

CASE 7514: SANTA FE EXPLORATION CO.
FOR COMPULSORY POOLING OR NON-STANDARD
PRORATION UNIT, EDDY COUNTY, NEW MEXICO

Flann
need names and
addresses of poolers
Jen

DOCKET MAILED
Date 3/5/82 (Poolers
notified by
attorney)

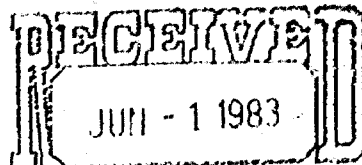
CASE NO.

7514

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.



SANTA FE
EXPLORATION CO.



(915) 685-3368
300 WEST TEXAS ST.—SUITE 533
MIDLAND, TEXAS 79701

OIL CONSERVATION DIVISION
SANTA FE

(505) 623-2733
P. O. Box 1136
ROSSELL, NEW MEXICO 88201

May 24, 1983

Mr. Joe D. Ramey, Director
State of New Mexico
Energy and Minerals Department
Oil Conservation Division
P.O. Box 2088
Santa Fe, NM 87501

Re: Exxon State Com #1
W/2 Section 2, T20S, R25E, Eddy County, New Mexico
Case No. 7514, Order No. R-6932 3/16/82

Dear Sir:

Please find enclosed a statement evidencing cost through completion of the captioned well as per the captioned pooling order Page 4 (5). I am mailing a copy of this statement to all working interest owners in the Exxon State #1 as per the attached list.

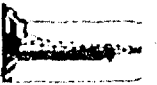
If you need further information please advise. Thank you for your cooperation and consideration.

Sincerely,

Ms. Jackie Midkiff

jam
encl.

cc: All Working Interest Owners



SANTA FE
EXPLORATION CO.

(505) 623-2733
P.O. Box 1136
Roswell, New Mexico 88201

STATEMENT OF PAYOUT STATUS
MONTH OF April 30, 1983

Exxon State Com #1
W/2 Section 2, T20S, R25E, Eddy County, New Mexico

Date Of Invoice	Total Of Invoice	Cost To Date	Date Of Production	Volume BBL/MCF	Income Received	Income To Date	Payout Status
3/30/82	\$ 74,932.02	\$ 74,932.02					
4/30/82	489,775.43	564,707.45					
4/30/82	110,424.70	675,132.15					
7/30/82	187,937.95	863,070.10					
9/30/82	8,180.11	871,250.21					
3/31/83	23,621.25	894,871.46					

(\$894,871.46)

EXHIBIT "A"

5) ADDRESSES OF THE PARTIES FOR NOTICE PURPOSES:

Santa Fe Exploration Company
P.O. Box 1136
Roswell, NM 88201

Tenneco Oil Company
6800 Park Ten Blvd, Suite 200 N
San Antonio, TX 78213

Armand L. Smith
P.O. Box 159
Clovis, NM 88101

William B. Barnhill
P.O. Box 1354
Roswell, NM 88201

Monsanto Company
1330 Midland Nat'l. Bank Tower
500 W. Texas
Midland, TX 79701

Exxon Company, USA
P.O. Box 1600
Midland, TX 79702

Morris R. Antweil
P.O. Box 2010
Hobbs, NM 88240

Mountain States Petroleum
P.O. Box 1936
Roswell, NM 88201

Yates Petroleum Corporation
207 South Fourth St.
Artesia, NM 88210

Gulf Oil Corporation
P.O. Box 1150
Midland, TX 79702

Cities Service Company
P.O. Box 1919
Midland, TX 79702

Amoco Production Company
P.O. Box 3092
Houston, TX 77253

J. H. Herd
P.O. Box 130
Midland, TX 79702

Jack Markham
1500 Broadway Suite 1212
Lubbock, TX 79401

J. M. Welborn
1500 Broadway Suite 1212
Lubbock, TX 79401

Robert M. Davenport
P.O. Box 3511
Midland, TX 79702

Horseshoe Oil & Gas Corp.
P.O. Box 870
San Angelo, TX 76902

Nautilus Exploration, Inc.
P.O. Box 1715
Midland, TX 79702

Cal Mon Oil
P.O. Box 2066
Midland, TX 79702

John H. Hendrix
525 Midland Tower
Midland, TX 79701

Estoril Producing Corporation
1100 Vaughn Building
Midland, TX 79701

Barnes Adalante Trust
P.O. Box 505
Midland, TX 79702

Kastman Oil Company
2420 Quaker, Suite 5
Lubbock, TX 79410

Ernest Angelo, Jr.
200 Gihls Tower West
Midland, TX 79701

A. G. Kasper
801 First Nat'l. Bank Bldg.
Midland, TX 79701

O'Brien-Goins Engineering, Inc.
900 Midland National Bank Tower
Midland, TX 79701

Joe R. Henderson
308 North Colorado
Midland, TX 79701

Robert L. Monaghan
P.O. Box 2066
Midland, TX 79702

A. T. Carleton
P.O. Box 293
Midland, TX 79702

McCes, Inc.
P.O. Box 3580
Midland, TX 79702

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

16 March 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Santa Fe Exploration
Co. for compulsory pooling, or in the
alternative a non-standard proration
unit, Eddy County, New Mexico.

CASE
7514

BEFORE: RICHARD L. STAMETS

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Paul Cooter, Esq.
ATWOOD, MALONE, MANN & COOTER
Roswell, New Mexico 88201

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2

I N D E X

WILLIAM G. McCOY

Direct Examination by Mr. Cooter 3

Cross Examination by Mr. Stamets 16

E X H I B I T S

Applicant Exhibit One, Plat 4

Applicant Exhibit Two, Agreement 6

Applicant Exhibit Three, Document 7

Applicant Exhibit Four, Letter 8

Applicant Exhibit Five, C-101 & C-102 8

Applicant Exhibit Six, Plat 10

REPORTER'S NOTE: Letter of Mr. Conrad E. Coffield
attached following page 20, as
directed by the Examiner.

1
2 MR. STAMETS: We will call Case 7514
3 at this time.

4 MR. PEARCE: And that is the application
5 of Santa Fe Exploration Company for compulsory pooling, or in
6 the alternative a non-standard proration unit, Eddy County,
7 New Mexico.

8
9 (Witness sworn.)

10
11 WILLIAM G. MCCOY

12 being called as a witness and being duly sworn upon his oath,
13 testified as follows, to-wit:

14
15 DIRECT EXAMINATION

16 BY MR. COOTTER:

17 Q Would you state your name for the record,
18 please, sir?

19 A William G. McCoy, M-c-C-O-Y.

20 Q State, if you would, Mr. McCoy, briefly
21 what Santa Fe Exploration Company seeks by this application.

22 A The Santa Fe seeks to have final confirm-
23 ation on a forced pooling for the west half of Section 2,
24 20 South, 25 East.

25 Q First, let me direct your attention to

1

2

Exhibit One. Would you relate what that is?

3

A.

Exhibit One is a copy of the land map of Township 19 and 20 South, 25 East. The subject application is the west half of section 2, 20 South, 25 East, outlined in red.

7

Q.

And the red well marker there is the location of the proposed well?

9

A.

Yes, it is.

10

Q.

All right. Now, that -- this is proposed for a Morrow test, is that right?

12

A.

Morrow test, 9800-foot Morrow.

13

Q.

That half section is comprised of a State lease, which takes Lots 3 and 4, then the southwest of the northwest and the northwest quarter of the southwest quarter.

17

A.

Correct.

18

Q.

That is a State lease?

19

A.

State lease, owned by Exxon.

20

Q.

And Exxon has farmed out its interest to Santa Fe Exploration.

22

A.

Correct.

23

Q.

Then continuing on south, the southwest of the southwest is a Federal lease, is it not?

25

A.

Correct.

1

2

Q. Owned by Monsanto?

3

A. Correct.

4

Q. Monsanto has farmed out to --

5

A. They have.

6

Q. -- Santa Fe Exploration.

7

8

The east half of the southwest quarter
is a fee lease, is it not?

9

A. It is.

10

Q. And it's owned by Exxon, Morris Antweil,
and Mountain States Petroleum.

12

A. That's correct.

13

Q. Exxon and Antweil have farmed out their
interests in those two little tracts, the 80 acres, to Santa
Fe Exploration?

16

A. Right.

17

Q. And Mountain States has joined in the
drilling of the well.

19

A. They have.

20

Q. This application is really directed, is
it not, to Cal-Mon and the other interest owners who have
a State lease covering the southeast of the northwest quarter.

23

A. That's right.

24

Q. Final examination or brief title review
has indicated that that -- the operating rights on that parti-

25

1
2 cular little 40-acre tract are divided between some 18 or
3 19 owners.

4 A. That's right.

5 Q. What was the -- well, strike that.
6 Has the well been commenced?

7 A. It has.

8 Q. Now, why was immediate action necessary
9 in this case?

10 A. Immediate action was necessary due to
11 the expiration date on the east half of the southwest quarter
12 of Section 2. The expiration date being March 17th, 1982,
13 and the availability of -- immediate availability of a
14 rig. We could have started it later had we had the option
15 to obtain a rig prior to the expiration date.

16 Or we had to communitize the acreage,
17 file it with the County Clerk's office, move the rig on,
18 and had no other alternative.

19 Q. Let me next direct your attention to
20 Exhibit Two, which is the communitization agreement. That
21 agreement has been executed by Santa Fe Exploration, as the
22 operator, Exxon Corporation, or Exxon Company USA, Monsanto,
23 Morris Antweil, Mountain States Petroleum, and also by Cal-
24 Mon, acting by and through Robert L. Monagan, has it not?

25 A. It has.

1
2 Q And then it was submitted to and approved
3 by the Commissioner of Public Lands?

4 A It was.

5 Q And submitted, also, to the Minerals
6 Management Service, formerly the USGS.

7 A It was.

8 Q And they approved it, also.

9 A They have.

10 Q And you stated a copy of that agreement
11 has been filed for record in the office of the County Clerk
12 of Eddy County.

13 A Right.

14 Q Next let me direct your attention to
15 Exhibit Three, which is the AFE.

16 Who prepared that AFE?

17 A I did.

18 Q In your opinion are the costs and ex-
19 penses set forth therein reasonable and proper?

20 A As close as it can be estimated.

21 Q And has that AFE been in fact approved
22 by Mountain States and several of those 18 owners in that
23 little 40-acre tract?

24 A It has.

25 Q Next I would direct the Commission's

1
2 attention to Exhibit Number Four, which is a letter from me,
3 whereby all of the interest owners in that 40-acre tract
4 were furnished a copy of the communitization agreement, and
5 the AFE, as well as terms and provisions of Exxon's farmout
6 back on February 22.

7 Pardon me, I have the return receipts
8 from all of those who are -- do you have a list of those in-
9 dividual -- those 18 owners besides Cal-Mon Oil Company are
10 John Hendrix, Estoril Production Company, J. H. Herd, Barnes
11 Adelante Trust, Jack Markham, J. M. Welborn, Kastman, with
12 a K, Oil Company, Robert M. Davenport, Ernest Angelo, Jr.,
13 A. G. Kasper, again with a K, Obrien-Goins Engineering, Inc.,
14 Joe R. Henderson, Horseshoe Drilling Corporation, Nautilus
15 Exploration, Inc., Barnes Adelante Trust No. 2, Robert L.
16 Monaghan, A. T. Carleton, and McCes, Inc., M-c-C-E-S.

17 Those that have not approved the AFE
18 and returned it were furnished, and if the Examiner would
19 like, we'll hand in that marked as an exhibit. the return
20 receipts from all of those.

21 MR. STAMETS: I think they can be sub-
22 mitted without being an exhibit.

23 Q Next, let me direct your attention to
24 Exhibit Five.

25 A Exhibit Five?

1

2

Q. Yeah, that's your C-101 and C-102.

3

A. Okay.

4

Q. Relate what that is, please, Mr. McCoy.

5

A. Exhibit Five is the formal permit appli-

6

cation to drill filed with the Artesia office of the Oil

7

Conservation Commission, stating the program proposed, casing

8

program, location, and blowout preventer attachment.

9

Q. That was approved by the Artesia repre-

10

sentative of the OCC?

11

A. Approved February 18th.

12

Q. Pursuant to that was the well actually

13

commenced?

14

A. No.

15

Q. Well, following that was the well com-

16

menced?

17

A. It was.

18

Q. And when was the well commenced?

19

A. March 7th, 1982.

20

Q. And is the well now drilling?

21

A. It is.

22

Q. What is the depth of the latest depth

23

report that you have?

24

A. 8:00 a. m. report, 3-16-82, is 3653

25

feet, drilling in lime.

1
2 Q When is the Atoka formation expected to
3 be encountered?

4 A Approximately the 30th of March, 1982.

5 Q That would be the first potential pay,
6 would it not?

7 A Yes, sir, it would.

8 Q How about the Morrow formation?

9 A Approximately the 5th of April, 1982.

10 Q And total depth?

11 A At about the 10th of April, 1982.

12 Q All right. Now, let me ask you to turn
13 to Exhibit Six, which is the -- a map. Explain that to the
14 Examiner, please.

15 A Exhibit Six is a plat showing the cur-
16 rent Morrow wells within the area of Santa Fe's prospect.
17 Only those wells that were Morrow, or Morrow producers, Mor-
18 row dry holes or Morrow producers, are shown.

19 Starting in Section 28 of 19, 25, the
20 Yates well is completed in the Morrow and produced for a
21 period of approximately 10 months and accumulated 368,747
22 Mcf.

23 Now, the penned dates are the dates
24 the well was completed and in this case the date the well
25 was terminated.

1
2 The Getty well, Unit M in Section 28, I
3 have no completion date. The file folder is out in the Com-
4 mission files. The cumulative on the well was shown as
5 1,380 -- 1,382,150,000 Mcf.

6 November '81's production, our last
7 production, is 1,000,903 Mcf.

8 The well in 33 is an Atoka well, was
9 drilled to the Morrow and was unable to make a commercial
10 well individually in the Morrow, plugged back and made an
11 Atoka well.

12 Section 34, in Unit F, Coquina well
13 was completed in 1975 and has a cumulative production from
14 the Morrow of 2,463,278,000 Mcf.

15 Last month's production, I mean the
16 November, the last reported production, is 1,000,969 Mcf.

17 The Unit I is an old PanAmerican well.
18 It was drilled back in 1959. At that time Morrow was not
19 an attractive formation. The well tested 357 Mcf from the
20 Morrow for sixteen hours. At that time there was no pipeline
21 and the well was never completed and never produced.

22 The well in Section M is a Morrow dry
23 hole with no shows.

24 Section 35, the Hilliard well, cumulative
25 production through November '81 shown, 188,128 Mcf. Last

month's production, November '81, I mean of '82, those are --
no, that's '81, yeah.

257,000 Mcf.

Down in Section 20 South, 25 East, Section 1, dry hole in the Morrow. The red triangles are Morrow dry holes.

Section 2, the current drilling Santa Fe Exploration well.

Section 3, the Chama Huber No. 1 is at total depth, casing run, evidently perforated, but no information available. The well is tight.

Section 4, a dry hole to the Morrow.

Section 9, dry hole.

Section 11, --

Q Two dry holes in 9.

A Well, that's -- yeah, two dry holes in 9, yeah.

Q Okay.

A Section 11, Amoco well, completed in January, 1979, cumulative through November '81 was 130,590.

Last month's production was reported in October of '81. No November production reported. The total production for the year 1981 through October, was 35,672,000. That's a 10-month production figure.

Section 24 -- well, the well in Section 14, a San Andres well.

Section 24, well was drilled in 1973, plugged and abandoned 1979. Had a cumulative of 3,888,000 Mcf.

Section 25, well drilled and completed in 1978. Cumulative production through November, 101,087 Mcf.

Last reported production in October of '81, no November production.

Section 26, Morrow well completed in 1978, a cumulative through November '81, 649,999.

November's production, 7,360,000 Mcf.

Well in 27, Morrow dry hole.

Morrow dry hole in Section 36.

Primarily staying within the defined limits of what we interpret as the Boyd Channel, a channel sand going in a north/south direction, essentially, reviewing these figures it's apparent that outside of the well in 34, the Coquina well, at an estimated well cost of \$800,000, average price of \$3.00 a thousand, if you can get it, the wells probably are not going to pay out or very unlikely they'll be a commercial success.

Q. Mr. McCoy, we got started, and I overlooked some -- some questions to begin with.

1

2

What is your profession?

3

A. I'm a consulting engineer and geologist.

4

Q. And you're acting in that capacity on

5

behalf of Santa Fe Exploration?

6

A. I am.

7

Q. Have you previously testified before the

8

Commission and made your -- your qualifications --

9

A. I have.

10

Q. -- stated in the record?

11

A. I have.

12

Q. You've practiced your profession in the

13

southeastern New Mexico and west Texas area for a good number

14

of years?

15

A. I have, since 1916.

16

Q. In your opinion is the Santa Fe Explor-

17

ation well in the west half of Section 2 a high risk venture?

18

A. I would consider it so, in my opinion.

19

Q. In its application Santa Fe Exploration

20

is requesting certain supervision charges.

21

A. Correct.

22

Q. What are those?

23

A. Santa Fe's operating agreement, which

24

has been submitted to the parties, provides for a drilling

25

well rate, fixed rate, of \$3000 per month, and an operating

charge on a producing well of \$300 a month.

Q Are these amounts less than the amounts suggested by Exxon?

A They are. Exxon's recommendation to Santa Fe in their operating agreement were \$4170, drilling well rate, and \$417 a month producing well rate.

Q In your opinion, Mr. McCoy, would the granting of this application be in the best interest of conservation?

A It would.

Q Protect correlative rights and prevent economic waste?

A Yes.

MR. COOTER: That concludes our direct testimony.

We would offer Exhibits One through Six and the return receipts from all of those interest owners who have not either farmed out or consented, evidenced their consent by returning the AFE.

MR. STAMETS: Okay, belatedly, let's establish that the witness is qualified and we will accept the exhibits into the record.

CROSS EXAMINATION

BY MR. STAMETS:

Q And I presume, Mr. McCoy, you confirm the request for 200 percent risk factor?

A I do.

Q And that's based on your examination of the wells in this area?

A Yes, sir.

Q When did Santa Fe get this farmout?

A My preparation of data was commenced on the 15th of February. I believe the trade would be at or about that time, between the 1st of -- I'm going to say the 1st of February and the 15th.

Q So Santa Fe really was not able to take the normal route of trying to get voluntary agreement from everybody, extending over a great period of time.

A Well, over a -- yes, over a great period of time, right.

Q What response has there been to the letter of February 22nd?

MR. COOTER: Mr. Examiner, we have received the return approved AFEs from Robert M. Davenport, J. M. Welborn, Jack Markham, Horseshoe Oil and Gas Corporation, and Nautilus Exploration, Inc., and J. H. Herd.

1
2 Q So some people have been able to take
3 action --

4 MR. COOTER: Yes, sir.

5 Q -- on this at this time.

6 MR. STAMETS: Any other questions of
7 this witness? He may be excused.

8 We have some correspondence from the --
9 one of the parties being pooled, they have asked us to put into
10 the record.

11 I'm not going to read the entire letter
12 but in the third paragraph -- this letter is from Conrad E.
13 Coffield, representing John H. Hendrix, et al, interest in
14 this case.

15 He states that this was a very short
16 notice situation; that they are willing to enter into bona
17 fide negotiations in this matter but they feel that because
18 of the short notice that the Division does not have juris-
19 diction in this case.

20 They are opposed to the 200 percent
21 risk factor and are also opposed to the -- any non-standard
22 unit in this case.

23 Have you seen a copy of this letter?

24 MR. COOTER: No, sir, I have not.

25 MR. STAMETS: Mr. Cooter, I would hope

1
2 that when you are -- when you return to your office and see
3 a copy of this letter that you might respond to it for the
4 record.

5 MR. COOTER: Yes, sir.

6 MR. STAMETS: And this letter will be
7 entered into the record.

8 Is there anything further in this case?

9 MR. COOTER: I would like to make one
10 request of the Commission. The reason for the speed with
11 which this was handled was explained as expiring leases.
12 Movement had to be done and that's why we proceeded as we
13 did, giving everyone notice last month of what was contemplated and -- and the filing of the application.

14
15 We would ask the Commission to act as
16 swiftly as -- as it can, and if it is favorably inclined to
17 force pool the west half, that that be done as of this hearing
18 date so that those parties who have not joined in or farmed
19 out their interest by today, which is the 16th, be force
20 pooled. Equity, I think, calls for the fact that the parties
21 should not be permitted to ride the well down before making
22 a decision, which, of course, is normally there is a time
23 gap that comes after a forced pooling order, but that isn't
24 going to be present here.

25 Thank you. Appreciate being heard.

1
2 MR. STAMETS: I would point out, Mr.
3 Cooter, that some of what you asked for would be highly un-
4 usual, although we have in the past been somewhat flexible
5 in the time allotted to -- to individuals to make up their
6 minds whether or not to join in a well.

7 We will give your request consideration.

8 MR. COOTER: Thank you.

9 MR. STAMETS: If there is nothing fur-
10 ther, this case will be taken under advisement.

11
12 (Hearing concluded.)
13
14
15
16
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23
24
25

LAW OFFICES

HINKLE, COX, EATON, COFFIELD & HENSLEY

1000 FIRST NATIONAL BANK TOWER

POST OFFICE BOX 3580

MIDLAND, TEXAS 79702

(915) 683-4691

W. E. BONDURANT, JR.
(1914-1973)

OF COUNSEL

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PAUL W. EATON, JR.

CONRAD E. COFFIELD

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PAUL M. BOHANNON

ERNEST R. FINNEY, JR.

J. DOUGLAS FOSTER

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JEFFREY L. BOWMAN

JOHN C. HARRISON*

ROSWELL, NEW MEXICO OFFICE

600 HINKLE BUILDING

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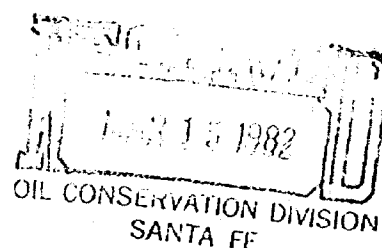
AMARILLO, TEXAS OFFICE

1701 AMERICAN NATIONAL BANK BUILDING

(806) 372-5569

*NOT LICENSED IN
TEXAS

March 11, 1982



Mr. Joe Ramey, Director
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Docket No. 8-82
Examiner Hearing,
March 16, 1982
Case No. 7514
John H. Hendrix, et al
Protestants

Dear Mr. Ramey:

This letter is submitted on behalf of John H. Hendrix, Estoril Producing Corporation, Cal-Mon Oil Company and the other owners of the leasehold underlying SE $\frac{1}{4}$ NW $\frac{1}{4}$ Section 2, Township 20 South, Range 25 East, N.M.P.M., Eddy County, New Mexico, containing 40 acres, more or less.

Mr. Hendrix, et al, respectfully protest the Application of Santa Fe Exploration Company for compulsory pooling and the alternative non-standard proration unit sought in the above referenced case. Accordingly, we request that a copy of this letter be made a part of the record in this case, and we also request that the record reflect that our law firm represents the protestants in this matter.

Due to time constraints, Mr. Hendrix, et al, have been unsuccessful in obtaining the services of an expert to testify on behalf of the protestants. Thus, the protestants are unable on such short notice to formally present a case in opposition to the applicant at this time. However, it

Mr. Joe Ramey, Director

-2-

March 11, 1982

should be noted that now and at all times in the past, the protestants stand ready, willing and able to negotiate in good faith with the applicant in this case for acceptable terms of a farmout or joinder arrangement with the applicant for the drilling of the well in question. Applicant has been unable or unwilling to enter into such bona fide negotiations. Absent such a bona fide effort on the part of applicant, it is our position that applicant is not entitled to invoke the jurisdiction of the Division for a hearing on March 16.

If the Division assumes jurisdiction of this case, then with respect to the relief sought by applicant, we strenuously object to the imposition of a 200% risk factor. The Oil Conservation Division records will reveal the existence of a recently drilled Morrow well as an immediate westerly offset to the tract in question in this case. The well control information on the offset well, copies of which are available from Oil Conservation Division files, will reveal the offset well to potentially be a prolific producer. Due to the close proximity of the well proposed by applicant to the offset well, it is highly probable that a well of similar quality can be drilled on the W $\frac{1}{2}$ of Section 2. Accordingly, a 100% risk factor would be the maximum which the Division should consider.

We note with special interest and amazement the extraordinary alternative relief sought for a nonstandard proration unit of less than 320 acres if a 200% risk factor is not approved. We find neither statutory nor regulatory authority or precedent for this unique approach. Indeed, granting such relief would be a patent violation of correlative rights. We direct the attention of the applicant and the Division to the provisions of Section 70-2-18 N.M.S.A. 1978. This section imposes a duty on the Operator of an oil and gas well to either obtain voluntary agreements pooling lands within a standard proration unit or to obtain an Order of the Division pooling the lands. The laws of New Mexico

Mr. Joe Ramey, Director

-3-

March 11, 1982

do not authorize the issuance of an Order excluding lands from a standard proration unit where the Order is predicated merely upon the fact that the excluded lands belong to non-participating owners.

Very truly yours,

HINKLE, COX, EATON,
COFFIELD & HENSLEY


Conrad E. Coffield

CEC:rh

xc: Mr. Richard Stamets
xc: Mr. Dan Nutter
xc: Mr. Perry Pierce
xc: Mr. John H. Hendrix
xc: Estoril Producing Corporation
xc: Mr. Paul Cooter
xc: Cal-Mon Oil Company

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that
the foregoing Transcript of Hearing before the Oil Conserva-
tion Division was reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a correct record of the proceedings in
the examination hearing of Case No. 7574
heard by me on 3-16 19 82
Richard L. Lunsford Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409



April 2, 1982

POST OFFICE BOX 2038
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

Re: CASE NO. 7514
ORDER NO. R-6932

Applicant:

Santa Fe Exploration Co.

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD	x
Artesia OCD	x
Aztec OCD	

Other _____

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. 7514
Order No. R-6932

APPLICATION OF SANTA FE EXPLORATION
CO. FOR COMPULSORY POOLING, OR IN
THE ALTERNATIVE A NON-STANDARD
PRORATION UNIT, EDDY COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 16, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 1st day of April, 1982, the Division Director, having considered the testimony, the record, and 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 the applicant, Santa Fe Exploration Co., seeks an order pooling all mineral interests in the Permo-Penn, Strawn, Atoka and Morrow formations underlying the W/2 of Section 2, Township 20 South, Range 15 East, NMPM, Eddy County, New Mexico.

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

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, 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

-2-

Case No. 7514
Order No. R-6932

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

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

(7) 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.

(8) That 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) That any non-consenting 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.

(10) 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.

(11) That \$3000.00 per month while drilling and \$300.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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) That 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) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is

-3-

Case No. 7514
Order No. R-6932

dedicated on or before July 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

(14) That there was no testimony presented relative to applicant's alternative application for approval of a non-standard proration unit and that portion of the subject application should be dismissed.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Permian-Penn, Strawn, Atoka and Morrow formations underlying the W/2 of Section 2, Township 20 South, Range 25 East, NMPM, Eddy 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 standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of July, 1982, 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 July, 1982, 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 drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Santa Fe Exploration Co. 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 estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as pro-

vided 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; that 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 an 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.

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

(9) That \$3000.00 per month while drilling and \$300.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate

-5-

Case No. 7514
Order No. R-6932

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) 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.

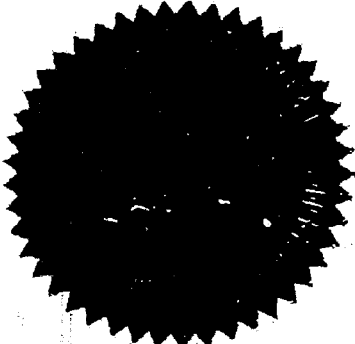
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy 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 address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That that portion of this case seeking, in the alternative, approval of a non-standard gas proration unit is hereby dismissed.

(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.



SEAL
fd/

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY
Director

ATWOOD, MALONE, MANN & COOTER

A PROFESSIONAL ASSOCIATION
LAWYERS

JEFF D. ATWOOD [1883-1960]
ROSS L. MALONE [1910-1974]

P. O. DRAWER 700
SECURITY NATIONAL BANK BUILDING
ROSWELL, NEW MEXICO 88201
[505] 622-6221

CHARLES F. MALONE
RUSSELL D. MANN
PAUL A. COOTER
BOB F. TURNER
JOHN W. BASSETT
ROBERT E. SABIN
BRIAN W. COPPLE

STEVEN L. BELL
WILLIAM P. LYNCH
RODNEY M. SCHUMACHER
R. TRACY SPROULS

March 18, 1982

Mr. R. L. Stamets
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

RE: Case 7514: Application of Santa Fe
Exploration Co. for Compulsory Pooling,
Eddy County, New Mexico

Dear Mr. Stamets:

On my return to Roswell after the March 16 hearing,
Mr. Coffield's letter dated March 11 was on my desk. The
envelope bore the Midland, Texas postmark of March 15.

Our preliminary record check disclosed that the operat-
ing rights under State Lease LG-6258 covering the SE $\frac{1}{4}$ NW $\frac{1}{4}$ Sec-
tion 2 are owned as follows:

Cal-Mon Oil Company	6.0050%
John H. Hendrix	12.5000%
Estoril Producing Corporation	12.5000%
*J. H. Herd	10.0000%
Barnes Adelante Trust	8.5714%
*Jack Markham	5.8340%
*J. M. Welborn	5.8330%
Kastman Oil Company	5.0000%
*Robert M. Davenport	5.0000%
Ernest Angelo, Jr.	5.0000%
A. G. Kasper	5.0000%
Obrien-Goins Engineering, Inc.	3.5000%
Joe R. Henderson	2.3330%
*Horseshoe Drilling Corporation	1.6665%
*Nautilus Exploration, Inc.	1.6665%
Barnes Adelante Trust No. 2	1.4236%
Robert L. Monaghan	1.0000%
A. T. Carleton	0.5000%
McCes, Inc.	6.6670%

March 18, 1982

As you will note from Exhibit 2, Cal-Mon Oil Company acting by Robert L. Monaghan, executed the Communitization Agreement. Those marked by the asterisk have indicated their desire to participate in the drilling of the well by approving the AFE which was mailed to one and all by my letter of February 22, and returning the same to Santa Fe Exploration Co.

For the Commission's file, enclosed herewith are photocopies of the return receipts from all the other interest owners, hereinabove named.

Several discussions have been had between Santa Fe Exploration Co., Mr. Monaghan (presumably both in his individual capacity and on behalf of Cal-Mon Oil Company) and Estoril Producing Corporation. So far as we know, other than some expression from one of the interest owners that it would like to be operator, the only matters of discussion have been minor points of differences in the proposed Operating Agreement. Substantial agreement has been had on the proposed Operating Agreement between Santa Fe Exploration Co., Exxon, Monsanto, Morris Antweil and Mountain States Petroleum.

There have been no objections to the AFE. There was no disagreement for the drilling of the well, or the dedication of the W $\frac{1}{2}$ of Section 2 as the proration unit.

Turning next to Mr. Coffield's statement about information from the offsetting well, that is the well drilled by Chama in the SE $\frac{1}{4}$ Section 3, Mr. McCoy again checked with your Artesia office and as of March 17, the last report filed for this well indicated the total depth to be 9,800 feet, and the operator was waiting on completion. Mr. McCoy reaffirms his testimony that, based on all evidence available to him, the proposed well in the W $\frac{1}{2}$ Section 2 remains a high risk venture.

I recognize that our prayer was an unusual one, but the Applicant does request that all those interests in this small 40-acre tract which have not indicated their desire either to participate in the drilling of the well or farm out prior to the hearing date, or the date of the Order, or no later than the date of encountering the first potential pay, the Atoka formation, expected on or about March 28, be force pooled, and subjected to the maximum 200% risk factor allowed by statute.

Respectfully,


Paul Cooter

PC/le

Enc.

cc: Conrad E. Coffield, Esq.

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
☒ Show to whom and date delivered..... 15¢
☐ Show to whom, date, & address of delivery.. 35¢
☐ RESTRICTED DELIVERY.
Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery.....

2. ARTICLE ADDRESSED TO:
 Esteroil Producing Corp.
 1100 Vaughn Bldg.
 Midland, Texas 79701

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664670

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY *Feb 24 1982* POSTMARK *FEB 24 1982*

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

17 GPO: 1975-O-203-456

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one).
☒ Show to whom and date delivered..... 15¢
☐ Show to whom, date, & address of delivery.. 35¢
☐ RESTRICTED DELIVERY.
Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery..... 85¢

2. ARTICLE ADDRESSED TO:
 John H. Hendrix
 525 Midland Tower
 Midland, TX 79701

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664671

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY *Feb 24 1982* POSTMARK *MIDLAND, TX FEB 24 1982*

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

17 GPO: 1975-O-203-456

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☐ RESTRICTED DELIVERY.
Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery.....

2. ARTICLE ADDRESSED TO:
 Kastman Oil Company
 2420 Quaker, Suite 5
 Lubbock, TX 79410

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664676

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY *2-24-82* POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

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☐ RESTRICTED DELIVERY.
Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery..... 85¢

2. ARTICLE ADDRESSED TO:
 Barnes Adelante Trust
 P. O. Box 505
 Midland, TX 79702

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664673

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY *Feb 24 1982* POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

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☐ RESTRICTED DELIVERY.
 Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery.....

2. ARTICLE ADDRESSED TO:
 A. G. Kasper
 801 First Nat'l Bank Bldg.
 Midland, TX 79701

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664679

(Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY 2-24-82 POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

GPO: 1976-O-203-456

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☐ RESTRICTED DELIVERY.
 Show to whom and date delivered.....
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery 85¢

2. ARTICLE ADDRESSED TO:
 Ernest Angelo, Jr.
 200 Gihls Tower West
 Midland, TX 79701

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664678

(Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

GPO: 1976-O-203-456

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☐ RESTRICTED DELIVERY.
 Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery.....

2. ARTICLE ADDRESSED TO:
 Joe R. Henderson
 308 N. Colorado
 Midland, TX 79701

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664669

(Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY 2-24-82 POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

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☐ RESTRICTED DELIVERY.
 Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery.....

2. ARTICLE ADDRESSED TO:
 Obrien-Goins Engineering, Inc.
 900 MNB Tower
 Midland, TX 79701

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664680

(Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

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☐ RESTRICTED DELIVERY.
Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery 85¢

2. ARTICLE ADDRESSED TO:
Robert L. Monaghan
P.O. Box 2066
Midland, TX 79702

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664665

(Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK
 FEB 25 1982

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GOP: 1976-O-203-456

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

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☐ RESTRICTED DELIVERY.
Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery 85¢

2. ARTICLE ADDRESSED TO:
Barnes Adelante Trust No. 2
P.O. Box 505
Midland, TX 79702

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664666

(Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GOP: 1976-O-203-456

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Add your address in the "RETURN TO" space on reverse.

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☐ RESTRICTED DELIVERY.
Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery 85¢

2. ARTICLE ADDRESSED TO:
McCes, Inc.
P. O. Box 3580
Midland, Texas 79702

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664663

(Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK
 2-24-82

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GOP: 1976-O-203-456

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

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☐ RESTRICTED DELIVERY.
Show to whom and date delivered..... 65¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery 85¢

2. ARTICLE ADDRESSED TO:
A. T. Carleton
P. O. Box 293
Midland, TX 79702

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 3664664

(Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK
 FEB 25 1982

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GOP: 1976-O-203-456

APPROVAL--CERTIFICATION--DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior under Section 17(j) of the Mineral Leasing Act of 1920, as amended (74 Stat. 784; 30 U.S.C. 226(j)), and delegated to the Deputy Minerals Managers, Oil & Gas, Minerals Management Service, I do hereby:

- A. Approve the attached communitization agreement covering the $W\frac{1}{2}$ sec. 2, T. 20 S., R. 25 E., N.M.P.M., Eddy County, New Mexico, as to dry gas and associated liquid hydrocarbons producible from the Morrow formation.
- B. Determine that the Federal lease or leases as to the lands committed to the attached agreement cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located, and that consummation and approval of the agreement will be in the public interest.
- C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of the Federal lease or leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of the agreement.

Approved: _____

MAR 4 1982

FOR

A. H. Corpath

Deputy Minerals Manager, Oil and Gas
Minerals Management Service

Effective: February 15, 1982

Contract No.: SCR-244

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

EXHIBIT NO. 2

CASE NO. 7514

Submitted by _____

Hearing Date _____



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO
SANTA FE EXPLORATION COMPANY-EXXON STATE COM WELL NO. 1
EDDY COUNTY, NEW MEXICO

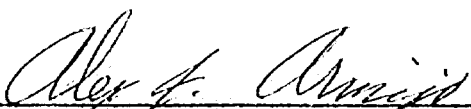
Section 2, Township 20 South, Range 25 East-MORROW Formation - 320.78 Acres

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated February 15, 1982, which has been executed, or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the State, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said Agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 26th. day of February, 19 82.


COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

COMMUNITIZATION AGREEMENT

SCR-244

THIS AGREEMENT entered into as of the 15th day of February, 1982, by and between the parties subscribing, ratifying or consenting hereto, such parties being hereinafter referred to as "parties hereto";

W I T N E S S E T H:

WHEREAS, the Act of February 25, 1920, 41 Stat. 437, as amended by the Act of August 8, 1946, 60 Stat. 950, 30 U.S.C., Secs. 181, et seq. authorizes communitization or drilling agreements communitizing or pooling a federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by Acts of legislature as set forth in the New Mexico Statutes Annotated, 1978 Compilation, to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees of State lands, with lessees of the United States, or with others, when such agreements are determined to be for the best interests of the State; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing dry gas and associated liquid hydrocarbons in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto, as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

T-20-S, R-25-E, N.M.P.M.

Section 2: W/2

Eddy County, New Mexico

containing 320.78 acres, more or less,

and this agreement shall extend to and include only the Morrow Formation underlying said lands and the dry gas and associated liquid hydrocarbons (hereinafter referred to as "communitized substances") producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit A designating the operator of the communitized area and showing the acreage, and the ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and four (4) executed copies of a Designation of Successor Operator shall be filed with the Deputy Minerals Management for Oil & Gas and one (1) copy shall be filed with the Commissioner of Public Lands.

4. Operator shall furnish the Secretary of the Interior and Commissioner of Public Lands or their authorized representative with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the United States and the State of New Mexico as specified in the applicable oil and gas operating regulations. Operator, in operations hereunder, shall not discriminate against any employee or applicant for employment, because of race, creed, color or national origin and an identical provision shall be incorporated in all sub-contracts.

5. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said lease shall be determined and paid on the basis prescribed in each of the individual leases. Payment of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

7. There shall be no obligation on the lessees to offset any dry gas well or wells completed in the same formation covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments and quotas made or fixed by a duly authorized person or regulatory body under applicable Federal or State Statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement shall be effective as of the date hereof upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior and the Commissioner of Public Lands, or their duly authorized representatives, and shall remain in force and effect for a period of two (2) years and for so long as communitized substances are, or can be, produced from the communitized area in paying quantities; provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior or the Commissioner of Public Lands, or their duly authorized representatives, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction. The two-year term of this agreement will not in itself serve to extend the term of any lease which would otherwise expire during said period.

11. It is agreed between the parties hereto that the Secretary of the Interior and Commissioner of Public Lands, or their duly authorized representatives, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America and the State of New Mexico are Lessors, and in the applicable oil and gas regulations of the Department of the Interior and the State of New Mexico.

12. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

13. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations by the grantee, transferee or other successor in interest, and as to Federal land shall be subject to the approval of the Secretary of the Interior, and as to State land, shall be subject to the approval of the Commissioner of Public Lands.

14. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

15. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

16. It is agreed that the operator, Santa Fe Exploration Company, may assemble signature pages from the counterparts executed by the parties and attach such signature pages to the copies of this agreement which will be filed with the Minerals Management Service and the Commissioner of Public Lands, so that it will not be necessary to file multiple counterparts with the Minerals Management Service and the Commissioner of Public Lands.

February 15, 1982
W/2
Section 2-20S-25R
Eddy County, New Mexico

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

OPERATOR

Santa Fe Exploration Company

Date Executed: 2-18-82

By: William A. McAlpine, Jr.
President

WORKING INTEREST OWNERS - LESSEES

Exxon Corporation

Date Executed: 2-26-82

By: H. Jack Neumann

TRADE OR
FORM OK

Cal-Mon Oil Co., etal

H. Jack Neumann,
Attorney in Fact

Date Executed: _____

By: _____

Monsanto Company

Date Executed: _____

By: _____

Morris W. Antweill

Date Executed: _____

By: _____

Mountain States Petroleum

Date Executed: _____

By: _____

Cities Service Company

Date Executed: _____

By: _____

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS,
COUNTY OF Midland

BEFORE ME, the undersigned authority, on this day personally appeared

William A. McAlpine, Jr., President

whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said

Santa Fe Exploration Company

a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the 18 day of February

A.D. 1982

(L.S.)

LENNAH DAWSON
NOTARY PUBLIC

Lennah Dawson

My Commission Expires: EXPIRES 9/16/84

Notary Public in and for the State of Texas

CORPORATION ACKNOWLEDGEMENT

THE STATE OF TEXAS

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared

H. Jack Naumann, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-in-Fact of Exxon Corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said Exxon Corporation.

Given under my hand and seal of office, this the 26th day of February
A.D., 1982

Lena P. Jehle
Notary Public in and for

COUNTY

LENA P. JEHL, NOTARY PUBLIC IN AND FOR
THE STATE OF TEXAS.
MY COMMISSION EXPIRES 11-30-1984.

Commitment Agreement
February 15, 1982
W/2
Section 2-20S-25E
Eddy County, New Mexico

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

OPERATOR

Santa Fe Exploration Company

Date Executed: 2/18/82

By: Wm A. McAlpin, Jr.

President

WORKING INTEREST OWNERS - LESSEES

Exxon Co., USA

Date Executed: _____

By: _____

Cal-Mon Oil Co., etal

Date Executed: 2-19-82

By: Robert L. Mayhew

Monsanto Company

Date Executed: _____

By: _____

Morris W. Antweill

Date Executed: _____

By: _____

Mountain States Petroleum

Date Executed: _____

By: _____

February 13, 1982
W/2
Section 2-20S-25E
Eddy County, New Mexico

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

OPERATOR

Santa Fe Exploration Company

Date Executed: 2-18-82

By: Wm. A. McAlpin
President

WORKING INTEREST OWNERS - LESSEES

Exxon Co., USA

Date Executed: _____

By: _____

Cal-Mon Oil Co., etal

Date Executed: _____

By: _____

Monsanto Company

Date Executed: 2/24/82

By: Frederic Tietz
Attorney-in-Fact
Morris W. Antweill

Date Executed: _____

By: _____

Mountain States Petroleum

Date Executed: _____

By: _____

THE STATE OF TEXAS §

COUNTY OF HARRIS §

BEFORE ME, the undersigned authority, on this day personally appeared FREDERIC TIETZ, Attorney-in-Fact of MONSANTO COMPANY, a corporation, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein set forth and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 24th day of February, 1982

My Commission Expires:

January 31, 1985

Marvel B. Nicely
Notary Public in and for Harris
County, Texas

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

OPERATOR

Santa Fe Exploration Company

Date Executed: 2-18-82

By: Wm C. McAlpin
President

WORKING INTEREST OWNERS - LESSEES

Exxon Co., USA

Date Executed: _____

By: _____

Cal-Mon Oil Co., etal

Date Executed: _____

By: _____

Monsanto Company

Date Executed: _____

By: _____

Witness:

R M Williams

Date Executed: 22 Feb 82

Morris R. Antweil

By: James R. Antweil

Mountain States Petroleum

Date Executed: _____

By: _____

January 15, 1982
3/2
Section 2-70S-25E
Eddy County, New Mexico

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

OPERATOR

Santa Fe Exploration Company

Date Executed: _____

By: _____
President

WORKING INTEREST OWNERS - LESSEES

Exxon Co., USA

Date Executed: _____

By: _____

Cal-Mon Oil Co., etal

Date Executed: _____

By: _____

Monsanto Company

Date Executed: _____

By: _____

Morris W. Antweill

Date Executed: _____

By: _____

Mountain States Petroleum

Date Executed: 2/25/82

By: KC Hansen

Date Executed: _____

Date Executed: _____

To be Attached to and made a part of Communitization Agreement
Dated February 15, 1982.
Santa Fe Exploration Company No.1 Exxon-State Com

STATE OF NEW MEXICO)
COUNTY OF CHAVES) ss.

The foregoing instrument was acknowledged before me
this 25th Day of February 1982, by Kay C. Havenor, Vice President
of Mountain States Petroleum Corp., a New Mexico corporation on
behalf of said corporation.

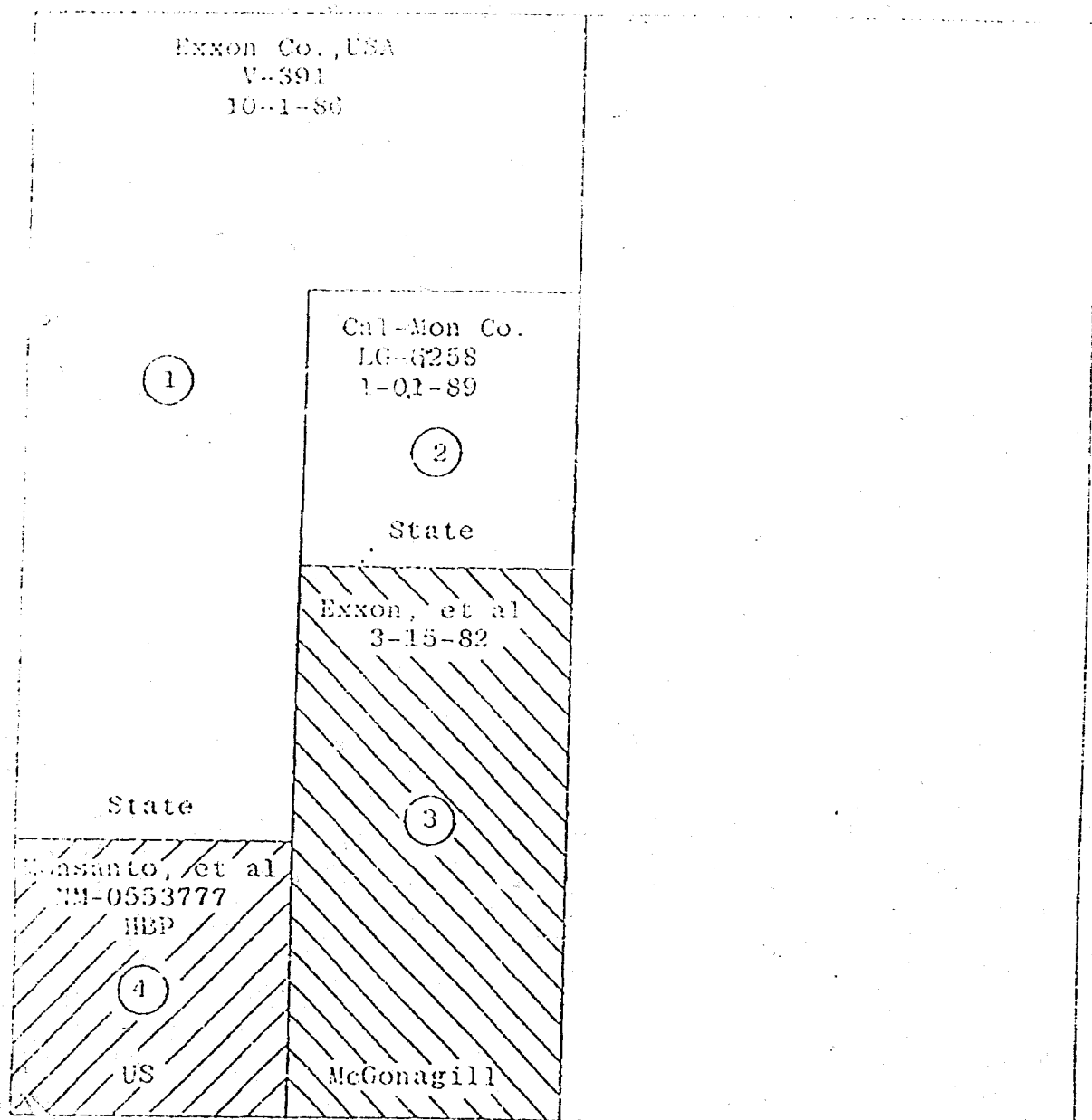
My Commission Expires:

9-25-84

Lela M. Evans

Notary Public

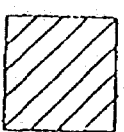
SECTION 2



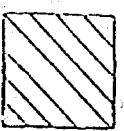
PRORATION UNIT - W₁



STATE LANDS - 200.78 Acres - 62.591%



FEDERAL LANDS - 40 Acres - 12.470%



FEE LANDS - 30 Acres - 24.939%



TRACT NO.

EXHIBIT "A"

DESIGNATED OPERATOR: SANTA FE EXPLORATION CO.
P. O. Box 116
Roswell, New Mexico, 87001

PERCENT LEASE OWNERSHIP IN COMMUNITIZED PRODUCTION UNIT

<u>Lease Owner</u>	<u>Acres</u>	<u>Percent</u>	<u>Tract No.</u>
Exxon Co., USA	200.78	62.59	1 & 3
Cal-Mon Oil Co.	40	12.47	2
John H. Hendrix			
Esteril Producing Corporation			
J. H. Herd			
Barnes Adelante Trust			
Jack Markham			
J. M. Welborn			
Kastman Oil Company			
Robert M. Davenport			
Ernest Angelo, Jr.			
A. G. Kasper			
O'Brien-Coins Engineering, Inc.			
Joe R. Henderson			
Horseshoe Drilling Corporation			
Nautilus Exploration, Inc.			
Barnes Adelante Trust No. 2			
Robert L. Monaghan			
A. T. Carleton			
McCes, Inc.			
Monsanto Company	40	12.47	4
Morris W. Antweil	35.201	10.97	3
Mountain States Petroleum	4.799	1.500	3
TOTALS	320.780	100.000	

Tract No. 3 - fee lease - has pooling clause.

OIL & GAS LEASE

THIS AGREEMENT made this 12th day of March 1977, between

Ernest Joe McGonagill and Verlee O. McGonagill, his wife, Alex Edwin McGonagill
and Mary McGonagill, his wife, and George E. McGonagill and Flora Lea McGonagill,
his wife, of Artesia, New Mexico
 (Post Office Address)

hereinafter called lessor (whether one or more) and Randolph M. Richardson

1. In consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby acknowledged, and of the royalties herein provided and of the agreements of the lessor herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, including gas, water, other fluids, and all into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things therein to produce, save, take care of, treat, process, store and transport said minerals, the

following described land in Eddy County, New Mexico, to-wit:

T-20-S, R-25-E, NMPM
 Sec. 1; SE¹4, NE¹3, NE¹4,
 NW¹4, SE¹5
 Sec. 2; SE¹4, NE¹3, NE¹4

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise 230.00 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of five (5) years from this date (called "primary term"), and as long thereafter as oil or gas is produced from said land, or land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and on other fluid hydrocarbons saved at the well, 3/16 of that produced and saved from said land, same to be delivered at the well or to the credit of lessee in the pipe line to which the well may be connected, but on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other products, the market value at the mouth of the well or of the gas as sold or used, provided that on gas sold at the well the royalty shall be 3/16 of the amount realized from such sale; and on any other time when this lease is not validated by other provisions hereof and there is a gas and oil combination well on said land, or land pooled therewith, but gas and/or condensate is not being so sold or used and such well is shut in either before or after production therefrom, then on or before 30 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate

as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of \$ 230.00 which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months each during the primary term. Payment

or tender may be made to the lessor or to the credit of the lessor in the First National Bank

at Artesia, New Mexico which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank or any successor bank shall fail, liquidate, or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessee shall deliver to lessor a recordable instrument making provision for another acceptable method of payment or tender, and any delinquent charge is a liability of the lessee. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessee, or any bank or other depository bank on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.

5. Lessee is hereby granted the right and power, from time to time, in pool or combine this lease, the land covered by it or any part or portion thereof with any other land, lease, license, mineral estate or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard production unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any valid in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production therefrom should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or if it is within the primary term commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term oil or gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph lessee loses or sinks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessee's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessee, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessee's consent. Lessee shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stove and heating lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the decedent or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, release and discharge lessee of any obligations hereunder, and if lessee or assignee of part or parts hereof shall fail to make default in the payment of the proportionate part of the rentals due from such lease, or assignee or fail to comply with any other provision of this lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessee hereby warrants and agrees to defend the title to said land, and agree that lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate, whether lessee's interest is herein specified or not, then the royalties, shut-in royalty, rental, and other payments, if any, accruing from any part or to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its heirs, successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessee, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed this day and year first above written.

VOM Verlee O. McGonagill
 MM Mary McGonagill
 FLM Flora Lea McGonagill

EJM Ernest Joe McGonagill
 AEM Alex Edwin McGonagill
 GEM George E. McGonagill

CLERK'S CERTIFICATE

Certified this 22 day of Feb, 1977

as a true and correct copy of the original on
 file in this office.

Virgie Cole
 Clerk of Eddy County, N. Mex.

Charles T. Wright Deputy

STATE OF NEW MEXICO,

County of Alameda

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this 18th day of March, 1929, by Verl O. McGonagill and Verlee O. McGonagill, his wife

My Commission expires 2-19-29, 1929

Paula Boyer
Notary Public

STATE OF NEW MEXICO,

County of Alameda

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this 18th day of March, 1929, by Verl O. McGonagill and Mary McGonagill, his wife

My Commission expires 2-19-29, 1929

Mary E. Garmon
Notary Public

STATE OF NEW MEXICO,

County of Alameda

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this 18th day of March, 1929, by Verl O. McGonagill and Flora Len McGonagill

My Commission expires 2-19-29, 1929

Paula Boyer
Notary Public

STATE OF

County of

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____

My Commission expires _____, 19____

Notary Public

No. _____	
OIL AND GAS LEASE NEW MEXICO	
FROM	TO
Date _____, 19____	
Section _____, Township _____, Range _____	
No. of Acres _____	
County, New Mexico	
Term _____	
STATE OF NEW MEXICO COUNTY OF <u>Alameda</u>	
I hereby certify that this instrument was filed for record on the <u>7</u> day of <u>April</u> , A. D. 19 <u>27</u> , at <u>11:45</u> o'clock <u>a.</u> m., and was duly recorded in book <u>144</u> at Page <u>181</u> of the records of said County.	
<u>Beulah M. Mahaffey</u> County Clerk	
By <u>William H. Alford</u> Notary Public	

STATE OF NEW MEXICO

County of

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ President of _____ corporation on behalf of said corporation.

My Commission Expires: _____

Notary Public

STATE OF

County of

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ President of _____ corporation on behalf of said corporation.

My Commission Expires: _____

Notary Public

Assignment of Oil and Gas Lease

KNOW ALL MEN BY THESE PRESENTS:

That the undersigned, Randolph M. Richardson and Patricia B. Richardson, his wife
 hereinafter called Assignor (whether one or more),
 for and in consideration of One Dollar (\$1.00) receipt of which is hereby acknowledged, does hereby sell, assign, and convey unto
Exxon Corporation
 the entire interest and title in and to the oil and gas lease dated March 17, 1977
 from Ernest Joe McGonagill and Verlee O. McGonagill, his wife, Alex Edwin McGonagill
and Mary McGonagill, his wife, and George E. McGonagill and Flora Lea McGonagill,
his wife, lessor,
 to Randolph M. Richardson, lessee.
 recorded in book _____, page _____, in so far as said lease covers the following described land in
Eddy County, State of New Mexico:

T-20-S, R-25-E, NMM
 Sec. 1; SE¹/₄, NW¹/₄,
 NW¹/₄SE¹/₄
 Sec. 2; SE¹/₄, NW¹/₄

Containing 280.00 acres,
 more or less.

CLERK'S CERTIFICATE

Certified this 23 day of June, 1982
 as a true and correct copy of the original on
 file in this office.

Virgie C. Cole
 Clerk of Eddy County, N. Mex.

Charles T. Wright Deputy

together with the rights incident thereto and the personal property thereon, appurtenant thereto, or used or obtained in connection therewith.

And for the same consideration the Assignor covenants with the Assignee, its or his heirs, successors or assigns: That the Assignor is the lawful owner of and has good title to the interest above assigned in and to said lease, estate, rights and property, free and clear from all liens, encumbrances or adverse claims; that said lease is a valid and subsisting lease on the lands above described, and all rentals and royalties due thereunder have been paid and all conditions necessary to keep the same in full force have been duly performed; and that the Assignor will warrant and forever defend the same against all persons whomsoever, lawfully claiming or to claim the same.

EXECUTED, This 31st day of March, 1977

Patricia B. Richardson

Randolph M. Richardson

State of NEW MEXICO
 County of EDDY

Individual Acknowledgment—N. M. Short Form

The foregoing instrument was acknowledged before me this 31st day of March, 1977
 by Randolph M. Richardson and Patricia B. Richardson, his wife

My Commission Expires 6/20/79

Post Office Rexwell, N. M.

Tammy J. Willard Notary Public

State of _____

County of _____

Corporation Acknowledgment—N. M. Short Form

The foregoing instrument was acknowledged before me this _____ day of _____, 19____
 by _____ President
 of _____ corporation
 on behalf of said corporation.

My Commission Expires: _____

Post Office _____

Notary Public

STATE OF NEW MEXICO, County of Eddy, ss. I hereby certify that this instrument was filed for record on the
5 day of July, A. D. 1977 at 9:35 o'clock A. M., and duly recorded
 in Book 146, Page 493 of the Records of Miscellaneous of said County.

GERALDINE MAHAFFEY, County Clerk

By _____ Deputy

636717-001

AUTHORIZATION FOR EXPENDITURE
SANTA FE EXPLORATION COMPANY
DRILLING AND COMPLETION
9,800 FOOT MORROW WEST
SECTION 2, T-20-S, R-25-E
EDDY COUNTY, NEW MEXICO

<u>DRILLING</u>	<u>INTANGIBLE</u>	<u>TANGIBLE</u>	<u>TOTAL</u>
Survey	500.00		500.00
Legal	1,000.00		1,000.00
Roads, Location, Damages	15,000.00		15,000.00
Surface Casing:			
350' 13-3/8"-48#-H-40		8,000.00	8,000.00
Intermediate Casing:			
1400' 8-5/8"-24#-J-55		18,945.00	18,945.00
Casinghead Equipment		7,028.00	7,028.00
Cementing Services	12,000.00		12,000.00
Drilling Contract:			
35 days @ \$7550/day	264,250.00		264,250.00
Drilling Bits and			
Rental Equipment	40,000.00		40,000.00
Rig Move and Rig Up	45,500.00		45,500.00
Drilling Mud and Chemicals	25,000.00		25,000.00
Water	15,000.00		15,000.00
Drill Stem Test-2	7,000.00		7,000.00
Electric Logging	31,500.00		31,500.00
Geological Services	10,000.00		10,000.00
Engineering Services	3,000.00		3,000.00
Drilling Overhead	3,500.00		3,500.00
Plug and Abandon	10,500.00		10,500.00
Contingencies	45,000.00		45,000.00

TOTAL ESTIMATED DRY HOLE COST \$562,723.00

COMPLETION

Production Casing:			
1300' 4-1/2", 11.6#-N80, LTC		13,500.00	13,500.00
7100' 4-1/2" 11.6#-K55, LTC		51,080.00	51,080.00
1400' 4-1/2" 11.6#-N80, LTC		14,537.00	14,537.00
9800' 2-3/8" 4.70#-N80, LTC		53,652.00	53,652.00
Casing and Tubing Head		9,200.00	9,200.00
Cement, Equipment and			
Service	15,200.00		15,200.00
Correlation Log, Perforate	5,200.00		5,200.00
Completion Rig:			
15 days @ \$1,500.00	22,500.00		22,500.00
Chemical Treatment	9,500.00		9,500.00
Equipment Rentals	15,000.00		15,000.00
Engineering Supervision	8,500.00		8,500.00
Valves, Meters, Fittings		4,000.00	4,000.00
Labor	7,500.00		7,500.00

TOTAL ESTIMATED COMPLETION \$ 83,400.00 \$145,969.00 \$229,369.00

TOTAL COMPLETED WELL COST \$612,150.00 \$179,942.00 \$792,092.00

PREPARED BY W. G. McCOY
February 15, 1982

W. I. OWNER _____

W. I. PERCENT _____

APPROVED BY: _____

DATE: _____

BEFORE EXAMINER STAMETS
CIL CONSERVATION DIVISION

EXHIBIT NO. 3

CASE NO. 7514

Submitted by _____

Received Date _____

ATWOOD, MALONE, MANN & COOTER

A PROFESSIONAL ASSOCIATION
LAWYERS

JEFF D. ATWOOD [1883-1960]
ROSS L. MALONE [1910-1974]

P. O. DRAWER 700
SECURITY NATIONAL BANK BUILDING
ROSWELL, NEW MEXICO 88201
[505] 622-6221

CHARLES F. MALONE
RUSSELL D. MANN
PAUL A. COOTER
BOB F. TURNER
JOHN W. BASSETT
ROBERT E. SABIN
BRIAN W. COPPLE

STEVEN L. BELL
WILLIAM P. LYNCH
RODNEY M. SCHUMACHER
H. TRACY SPROULS

February 22, 1982

OWNERS OF WORKING INTERESTS IN THE
W/2 SECTION 2, TOWNSHIP 20 SOUTH,
RANGE 25 EAST, N.M.P.M., EDDY COUNTY,
NEW MEXICO

Gentlemen:

FILE NO. 4
7514
Detailed by _____
Hearing Date _____

As the attorneys for Santa Fe Exploration Co.
(William A. McAlpine, Jr.), please be advised it proposes to
drill a Morrow gas well in the NW/4SW/4 of said Section 2,
dedicating the W/2 of said Section 2 as the spacing or prora-
tion unit therefor.

Santa Fe Exploration Co. has taken a farmout from
Exxon of Exxon's interest in the unit, which includes the
drillsite, a copy of which is enclosed. Santa Fe Exploration
Co. asks for a farmout of your interest on those same terms.

Also enclosed is the Communitization Agreement
covering the Morrow Formation in the unit, together with an
extra signature page; if you are agreeable to farming out your
interest, please advise Mr. McAlpine of that fact and return
the extra signature page, properly completed, to Mr. McAlpine
at either P. O. Box 1136, Roswell, New Mexico, 88201, or Suite
533, 300 West Texas Street, Midland, Texas, 79701.

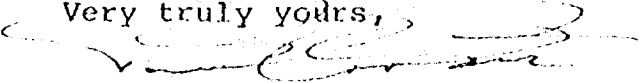
If you do not desire to farmout your interest, but
would rather join in the drilling of the well, enclosed are
two copies of the proposed AFE. If this be your choice,
please sign one copy of the AFE and return it to Mr.
McAlpine, with the signature page of the Communitization
Agreement.

Because of the short fuse created by expiring leases
and a rig commitment on March 1, Santa Fe Exploration Co. has
filed its Application to force pool the W/2 of said Section 2,
and that case has been set for examiner hearing in Santa Fe on
Tuesday, March 16. A copy of that Application is also en-
closed. Santa Fe Exploration Co. is requesting the Oil
Conservation Division of the Department of Natural Resources
for prompt action on its Application, which seeks a 200% risk

charge against each interest which has neither farmed out, nor joined in the drilling, by the time the Order is entered.

If additional information be desired, please contact Mr. McAlpine or the writer and the same shall be promptly furnished to you.

Very truly yours,


Paul Cooter

PC:sas

NO. OF COPIES RECEIVED	
DISTRIBUTION	
SANTA FE	1
FILE	1
U.S.G.S.	2
LAND OFFICE	1
OPERATOR	1

NEW MEXICO OIL CONSERVATION COMMISSION

RECEIVED

FEB 17 1982

O. C. D.
ARTESIA, OFFICE

30-015-24091

Form C-101
Revised 1-1-65

5A. Indicate Type of Lease
STATE ☒ REC ☐

5. State Oil & Gas Lease No.
V-391

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. Type of Work
b. Type of Well DRILL ☒ DEEPEN ☐ PLUG BACK ☐
OIL WELL ☐ GAS WELL ☒ OTHER ☐ SINGLE ZONE ☒ MULTIPLE ZONE ☐

2. Name of Operator
SANTA FE EXPLORATION COMPANY (Ph. 505-623-2733)

3. Address of Operator
P. O. Box 1136, Roswell, New Mexico 88201

4. Location of Well
UNIT LETTER L LOCATED 1980 FEET FROM THE south LINE
AND 660 FEET FROM THE west LINE OF SEC. 2 TWP. 20S RGE. 25E

19. Proposed Depth
9800'

19A. Formation
Morrow

20. Rotary or C.T.
Rotary

21. Elevations (Show whether D.F., K.T., etc.)
3422.1 G.L.

21A. Kind & Status Plug. Bond
One well (new)

21B. Drilling Contractor
Moranco

22. Approx. Date Work will start
2-24-82

7. Unit Agreement Name
--

8. Farm or Lease Name
EXXON STATE COM

9. Well No.
1

10. Field and Pool, or Wildcat
Morrow Wildcat

12. County
Eddy

PROPOSED CASING AND CEMENT PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	SACKS OF CEMENT	EST. TOP
17 1/2"	13 3/8"	48.0#	350'	300	Surface
12 1/4"	8 5/8"	24.0#	1400'	800	Surface
7 7/8"	4 1/2"	11.6#	9800'	250	8600'

After cementing production casing, the well will be selectively perforated and the pay zone will be stimulated if warranted.

Attached are: 1. Well Location and Acreage Dedication Plat
2. BOP Sketch

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 5
CASE NO. 7514
Gas is not dedicated.
Submitted by
Hearing Date

APPROVAL VALID FOR 180 DAYS
PERMIT EXPIRES 8-18-82
UNLESS DRILLING UNDERWAY

Ported ID-1
API + NL Book
2-19-82

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: IF PROPOSAL IS TO DEEPEN OR PLUG BACK, GIVE DATA ON PRESENT PRODUCTIVE ZONE AND PROPOSED NEW PRODUCTIVE ZONE. GIVE BLOWOUT PREVENTER PROGRAM, IF ANY.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

Signed James A. Knaut Title Agent Date 2-17-82
(This space for State Use)

APPROVED BY M. H. Williams TITLE OIL AND GAS INSPECTOR DATE FEB 18 1982

CONDITIONS OF APPROVAL, IF ANY:

Cement must be circulated to
surface 13 3/8" casing

Notify N.M.O.C.C. in sufficient
time to witness cementing
the 8 5/8" casing

MEXICO OIL CONSERVATION COMMISS
WELL LOCATION AND ACREAGE DEDICATION PLAT

Form O-172
 Supersedes O-171
 Effective 1-1-61

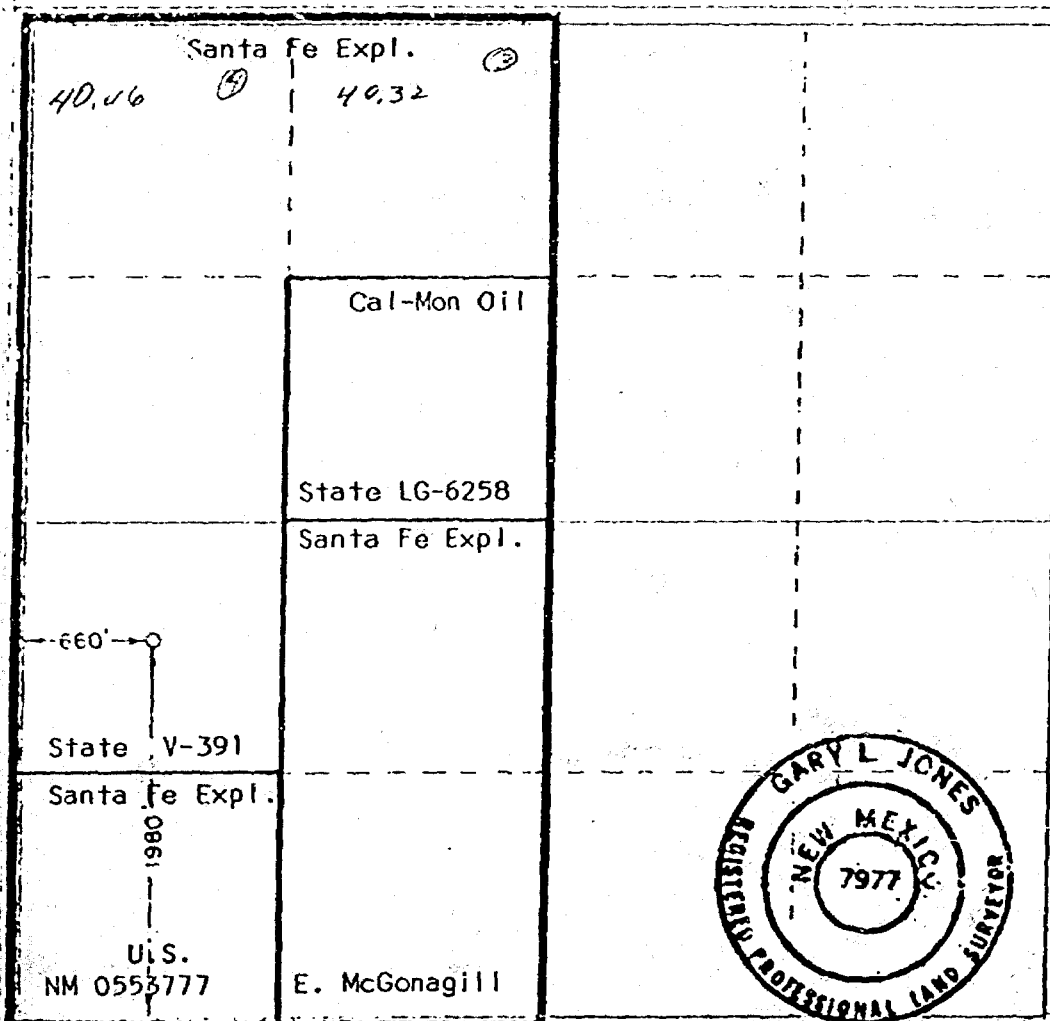
All distances must be from the outer boundaries of the Section

SAITA FE EXPLORATION COMPANY			EXXON STATE COM		Well No. 1
Section 1	Section 2	Section 3	Section 4	Section 5	Section 6
L	2	20 South	25 East	County	Eddy
Year of first location of well: 1980 Location: South Distance: 660' Direction: West					
Producing Interval: 1022.1'		Producing Interval: Morrow		Dedicated Acreage: 320.78 Acres	
Name of well: Wildcat					

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☒ No All tracts in the W $\frac{1}{2}$ have been dedicated to the subject well except the SE $\frac{1}{4}$ NW $\frac{1}{4}$. Operator has made application to the NMOC to force-pool this tract. The hearing has been scheduled for March 16, 1982.

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

James A. Knauf

Name: James A. Knauf

Position: Agent

Company: SANTA FE EXPLORATION COMPANY

Date: 2-17-82

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed:

2/15/82

Registered Professional Engineer
 or Land Surveyor

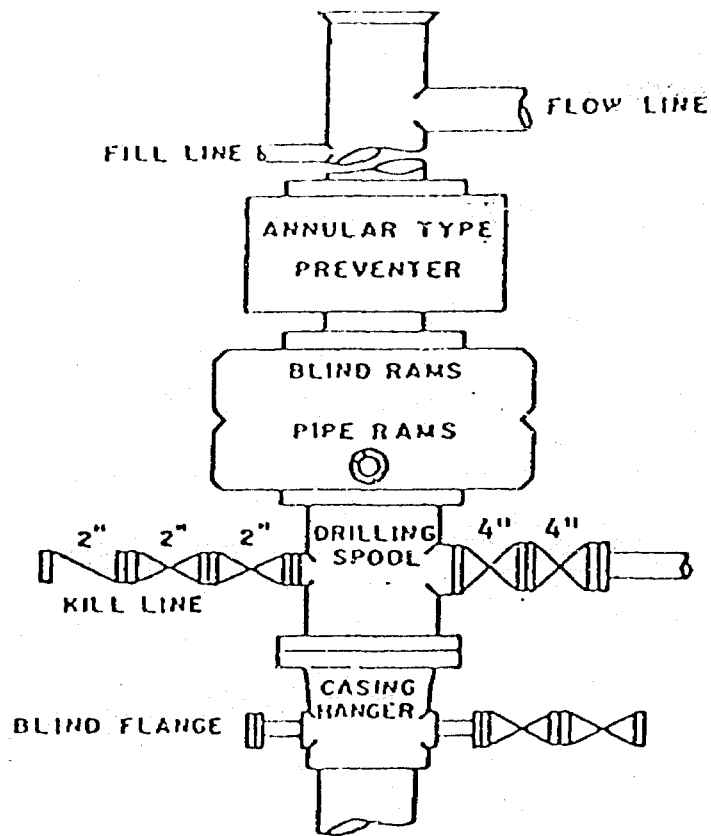
Gary L. Jones

Certificate No.

777

BLOWOUT PREVENTER SKETCH

Santa Fe Exploration Company
Well #1 Exxon State Com
NW $\frac{1}{4}$ SW $\frac{1}{4}$ SEC. 2-20S-25E
Eddy County, New Mexico



Dockets Nos. 9-82 and 10-82 are tentatively set for March 31, and April 14, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - TUESDAY - MARCH 16, 1982

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

ALLOWABLE: (1) Consideration of the allowable production of gas for April, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for April, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7502: Application of Sun Oil Company for an unorthodox gas well location and non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 760 feet from the South line and 960 feet from the East line of Section 6, Township 24 South, Range 37 East, Jalmat Gas Pool, and a 160-acre non-standard proration unit comprising the SE/4 of said Section 6.

CASE 7503: Application of Sun Oil Company for an unorthodox gas well location and non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 1980 feet from the North line and 1400 feet from the East line of Section 22, Township 22 South, Range 36 East, Jalmat Gas Pool, and a 120-acre non-standard proration unit comprising the W/2 NE/4 and SE/4 NE/4 of said Section 22.

CASE 7504: Application of Cities Service Company for the extension of vertical limits of the Langlie Mattix Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the vertical limits of the Jalmat Pool and the upward extension of the vertical limits of the Langlie Mattix Pool to a subsurface depth of 3416 feet underlying the NW/4 of Section 19, Township 24 South, Range 37 East.

CASE 7505: Application of BCO, Inc. for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Lybrook-Gallup and Basin-Dakota production in the wellbores of wells drilled and to be drilled in Section 2, 3, 4, 9 and 10, Township 23 North, Range 7 West.

CASE 7506: Application of Getty Oil Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of salt water into the Abo formation in the perforated interval from 8900 feet to 9300 feet in its State "P" Well No. 1, located in Unit P, Section 32, Township 16 South, Range 37 East, Lovington-Abo Pool.

CASE 7507: Application of Sonny's Oilfield Service, Inc. for an oil treating plant permit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority for the construction and operation of an oil treating plant for the purpose of treating and reclaiming sediment oil at a site in the NW/4 NE/4 of Section 29, Township 18 South, Range 38 East.

CASE 7508: Application of P & O Oilfield Services, Inc. for an oil treating plant permit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority for the construction and operation of an oil treating plant for the purpose of treating and reclaiming sediment oil at a site in the SW/4 NE/4 of Section 10, Township 25 South, Range 36 East.

CASE 7459: (Continued from February 17, 1982, Examiner Hearing)

Application of Red Mountain Associates for the Amendment of Order No. R-6538, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-6538, which authorized applicant to conduct waterflood operations in the Chaco Wash-Mesa Verde Oil Pool. Applicant seeks approval for the injection of water through various other wells than those originally approved, seeks deletion of the requirement for packers in injection wells, and seeks an increase in the previously authorized 68-pound limitation on injection pressure.

CASE 7457: (Continued from February 17, 1982, Examiner Hearing)
(This Case will be continued to April 28, 1982)

Application of E. T. Ross for nine non-standard gas proration units, Harding County, New Mexico. Applicant, in the above-styled cause, seeks approval for nine 40-acre non-standard gas proration units in the Bravo Dome Carbon Dioxide Area. In Township 19 North, Range 30 East: Section 12, the NW/4 NE/4 and NE/4 NW/4; Section 14, the NW/4 NE/4, SW/4 NE/4, and SE/4 NE/4. In Township 20 North, Range 30 East: Section 11, the NE/4 SW/4, SW/4 SE/4, SE/4 SW/4, and NW/4 SE/4.

Page 2
Examiner Hearing
TUESDAY - MARCH 16, 1982

- CASE 7509:** Application of Supron Energy Corporation for a non-standard proration unit or compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard proration unit for the Dakota and Mesaverde formations comprising the SW/4 of Section 2, Township 21 North, Range 8 West, or in the alternative, an order pooling all mineral interests from the surface down through the Dakota formation underlying the S/2 of said Section 2, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7510:** Application of Union Oil Company of California for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Penn formations underlying the N/2 of Section 10, Township 22 South, Range 32 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7511:** (This Case will be continued to March 31, 1982)
Application of Buffton Oil & Gas Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp through Devonian formations underlying the W/2 of Section 35, Township 16 South, Range 35 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7496:** (Continued from March 3, 1982, Examiner Hearing)
Application of Viking Petroleum, Inc. for an unorthodox location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of an Abo gas well to be drilled 62 feet from the South line and 1984 feet from the East line of Section 29, Township 5 South, Range 24 East, the SE/4 of said Section to be dedicated to the well.
- CASE 7512:** Application of Viking Petroleum, Inc. for an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well located in Unit H of Section 31, Township 13 South, Range 34 East, Nonombre-Penn Pool, said well being a recompleted Morrow test and located in the SE/4 of the quarter section whereas the pool rules require wells to be located in the NE/4 or SW/4 of the quarter section.
- CASE 7476:** (Continued from March 3, 1982, Examiner Hearing)
Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and SE/4, respectively, of Section 12, Township 5 South, Range 24 East, each to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.
- CASE 7513:** Application of Mesa Petroleum Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Abo formation underlying the SE/4 of Section 12, Township 5 South, Range 24 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7514:** Application of Santa Fe Exploration Co. for compulsory pooling, or in the alternative a non-standard proration unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Permo-Penn, Strawn, Atoka and Morrow formations underlying the W/2 of Section 2, Township 20 South, Range 25 East to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200 percent charge for risk involved in drilling said well. In the event said 200 percent risk factor is not approved, applicant seeks a non-standard unit excluding the lands of owners not participating in the well.

PAGE 3

EXAMINER HEARING - TUESDAY - MARCH 16, 1982

CASE 7515: Application of Four Corners Gas Producers Association for designation of a tight formation, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Dakota formation underlying all or portions of Townships 26 and 27 North, Ranges 12, and 13 West, Township 29 North, Ranges 13 through 15 West, and Township 30 North, Ranges 14 and 15 West, containing 164,120 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271. 701-705.

CASE 7445: (Continued from February 17, 1982, Examiner Hearing)
(This Case will be continued to April 28, 1982)

Application of Harvey E. Yates Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the San Andres formation for its Fulton Collier Well No. 1 in Unit G of Section 1, Township 18 South, Range 28 East.

CASE 7492: (Continued and Readvertised)

Application of Harvey E. Yates Company for a tight formation, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Atoka-Morrow formation underlying all or portions of Townships 7, 8, and 9 South, Ranges 28, 29, 30 and 31 East, containing 161,280 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271. 701-705.

CASE 7500: (Continued from March 3, 1982, Examiner Hearing)

Application of Read & Stevens, Inc. for an exception to the maximum allowable base price provisions of the New Mexico Natural Gas Pricing Act, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order of the Division prescribing the price allowed for production enhancement gas under Section 107 of the Natural Gas Policy Act as the maximum allowable base price if production enhancement work which qualifies under the NGPA is performed on its Hackberry Hills Unit Well No. 4 located in Section 22, Township 22 South, Range 26 East, Eddy County, New Mexico.

LAW OFFICES

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TEXAS

W. E. BONDURANT, JR.
1994 1973

OF COUNSEL

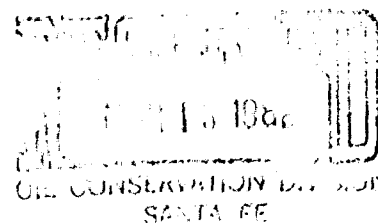
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HAROLD L. HENSLEY, JR.*
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C. D. MARTIN
PAUL J. KELLY, JR.*
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RICHARD E. OLSON*
ANDERSON CARTER, II
STEVEN D. ARNOLD
JEFFREY L. BOWMAN
JOHN C. HARRISON*

March 11, 1982



Mr. Joe Ramey, Director
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Docket No. 8-82
Examiner Hearing
March 16, 1982
Case No. 7514
John H. Hendrix, et al
Protestants

Dear Mr. Ramey:

This letter is submitted on behalf of John H. Hendrix, Estoril Producing Corporation, Cal-Mon Oil Company and the other owners of the leasehold underlying SE $\frac{1}{4}$ NW $\frac{1}{4}$ Section 2, Township 20 South, Range 25 East, N.M.P.M., Eddy County, New Mexico, containing 40 acres, more or less.

Mr. Hendrix, et al, respectfully protest the Application of Santa Fe Exploration Company for compulsory pooling and the alternative non-standard proration unit sought in the above referenced case. Accordingly, we request that a copy of this letter be made a part of the record in this case, and we also request that the record reflect that our law firm represents the protestants in this matter.

Due to time constraints, Mr. Hendrix, et al, have been unsuccessful in obtaining the services of an expert to testify on behalf of the protestants. Thus, the protestants are unable on such short notice to formally present a case in opposition to the applicant at this time. However, it

should be noted that now and at all times in the past, the protestants stand ready, willing and able to negotiate in good faith with the applicant in this case for acceptable terms of a farmout or joinder arrangement with the applicant for the drilling of the well in question. Applicant has been unable or unwilling to enter into such bona fide negotiations. Absent such a bona fide effort on the part of applicant, it is our position that applicant is not entitled to invoke the jurisdiction of the Division for a hearing on March 16.

If the Division assumes jurisdiction of this case, then with respect to the relief sought by applicant, we strenuously object to the imposition of a 200% risk factor. The Oil Conservation Division records will reveal the existence of a recently drilled Morrow well ⁱⁿ an immediate westerly offset to the tract in question in this case. The well control information on the offset well, copies of which are available from Oil Conservation Division files, will reveal the offset well to potentially be a prolific producer. Due to the close proximity of the well proposed by applicant to the offset well, it is highly probable that a well of similar quality can be drilled on the W $\frac{1}{2}$ of Section 2. Accordingly, a 100% risk factor would be the maximum which the Division should consider.

We note with special interest and amazement the extraordinary alternative relief sought for a nonstandard proration unit of less than 320 acres if a 200% risk factor is not approved. We find neither statutory nor regulatory authority or precedent for this unique approach. Indeed, granting such relief would be a patent violation of correlative rights. We direct the attention of the applicant and the Division to the provisions of Section 70-2-18 N.M.S.A. 1978. This section imposes a duty on the Operator of an oil and gas well to either obtain voluntary agreements pooling lands within a standard proration unit or to obtain an Order of the Division pooling the lands. The laws of New Mexico

Mr. Joe Ramey, Director

-3-

March 11, 1982

do not authorize the issuance of an Order excluding lands from a standard proration unit where the Order is predicated merely upon the fact that the excluded lands belong to non-participating owners.

Very truly yours,

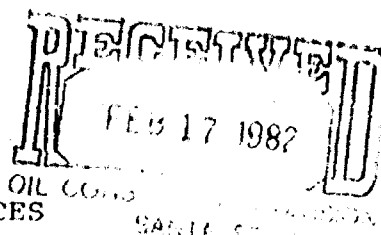
HINKLE, COX, EATON,
COFFIELD & HENSLEY


Conrad E. Coffield

CEC:rh

xc: Mr. Richard Stamets
xc: Mr. Dan Nutter
xc: Mr. Perry Pierce
xc: Mr. John H. Hendrix
xc: Estoril Producing Corporation
xc: Mr. Paul Cooter
xc: Cal-Mon Oil Company

STATE OF NEW MEXICO
DEPARTMENT OF NATURAL RESOURCES
OIL CONSERVATION DIVISION



IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION CO. FOR
COMPULSORY POOLING, OR IN THE
ALTERNATIVE, A NONSTANDARD PRORATION
UNIT, EDDY COUNTY, NEW MEXICO.

CASE NO. 7514

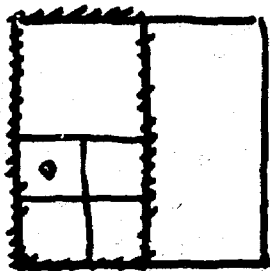
APPLICATION

COMES NOW Santa Fe Exploration Co. and hereby makes application for compulsory pooling of all mineral interests in the Permo-Penn, Strawn, Atoka and Morrow formations underlying the W $\frac{1}{2}$ Section 2, Township 20 South, Range 25 East, N.M.P.M., Eddy County, New Mexico, containing 320.78 acres, more or less, and as grounds therefor states:

1. Applicant has been diligent in its efforts to form a proration unit for the drilling of a well to be located in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of said Section 2, but there remain nonconsenting interest owners in the proposed proration unit who have not agreed to the pooling of their interests.

2. To avoid the drilling of unnecessary wells, to protect correlative rights and afford all owners of interests in that proration unit the opportunity to recover, or receive without unnecessary expense, their fair and just share of the gas and associated hydrocarbons producible from the unitized formations, this regulatory body should approve the pooling of all such mineral interests, whatever they be, within that proration unit.

3. Applicant proposes to dedicate this proration unit to the well to be located as heretofore set forth.



4. Applicant seeks permission to withhold the proceeds from production attributable to each nonconsenting working interest owner until such time as that interest owner's share of the costs of the well have been recovered, plus 200% thereof as a charge for the risk involved in the drilling of that well.

5. After due public notice, this regulatory body should enter its Order granting compulsory pooling in accordance with this Application, fixing a charge for risk and a per month cost for operating the well, and granting each nonconsenting working interest owner the privilege to join in the payment of drilling costs in accordance with law. Such Order should further provide that Applicant be appointed operator.

6. In the alternative, Applicant asks that in the event this regulatory body does not permit Applicant a 200% risk factor, as heretofore set forth, and the working interest owners of any lands included within the proposed unit refuse to pay their proportionate share of the cost thereof, that a nonstandard proration unit be fixed excluding the lands so owned by such nonconsenting working interest owners.

Respectfully submitted,

SANTA FE EXPLORATION CO.



By

For ATWOOD, MALONE, MANN & COOTER
P. O. Drawer 700
Roswell, New Mexico 88201

DRAFT

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:

JAR

CASE NO. 7514

Order No. R- 6932

APPLICATION OF SANTA FE EXPLORATION
CO. FOR COMPULSORY POOLING, OR IN THE
ALTERNATIVE A NON-STANDARD PRORATION UNIT,
EDDY COUNTY, NEW MEXICO.

BJL

WSP

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 16,
19 82, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this _____ day of _____, 19 82, the Division
Director, having considered the testimony, the record, and 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 the applicant, Santa Fe Exploration Co.,
seeks an order pooling all mineral interests in the Permo-Penn, Strawn,
Atoka and Morrow formations underlying the W/2
of Section 2, Township 20 South, Range 25 East
NMPM, _____, Eddy County, New
Mexico.

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

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, 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 said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(7) 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.

(8) That 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) That any non-consenting 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.

(10) 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.

(11) That \$ 3000⁰⁰ per month while drilling and \$ 300⁰⁰ per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that 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) That 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) That 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, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

(14) That there was ~~not~~ testimony presented relative to applicant's alternative application for approval of a non-standard proration unit and that portion of the subject application should be dismissed.

and gas spacing
and proration unit to be dedicated to a well to be drilled at a standard 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, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp and Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of July, 1982, 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 drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Santa Fe Exploration Co. 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 estimated well costs to the operator in lieu of paying 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; that 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 an 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.

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

(9) That \$ 3000 ⁰⁰ per month while drilling and \$ 300 ⁰⁰ per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that 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.

-6-
Case
Order No.

(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 interests 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 Eddy 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 address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) → (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.

(13) That that portion of this case seeking, in the alternative, approval of a non-standard gas proration unit is hereby dismissed.

-6-
Case
Order No.

(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.

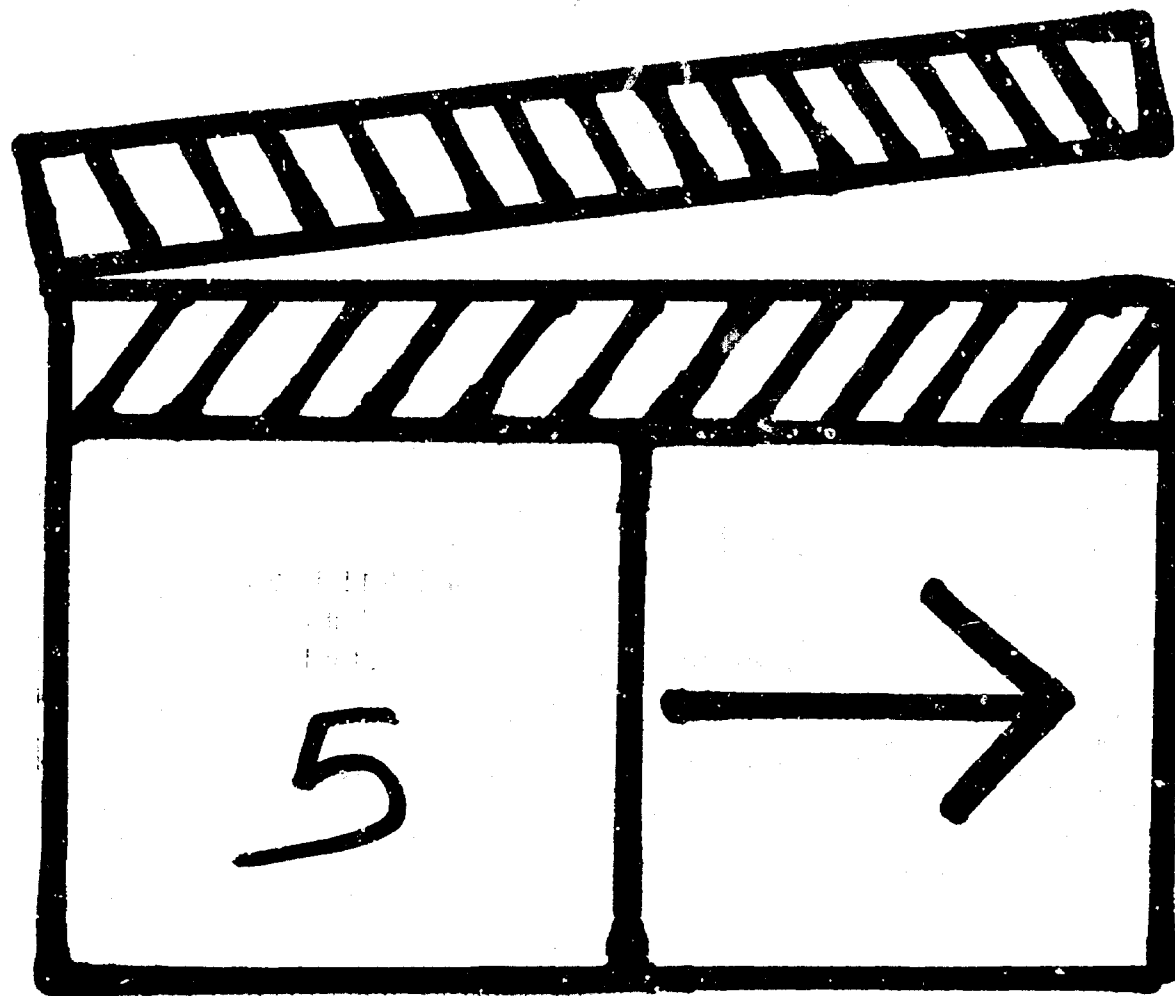
(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address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

(13) → (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.

(13) That that portion of this case seeking, in the alternative, approval of a non-standard gas proration unit is hereby dismissed.

6



START ROLL



END ROLL



#5
ROLL NUMBER

Conservation Division

Case Files

DOCUMENT TYPE

9-22-87

DATE OF FILMING

James E. Jones
7499 - Omeco Productions Co.
Jesse County, N.M.

OPERATOR