

FILE COPY

MONTGOMERY & ANDREWS
PROFESSIONAL ASSOCIATION
ATTORNEYS AND COUNSELORS AT LAW

OF COUNSEL
William R. Federici

J. O. Seth (1883-1963)
A. K. Montgomery (1903-1987)
Frank Andrews (1914-1981)

March 1, 1991

SANTA FE OFFICE
325 Paseo de Peralta
Post Office Box 2307
Santa Fe, New Mexico 87504-2307

Telephone (505) 982-3873
Telecopy (505) 982-4289

ALBUQUERQUE OFFICE
Suite 1300
Albuquerque Plaza
201 Third Street, N.W.
Post Office Box 26927
Albuquerque, New Mexico 87125-6927

Telephone (505) 242-9677
Telecopy (505) 243-4397

REPLY TO SANTA FE OFFICE

CERTIFIED
RETURN RECEIPT REQUESTED

Victor R. Ortega	Galen M. Buller
Jeffrey R. Brannen	Edmund H. Kendrick
John B. Pound	Gary P. Kaplan
Gary Kilpatrick	Jay R. Hone
Thomas W. Olson	Susan Andrews
William C. Madison	Paula G. Maynes
Walter J. Melendres	Neils L. Thompson
Bruce Herr	Rod D. Baker
Robert P. Worcester	R. Michael Shickich
John B. Draper	Janet W. Cordova
Nancy Anderson King	M. Eliza Stewart
Janet McL. McKay	Martin R. Esquivel
Joseph E. Earnest	Scott K. Atkinson
W. Perry Pearce	Catherine E. Pope
Sarah M. Singleton	Phyllis Savage Lynn
Stephen S. Hamilton	Lorri Krehbiel
Michael H. Harbour	Richard C. Mertz
Katherine W. Hall	Susan M. McMichael
Robert J. Mroz	Laura A. Ward
Richard L. Puglisi	

Conoco Inc.
Attention: Mr. Mike Johnson
Conoco Plaza
10 Desta Drive
Midland, Texas 79705

Re: Kemnitz Deep Com Well No. 1, E/2 Section 28, Township
16 South, Range 34 East, Lea County

Gentlemen:


Fina Oil & Chemical Company has filed an application with the New Mexico Oil Conservation Division seeking the pooling of all mineral interests below the depths of 10,907 feet underlying the E/2 of Section 28, Township 16 South, Range 34 East, N.M.P.M., Lea County, New Mexico. The Division has set this case for hearing on March 21, 1991 scheduled to begin at 8:15 a.m. in the conference room of the Oil Conservation Division in the State Land Office Building, Santa Fe, New Mexico.

By this case, in addition to pooling the mineral interests, Fina seeks a determination of reasonable well costs and the allocation of those costs between interest owners in the well, a determination of reasonable administrative and overhead charges during drilling and operation of this well, a determination of the appropriate risk penalty to be applied against parties who do not elect to participate in the drilling of this well and Fina also seeks to be named the operator of this well.

Conoco Inc.
March 1, 1991
Page 2

If you need further information on this matter, please
contact Mr. Kevin T. Pfister, phone number (915) 688-0600.

Sincerely,



W. Perry Pearce

WPP/gr:89
File #10863-91-01
cc: Mr. Kevin T. Pfister

P 307 974 325

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

★ U.S.G.P.O. 1985-480-794

PS Form 3800, June 1985

Sent to Conoco Inc.	
Conoco Plaza	
10 Desta Drive	
P.O., State and ZIP Code Midland, TX 79705	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

WPP/10863-91-01

WPP/10863-91-01

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.
Put your address in "RETURN TO" Space on the reverse side. Failure to do so will prevent this card from being returned to you. The return receipt fee will provide you the name of 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. Attention: Mr. Mike Johnson Conoco Plaza 10 Desta Drive Midland, Texas 79705	4. Article Number P-307 974 325
5. Signature — Addressee 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 Chita Gonzales	Always obtain signature of addressee or agent and DATE DELIVERED .
7. Date of Delivery MAY 5 1981	8. Addressee's Address (ONLY if requested and fee paid)

FILE COPY

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William R. Federici

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Michael H. Harbour	Richard C. Mertz
Katherine W. Hall	Susan M. McMichael
Robert J. Mroz	Laura A. Ward
Richard L. Puglisi	

CERTIFIED
RETURN RECEIPT REQUESTED

Marathon Oil Company
Attention: Mr. Randall Wilson
125 West Missouri
Midland, Texas 79701

Re: Kemnitz Deep Com Well No. 1, E/2 Section 28,
Township 16 South, Range 34 East, Lea County

Gentlemen:


Fina Oil & Chemical Company has filed an application with the New Mexico Oil Conservation Division seeking the pooling of all mineral interests below the depths of 10,907 feet underlying the E/2 of Section 28, Township 16 South, Range 34 East, N.M.P.M., Lea County, New Mexico. The Division has set this case for hearing on March 21, 1991 scheduled to begin at 8:15 a.m. in the conference room of the Oil Conservation Division in the State Land Office Building, Santa Fe, New Mexico.

By this case, in addition to pooling the mineral interests, Fina seeks a determination of reasonable well costs and the allocation of those costs between interest owners in the well, a determination of reasonable administrative and overhead charges during drilling and operation of this well, a determination of the appropriate risk penalty to be applied against parties who do not elect to participate in the drilling of this well and Fina also seeks to be named the operator of this well.

Marathon Oil Company
March 1, 1991
Page 2

If you need further information on this matter, please
contact Mr. Kevin T. Pfister, phone number (915) 688-0600.

Sincerely,



W. Perry Pearce

WPP/gr:87
File #10863-91-01
cc: Mr. Kevin T. Pfister

P-573 832 436
RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL
(See Reverse)

U.S.G.P.O. 153-506

Sent to
Marathon Oil Company
Street and No.
125 West Missouri
P.O., State and ZIP Code
Midland, TX 79701

Postage

Certified Fee

Special Delivery Fee

Restricted Delivery Fee

Return Receipt showing to whom and Date Delivered

Return Receipt showing to whom, Date, and Address of Delivery

TOTAL Postage and Fees

Postmark or Date

PS Form 3800, June 1985

WPP/10863-91-01

WPP/10863-91-01

● **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)

3. Article Addressed to:
Marathon Oil Company
Attention: Mr. Randall Wilson
125 West Missouri
Midland, Texas 79701

4. Article Number
P-573 832 436

Type of Service:
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature — Addressee
X

6. Signature — Agent
X *P. Edwards*

7. Date of Delivery
3-4-91

8. Addressee's Address (ONLY if requested and fee paid)

PS Form 3811, Apr. 1989 ★U.S.G.P.O. 1989-238-815 DOMESTIC RETURN RECEIPT

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

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

*CASE NO. 10266
ORDER NO. R-9478*

**APPLICATION OF FINA OIL AND CHEMICAL
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 March 21, 1991, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 29th day of March, 1991, 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, Fina Oil and Chemical Company, seeks an order pooling all mineral interests below a depth of 10,907 feet, underlying the E/2 of Section 28, Township 16 South, Range 34 East, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 320-acre spacing, which presently includes but is not necessarily limited to the South Kemnitz Atoka-Morrow Gas Pool.

(3) The applicant has the right to drill and proposes to drill a well at a standard gas well location thereon.

(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 prevent 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 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 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 paid estimated well costs exceed reasonable well costs.

(11) \$5200.00 per month while drilling and \$520.00 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 July 1, 1991, the order pooling said unit should become null and void and of no further effect whatsoever.

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

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

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, below a depth of 10,907 feet, underlying the E/2 of Section 28, Township 16 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a 320-acre gas spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 320-acre spacing, which presently includes but is not necessarily limited to the South Kemnitz Atoka-Morrow Gas Pool, said unit to be dedicated to a well to be drilled at a standard gas well location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of July, 1991, and shall thereafter continue the drilling of said well with due diligence to a depth in excess of 10,907 feet.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of July, 1991, Decretory 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 Decretory Paragraph No. (1) of this order should not be rescinded.

(2) Fina Oil and Chemical 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; and
- (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) \$5200.00 per month while drilling and \$520.00 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 unleased 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 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.

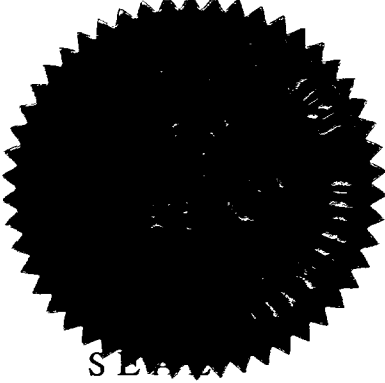
(13) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

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

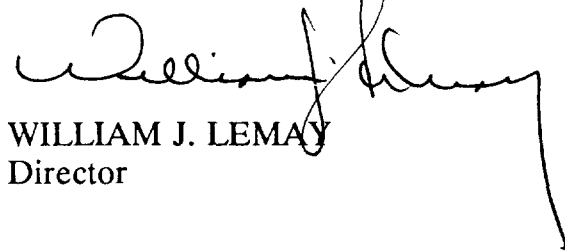
(15) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Case No. 10266
Order No. R-9478
Page No. 6

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



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read 'William J. Lemay', written over the printed name and title.

WILLIAM J. LEMAY
Director