

W. Thomas Kellahin
Karen Aubrey

Jason Kellahin
Of Counsel

KELLAHIN and KELLAHIN
Attorneys at Law
El Patio - 117 North Guadalupe
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

Telephone 982-4285
Area Code 505

October 1, 1986

Mr. Richard L. Stamets
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

"Hand Delivered"

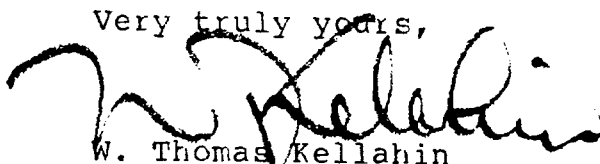
Re: Sun Exploration & Production Company
T18S, R33E, NMPM
Section 24: N/2

Dear Mr. Stamets:

On behalf of Sun Exploration and Production Company, please set the enclosed compulsory pooling application for hearing on October 22, 1986.

By copy of this letter to Arco Oil & Gas Company, we are notifying Arco of its right to appear at the hearing either in support or opposition of the application. Failure to appear can result in a compulsory pooling order being entered against their interest.

Very truly yours,



W. Thomas Kellahin

WTK:ca
Enc.

cc: Charles Gray
Sun Exploration & Production Company
P. O. Box 2880
Dallas, Texas 75221-2880

Arco Oil & Gas Company ("Certified Mail")
300 North Pecos
Midland, Texas 79701
Attn: Ms. Rita Buress

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
<u>SUN</u>	EXHIBIT NO. <u>7</u>
CASE NO. <u>9007</u>	

PS Form 3811, July 1983 447-845

SENDER: Complete items 1, 2, 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. <u>The return receipt fee will provide you the name of the person delivered to and the date of delivery.</u> For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested.	
1. <input checked="" type="checkbox"/> Show to whom, date and address of delivery.	
2. <input type="checkbox"/> Restricted Delivery.	
3. Article Addressed to: Arco Oil & Gas Company Attn: Ms. Rita Buress 300 North Pecos Midland, Texas 79701	
4. Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail	Article Number P 131 072 123
Always obtain signature of addressee or agent and <u>DATE DELIVERED.</u>	
5. Signature - Addressee X	
6. Signature - Agent X <i>C. Campbell</i>	
7. Date of Delivery <i>10 3 86</i>	
8. Addressee's Address (ONLY if requested and fee paid) <i>300 N. Pecos</i>	

Sun Exploration 10/22/86

DOMESTIC RETURN RECEIPT

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:

CASE NO. 9007
Order No. R-8342

APPLICATION OF SUN EXPLORATION AND
PRODUCTION COMPANY FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 22, 1986, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 4th day of November, 1986, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Sun Exploration and Production Company, seeks an order pooling all mineral interests from the top of the Wolfcamp to the base of the Pennsylvanian formations underlying the N/2 of Section 24, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico.

(3) The applicant has the right to drill and proposes to drill a well at an unorthodox location, approved by Division Order No. R-8157, dated February 5, 1986, 2080 feet from the North line and 600 feet from the East line of Section 24, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico.

(4) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to 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 completion resulting from

this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) The applicant should be designated the operator of the subject well and unit.

(7) 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.

(8) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) 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 estimated well costs exceed reasonable well costs.

(11) \$4,440.00 per month while drilling and \$559.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 1987, the order pooling said unit should become null and void and of no effect whatsoever.

(14) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the top of the Wolfcamp to the base of the Pennsylvanian formations underlying the N/2 of Section 24, Township 18 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a previously approved unorthodox gas well location (Division Order R-8157), 2080 feet from the North line and 600 feet from the East line of said Section 24.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the first day of February, 1987, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp and Pennsylvanian formations;

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the first day of February, 1987, Ordering Paragraph No. (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 drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Sun Exploration and Production Company is hereby designated the operator of the subject well and unit.

(3) 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) 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 estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and 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) 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; 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, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) 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) 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.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent 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) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$4,440.00 per month while drilling and \$559.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production

the proportionate share of such supervision charges 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) 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) 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.

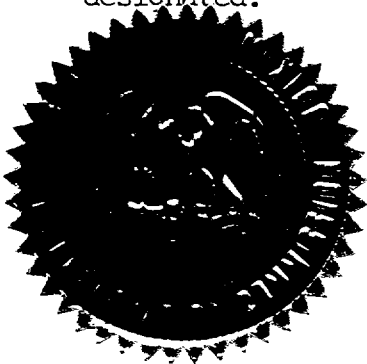
(12) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said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

(13) Should all parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(14) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(15) 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

R. L. Stamets
R. L. STAMETS,
Director