXICO 88210	4. Article Number P 546 959 997
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X 	
7. Date of Delivery 5-29-90	

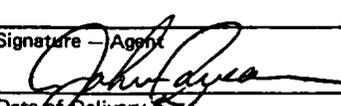
PS Form 3811, Mar. 1987

* U.S.G.P.O. 1987-178-288

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1. Show to whom delivered, date, and addressee's address. Restricted Delivery
†(Extra charge)† †(Extra charge)†

3. Article Addressed to: DeKALB ENERGY COMPANY ATTN: MR. KEITH C. RANUM 1625 BROADWAY DENVER CO 80202-4731	4. Article Number P 546 960 105
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X 	
7. Date of Delivery 5/29/88	

TO: Ralph Moore

FROM: Randy A. Bates

DATE: 06-25-90

SUBJECT: AFE's - Forced Pooling Hearing
PEOC "34" State Comm. No. 1
Empire, South (Morrow) Field
Eddy County, New Mexico

The following comments are provided to support the drilling AFE's during the forced pooling hearings on the PEOC "34" State Comm. No. 1 well in the Empire, South (Morrow) Field of Eddy County, New Mexico.

PEOC "34" State Comm. No. 1

The cost estimate is based on actual costs provided through conversations with numerous drilling contractors, mud companies and service companies. Drilling operations in this area are relatively trouble free. No services have been contracted out as of yet, however none of the costs estimates are expected to change significantly.



BEFORE EXAMINER	
OIL CONSERVATION DIVISION	
<u>Rec'd</u>	EXHIBIT NO. <u>4</u>
CASE NO.	<u>9977</u>

PACIFIC ENTERPRISES OIL COMPANY (USA)

ORIGINAL

AUTHORITY FOR EXPENDITURE

SOUTHWEST REGION
 200 N. Loraine, #400
 P.O. Box 3083
 Midland TX 79702-3083
 (915) 684-3861
 (915) 684-6426 (Fax)

DIVISION: Permian Basin Exploration Team **DATE:** 5-4-90
DEPARTMENT: Exploration and Development Midland, Texas
PROSPECT: Empire South Prospect #6254 **WELL NAME:** 34 State Com #1
LOCATION: 1980' FSL and 1980' FEL of Section 34, T-17-S, R-28-E
 Eddy County, New Mexico

Drill and Test Cost	\$395,350.00
Completion	<u>266,700.00</u>
TOTAL	\$622,050.00

JUSTIFICATION:

Proposed 10,800' well to test the Morrow Formation.
 See attached detailed Drilling and Completion Cost Estimate.

PARTICIPANTS	WORKING INTEREST	COST	GROSS AFE AMOUNT	\$662,050.00
PEOC	.3750000	\$248,268.75	APPROVED	DISAPPROVED
THE MOORE TRUST	.0625000	41,378.13		
CONOCO INC.	.1250000	82,756.25		
FINA OIL & CHEMICAL CO.	.1250000	82,756.25	COMPANY REPRESENTATIVE	
ARCO OIL & GAS CO.	.1250000	82,756.25		
YATES PETROLEUM CORP.	.0677084	44,826.35		
DEKALB ENERGY CO.	.0598958	39,654.01	COMPANY	
MARATHON OIL CO.	.0598958	<u>39,654.01</u>		
	1.0000000	\$662,050.00		
			DATE	

4/May/1990

PACIFIC ENTERPRISES OIL CO. (USA)
 DRILLING & COMPLETION DETAILED COST ESTIMATE

Prospect: PEOC 34 State Comm #1 Field Empire South Morrow

Well Location 1980' FSL & 1980' FEL Legal Description Sec 34, T17S, R28E

County Eddy State NM Proposed Depth 10,800'

Objective Formation Morrow AFE No. _____ Terra M.I. _____

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	TOTAL
Survey - Stake Location	1	1,000	xxx	0	1,000
Permits & Hearings	2	100	83	0	100
Building Road, bridges, canals	3	4,000	84	0	4,000
Building Location & Pits	4	10,000	85	3,500	13,500
Insurance (for Terra only)	5	3,300	86	0	3,300
Move in - Rig up - Rig down - Move out	6	0	87	0	0
Rat Hole	7	0	xxx	0	0
Footage Contract <u>10,800' @ \$16.25/ft</u>	8	175,500	xxx	0	175,500
Day work contract <u>5/3 days @ \$3,900/day</u>	9	17,600	88	9,800	27,400
Turnkey Agreement	10	0	90	0	0
Rig for Completion <u>\$1400/day x 8 days</u>	xxx	0	101	11,200	11,200
Drill Bits	12	0	102	500	500
Rental Equipment	13	10,000	103	3,500	13,500
Fishing Tools & Service	14	0	104	0	0
Company Labor	15	0	107	2,400	2,400
Auto & Travel	16	100	108	0	100
Contract Labor	17	15,900	113	3,100	19,000
Trucking, Hauling, Service Equipment	18	2,500	114	3,500	6,000
Power & Fuel	19	0	115	0	0
Water	20	8,500	116	1,500	10,000
Mud & Chemicals	21	16,000	117	2,000	18,000
Drill Pipe, Casing, Rod Inspection	22	2,000	125	3,500	5,500
Formation Testing (incl 2 DST)	23	8,000	xxx	0	8,000
Coring _____ ft of core @ \$ _____/ft	24	0	xxx	0	0
Mud Logging	25	7,500	xxx	0	7,500
Logs	26	22,000	126	3,500	25,500
Temperature Survey	27	0	148	0	0
Bottom Hole Pressure Test	28	0	149	2,500	2,500
Directional Services	29	0	152	0	0
Engineering, Geological, Geophysical	30	1,000	153	500	1,500
Cmtg, Conductor or Surf Csg (incl Float equip)	31	6,000	xxx	0	6,000
Cmtg, Interm or Prod Csg (incl Float equip)	32	10,000	154	15,000	25,000
Squeeze Jobs	33	0	155	0	0
Perf or Shooting	34	0	156	3,500	3,500
Frac	xxx	0	157	4,000	4,000
Swabbing	36	0	158	0	0
Plugging, if dry	37	6,000	159	0	6,000
Damage Claims	38	1,900	165	0	1,900
Cleaning Location	39	2,500	166	1,500	4,000
District Expense	40	9,000	172	1,200	10,200
Communications	41	200	177	200	400
Environmental & Safety Equipment	42	0	178	0	0
Misc Material & Service (Contingency)	43	10,000	179	2,600	12,600
-----	---	---	---	---	---
TOTAL INTANGIBLES		350,600		79,000	429,600

4/May/1990

PACIFIC ENTERPRISES OIL CO. (USA)
 DRILLING & COMPLETION DETAILED COST ESTIMATE

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	
TOTAL					
Surface Casing					
500' of 13-3/8" OD H-40 48#/ft., 8rd, ST&C @ \$18.5/ft.	50	9,250	xxx	0	9,250
Intermediate Casing					
2600' of 8-5/8" OD, 32#/ft., 8rd ST&C @ \$10.8/ft.	51	28,000	xxx	0	28,000
Production Casing					
10,800' 5-1/2" OD, 17#/ft, N-80 @ \$7.5/ft. Liner	xxx	0	52	81,000	81,000
___ ft of ___" OD, ___#/ft @ \$___/ft	xxx	0	53	0	0
Tubing					
10,600' of 2-3/8" OD, N-80, 4.7#/ft, 8rd, EUE @ \$3.02/ft	xxx	0	54	32,000	32,000
Xmas Tree & Tubing Head Components	55	3,500	182	12,000	15,500
Pumping Unit or Prime Mover	xxx	0	56	0	0
Production Platform - Mat. & Labor	xxx	0	58	0	0
Rods	xxx	0	59	0	0
Subsurface Pump	xxx	0	60	0	0
Tanks	xxx	0	61	15,000	15,000
Circulating Pump	xxx	0	63	0	0
Dehydrator	xxx	0	64	0	0
Heater Treater or Gunbarrel (Stakpac)	xxx	0	65	10,000	10,000
Separator/FMKO	xxx	0	66	0	0
Flowline & Connection 500' ft of 2" OD FG Linepipe @ \$2/ft	xxx	0	68	1,000	1,000
Meter, Meter Run & Connections	xxx	0	70	5,000	5,000
Buildings	xxx	0	71	0	0
Packer	xxx	0	72	8,000	8,000
Miscellaneous Equipment (fittings, etc.)	73	4,000	185	6,700	10,700
-----	---		---		
TOTAL TANGIBLES		44,750		170,700	215,450
Installation of Tubing	xxx	0	54	0	0
Installation of Pumping Unit & Prime Mover	xxx	0	56	0	0
Installation of Tanks	xxx	0	61	5,000	5,000
Installation of Dehydrator	xxx	0	64	0	0
Installation of Heater Treater or Gun Barrel	xxx	0	65	5,000	5,000
Installation of Separator/FMKO	xxx	0	66	0	0
Installation of Flowline	xxx	0	68	5,000	5,000
Installation of Miscellaneous Equipment	73	0	185	2,000	2,000
-----	---		---		
TOTAL INTANGIBLE INSTALLATION COSTS		0		17,000	17,000
		350,600		79,000	429,600
		44,750		170,700	215,450
		0		17,000	17,000
TOTAL WELL COST COMPLETED		395,350		266,700	662,050

Prepared by: _____

Date _____

Approved by: A.B. [Signature]

Date 5/4/90