



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

September 19, 1986

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. Thomas Kellahin
Kellahin & Kellahin
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico

Re: CASE NO. 3977
ORDER NO. R-3395

Applicant:

Foran Oil Company or Estoril
Producing Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Division order recently entered in the subject case.

Sincerely,

R. L. STAMETS
Director

RLS/fd

Copy of order also sent to:

Hobbs OCD X
Artesia OCD X
Aztec OCD

Other Kenneth Bateman

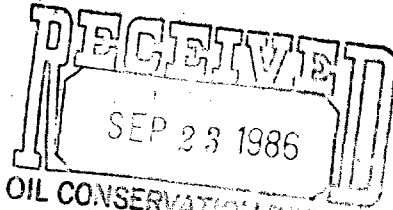
W. Thomas Kellahin
Karen Aubrey

Jason Kellahin
Of Counsel

KELLAHIN and KELLAHIN
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El Patio - 117 North Guadalupe
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Santa Fe, New Mexico 87504-2265

Telephone 982-4285
Area Code 505

September 22, 1986



Texaco Inc, USA
P. O. Box 3109
Midland, Texas 79702

Return-Receipt Requested

Attn: Mr. Curtis D. Smith

Re: Foran Oil Company
New Mexico Compulsory
Pooling Order R-8305
N/2SE/4, Sec 1, T16S, R37E
Lea County, New Mexico

Dear Mr. Smith:

Our firm represents Foran Oil Company and has received from the New Mexico Oil Conservation Division the enclosed Division Order R-8305 which compulsory pools the referenced acreage.

In accordance with the terms and conditions of the order, Texaco is hereby notified that within thirty days from the date of receipt of this order, Texaco is required to prepay to Foran Oil Company at 8340 Meadow Road, Suite 158, Dallas, Texas 75231, Texaco's share of the estimated well costs as shown on the enclosed AFE for the subject well. (Division Exhibit 7).

In the event Texaco fails to timely pay its share of the estimated well costs then its share of production shall be subject to the costs and penalties provided in the order.

Very truly yours,

Original signed by
W. THOMAS KELLAHIN
W. Thomas Kellahin

WTK:ca
Enc.

cc: Kenneth Bateman, Esq.
Richard L. Stamets (OCD)
Mr. Joe Foran

ESTORIL PRODUCING CORPORATION

SIXTEENTH FLOOR INDEPENDENCE PLAZA MIDLAND, TEXAS 79701 (A.C. 913) 683-6101

AUTHORITY FOR EXPENDITURE

Lease: Anderson Well: 6-1 County: Lea State: New Mexico

Location: SW/4 Section 6-16S-37E Proposed Depth: 11,600'

Prospect: Dean Formation: Strawn ☒ Exploratory ☐ Development

Date: 7/22/86 Estimated Spud Date: 9/1/86 Est. Completion Date: 10/15/86

TANGIBLE COST				
Code	Description	Drill	Complete	Total
131-0013	1. Casing:			
	a) Cond. " @ \$			
131-0001	b) 360' Surf. 13-3/8" @ \$ 11.50	4,140		4,140
131-0002	K-55 c) 4400' Inter. 8-5/8" @ \$ 8.90	39,160		39,160
	d) Inter. " @ \$			
	e) Inter. " @ \$			
131-0003	N-80 f) 11,600' Oil St. 4-1/2" @ \$ 4.00		46,400	46,400
131-0004	2. Tubing 11,000' 2-3/8" @ \$ 2.00		22,000	22,000
131-0006	3. Well head, pump equipment	4,500		4,500
131-0007	4. Treater, separator, tanks complete		19,500	19,500
131-0008	5. Flow lines		2,000	2,000
131-0009	6. Fittings, attachments		3,000	3,000
131-0019	7. Down hole equipment, rods		3,000	3,000
131-0020	8. Electrification			
	Total Tangibles	47,800	95,900	143,700
INTANGIBLE COST				
133-0001	9. Surveying	750		750
133-0002	10. Roads, location, tank grading	14,500	1,500	16,000
133-0003	11. Damages, permits, right of way	5,200		5,200
133-0004	12. Contract drilling 11,600' @ \$ 12.00	139,200		139,200
133-0005	13. Drilling 4 Days work @ \$ 4,200	12,600	4,200	16,800
133-0006	14. Bits & reamers			
133-0007	15. Cement & services - Cond. & surface	2,900		2,900
133-0008	16. Cement & services - Inter. casing	7,600		7,600
133-0009	17. Cement & services - Oil string		9,000	9,000
133-0010	18. Drilling fluids inc. oil & water	28,000	1,000	29,000
133-0011	19. Drill stem testing 1 tests @ \$2,800	2,800		2,800
133-0012	20. Coring & analysis			
133-0013	21. Pit liner	2,600		2,600
133-0014	22. Electric log	18,000		18,000
133-0015	23. Perforating		3,500	3,500
133-0016	24. Acidizing & fracturing		2,500	2,500
133-0017	25. Pulling units (swab & workover)		9,500	9,500
133-0019	26. Equipment rental & casing crews	11,000	2,500	13,500
133-0020	27. Trucking - incl. rig move	1,700	3,500	5,200
133-0021	28. Taxes	2,800	4,800	7,600
133-0022	29. Geology & mud logger	7,500		7,500
133-0023	30. Engineering	1,500	1,200	2,700
133-0024	31. Supervision	13,000	8,500	21,500
133-0027	32. Rig fuel			
133-0028	33. Welding	1,000	1,000	2,000
133-0029	34. Wire line work			
133-0031	35. Supplies	500	4,500	5,000
133-0032	36. Labor & roustabout	1,500	7,000	8,500
133-0034	37. Centralizers, liners, packers			
133-0035	38. Testing			
133-0037	39. Treating			
133-0044	40. Pipe inspection			
	Total Intangibles	274,650	64,200	338,850
133-0025	41. Contingencies 5 %	13,700	3,200	16,900
	Total Intangibles + Contingencies	288,350	67,400	355,750
	TOTAL	336,150	163,300	499,450

133-0018 - Plug & Abandon if Dry Hole + 6,000
Less Salvage - 2,000
Total Dry Hole Cost 340,150

AGREED AND ACCEPTED:

Total Dry Hole Cost

PREPARED BY:

APPROVED BY:

Chris Swartz
Hudley Allison

Company:

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION

FORAM EXHIBIT NO. 7

CASE NO. 89777-8978

WHITE,
KOCH, KELLY
&
McCARTHY
A Professional Association

Attorneys and Counselors at Law

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M. Karen Kilgore*

August 27, 1986

Mr. David R. Catanach
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504-2088

HAND DELIVERED

RE: Foran Oil Company - Case No. 8978 and Case 8977

Dear Mr. Catanach:

I have received a copy of Mr. Kellahin's letter together with the proposed orders which he prepared.

Mr. Kellahin requests that both orders be entered in such a way as to prohibit Texaco from obtaining any geologic information concerning the well to be drilled in case 8978. As you know, Texaco consented to the entry of the orders in both cases, but requested that the Division permit it to obtain the geologic information from the well to be drilled in case 8978 prior to forcing it to make a decision in the other case, inasmuch as that well is obviously going to be drilled after the completion of the first well.

At the hearing, neither Foran Oil Company or Texaco requested anything other than a standard order in case 8978, with the exception of the requirement for the sharing of geologic information. As you know, Texaco indicated that it was in a position to make a decision within seven days after the receipt of the geologic information with respect to its participation in the second well.

The orders which I have prepared are consistent with the testimony given at the hearing and with the request of Texaco.

As I recall the testimony, there was no indication that commencement of the well prior to September 1, 1986 was necessary but that in any event it was the intention of Foran Oil Company to proceed on that date. I believe that the

Mr. David R. Catanach
Page Two
August 27, 1986

expiration date involved is the expiration date of the lease which was October 26, 1986. That expiration date, as you know, will be extended by virtue of the payment of the consideration required by the lease by Texaco.

Sincerely,



KENNETH BATEMAN

KB/bah

Enclosures: Order - Case 8978
Order - Case 8977

cc: W. Thomas Kellahin, Esquire
Mr. Gary Kearn - Texaco Inc.

0978-043

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

THE APPLICATION OF FORAN OIL
COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO

CASE NO. 8978

Order No. R-_____

FORAN OIL COMPANY
PROPOSED ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 20, 1986, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this ____ day of _____, 1986, the Division Director, having considered the testimony, the record, the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That Division Case Nos. 8977 and 8978 were consolidated at the time of the hearing for the purpose of testimony.

(3) That the applicant, Foran Oil Company, seeks an order designating Estoril Producing Corporation as operator and pooling all mineral interests in the Strawn formation of the Northeast Lovington-Pennsylvanian Pool, underlying the S/2 SW/4 of Section 6, T16S, R37E, Lea County, New Mexico.

(4) That the applicant has obtained the voluntary agreement of all working interest owners in the subject tract with the exception of Texaco Inc. which has a 25% working interest.

(5) That the applicant and Texaco stipulated at the hearing that the applicant and Texaco have made a good faith diligent effort to obtain the voluntary joinder of TEXACO Inc. and that the parties were unable to agree.

(6) That the applicant and Texaco Inc. have further stipulated that a 200% risk factor penalty should be assessed against Texaco for the risk of drilling and completing the subject well if Texaco elects not to contribute its share of the drilling costs and that said risk factor is reasonable.

(7) That the applicant and Texaco have further stipulated that Estoril Production Corporation is an appropriate operator for this well and that overhead charges of \$5,500 per month while drilling and \$550.00 per month while producing are fair and reasonable.

(8) That Texaco has requested the Division to require the applicant to provide Texaco with geologic data and access to the rig for the well to be drilled pursuant to OCD Case 8978 and that Texaco would have seven (7) days thereafter in which to exercise its election to participate in the well to be drilled pursuant to OCD Case 8977 and that such request under the circumstances of this case is fair and reasonable.

(9) That the applicant and Texaco Inc. have stipulated that Estoril's AFE of \$499,450 for a completed well and \$340,150 for a dry hole are fair and reasonable.

(10) That to avoid the drilling of unnecessary wells, to prevent waste, to protect correlative rights, and to afford the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in any pool thereunder, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(11) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(12) That any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(13) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs

and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(14) That upon failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before the expiration of one hundred twenty (120) days from the effective date of this order, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Strawn formation of the Northeast Lovington-Pennsylvanian Pool underlying the S/2 SW/4 of Section 6, T16S, R37E, Lea County, New Mexico, are hereby pooled to form a standard 80-acre spacing and proration unit.

PROVIDED, HOWEVER, that the operator of said unit shall commence said well on or before the expiration of 120 days after the effective date of this order, and shall thereafter continue the drilling of said well with due diligence.

PROVIDED FURTHER, that in the event said operator does not commence said well on or before the expiration of 120 days after the effective date of this order, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be completed, or abandoned, within 120 days after commencement therefor, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Estoril Producing Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; and if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is any objection to actual well costs within said 45 day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(a) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and

(b) As a charge for the risk involved in the drilling of the well, 200% of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$5,500.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$550.00 per month is hereby fixed as a reasonable charge for supervision while producing, provided that this rate shall be adjusted on the first day of _____ of each year following the effective date of this order; that the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings Crude Petroleum and Gas Production Workers for the last calendar year compared to the

preceeding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths ($7/8$) working interest and a one-eighth ($1/8$) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the division of the name and addresses of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That applicant shall permit reasonable access by Texaco to the drilling rig and the geologic data obtained during the drilling, including any logs.

(14) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

RICHARD L. STAMETS
Director