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CASE No.

5299

Application,
Transcripts,
Small Exhibits

ETC.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
August 21, 1974

EXAMINER HEARING

IN THE MATTER OF:

Application of Coquina Oil
Corporation for compulsory
pooling, Eddy County,
New Mexico.

Case No. 5299

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil
Conservation Commission:

William Carr, Esq.
Legal Counsel for the
Commission
State Land Office Building
Santa Fe, New Mexico

For the Applicant:

A. J. Losee, Esq.
LOSEE & CARSON
Carper Building
Artesia, New Mexico

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I N D E X

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RALPH NIX

Direct Examination by Mr. Losee

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Cross Examination by Mr. Stamets

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Applicant's Exhibits Nos. 1, 2 and 3

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THE NYE REPORTING SERVICE
STATEWIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 962-0386

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CASE 5299

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MR. STAMETS: Case 5299.

MR. CARR: Case 5299. Application of Coquina Oil Corporation for compulsory pooling, Eddy County, New Mexico.

MR. STAMETS: We call for appearances in Case 5299.

MR. LOSEE: A. J. Losee, Losee and Carson, Artesia, New Mexico, appearing on behalf of Coquina Oil Corporation. I have one witness, Mr. Ralph Nix.

MR. STAMETS: Are there any other appearances? If the witness will stand and be sworn, please.

(Witness sworn.)

RALPH NIX

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. LOSEE:

- Q Would you state your name, please?
- A Ralph Nix.
- Q Where do you live, Mr. Nix?
- A Artesia, New Mexico.
- Q What is your occupation?
- A I am an oil operator.
- Q How long have you been engaged in this occupation,

NIX-DIRECT

Mr. Nix?

A 40 years.

Q How long in the Artesia area?

A 34 years.

Q You have not previously testified before this Commission, have you?

A I have not.

Q You do not have a degree in engineering or geology?

A I do not.

Q How many wells have you participated in drilling in southeastern New Mexico?

A Well over 300.

Q How many deep wells have you either participated in or put the transactions together?

A Well, considerable over 30, I would say.

MR. LOSEE: Mr. Nix, Mr. Examiner, is not going to testify with respect to geology. He has obtained that from Mr. Lamb. Are his qualifications acceptable in that experience in the field?

MR. STAMETS: The Examiner recognizes Mr. Nix as an expert oil operator of long standing.

THE WITNESS: I thank you, sir.

NIX-DIRECT

BY MR. LOSEE:

Q Would you explain, Mr. Nix, the purpose of this Application of Coquina Oil Corporation?

A The purpose of this is to pool all of the mineral interests under the east half of Section 23, 22, 25.

Q That is for the drilling of Coquina's well in --

A (Interrupting) In the northeast of the southeast or 1980 feet from the south, 660 from the east of 23. Let me correct this. This is 2180 feet from the south, 660 feet from the east of Section 23, 22, 25, Eddy County, New Mexico.

Q Have all of the operators in that half section agreed to drill this well?

A All except Inexco.

Q That is Inexco Oil Company of Houston, Texas?

A That's right, sir.

Q And they own the --

A (Interrupting) The rights under the southeast, southeast of Section 23.

Q Is the well presently drilling?

A It is.

Q Please refer to what has been marked as Exhibit

No. 1, being a map of the area and explain what is portrayed

NIX-DIRECT

on this exhibit?

A I tried to prepare a map showing the acreage involved and the wells that were drilled within this radius of some four miles of the proposed location. The east half is marked in Section 23 and it is marked in yellow, outlined in yellow. The location is with a purple dot, and the Inexco acreage that we are asking to -- being asked to force pool is the southeast southeast of 23. The markings on the map, the yellow dots are producing Morrow wells, and these yellow dots that are entirely circled in red are Morrow wells that will pay out. The half-moon around the yellow circle in red is Morrow wells that will not pay out. There is one Morrow well there without any circle around it, and it is a new well that doesn't have sufficient production for any history on it.

Q Now, Mr. Nix, before you go further, the two wells on this map that will pay out are located over in the southeast corner of the Rocktank Unit Wells?

A Well, they are south -- yes, northeast part of the Rocktank.

Q Well, they are in the southeast corner of the map?

A Yes, southwest.

Q Then, the one well that won't pay out is located

NIX-DIRECT

in this diagonal section to the drilling well?

A That's right.

Q And the one well that you don't have enough history on is the Hanagan Petroleum Well in the south central section?

A That's right.

Q Go ahead, please?

A Sure. On these dots, as far as the Morrow wells are concerned, you will notice that there is a figure on there. In other words, in Section 25 where the field was based on, this well tested. going down. 8 and 3/4 million out of the Morrow, and this well was carried on. This well was drilled several years ago by Honolulu Oil Company, and it was drilled to the Morrow and it was a dry hole.

Q Drilled to the Devonian.

A Devonian. pardon me. And at a later date, the --

Q (Interrupting) Well, Mr. Nix, before the re-entry, did Honolulu then attempt to come back up the hole and complete it in the Morrow?

A It is my understanding that they come back and at that time it only tested a million in the Morrow at that time.

Q Then it was plugged and abandoned?

NIX-DIRECT

A It was plugged and abandoned. And then the Morrow got hot again and Western went in there and tried directional drill and recomplete this well and was unable to do so at that time.

Q That is Western Oil Producers?

A That's right.

Q They tried to recomplete it in the Morrow?

A That's right, sir.

Q And it was dry?

A That's right.

Q What are the green dots on your map?

A The green dots are wells that were drilled to the Pennsylvanian formation and are producers that are either in the Atoka or the Canyon or the Delaware, the Delaware being plugged back to the Delaware, of course, and not in the -- but the well was drilled to a sufficient depth to test the Morrow.

Q What are the red dots?

A The red dots are -- they are dry holes that have penetrated the Morrow zone.

Q What is your analysis of the wells that have penetrated the Morrow zone as reflected on this map by virtue of your legend?

NIX-DIRECT

A Well, the way that I analyze it is there are two wells that will pay out. There is one well that will not pay out and one well without sufficient production or history to tell about and ten dry holes.

Q So that out of the 14 wells there that have penetrated the Morrow, two will pay out, or approximately 14 1/2 percent of those holes drilled?

A That's right. Around 14.5.

Q But if this Hanagan Petroleum Well down in Section 12, after sufficient production history does determine that it is a commercial producer, you would have 20 percent that would pay out?

A That's the way I figure it.

Q Now, one other thing before we leave this map, Mr. Nix. The well is located on a Federal Lease which nomenclature shows Franklin, Ashton and Fair, 1/74. Did that lease expire on that date?

A It would have if this well had not been spudded and drilling over the date of the lease, August 31st.

Q And the well is presently drilling?

A That's right.

Q How many days from now do you estimate it will be before the well is to total depth?

NIX-DIRECT

A Approximately 45 days.

Q Approximately 45 days. Now, this well is projected to the Morrow, is that correct?

A That's right.

Q At approximately what depth?

A 11,500.

Q Well, I notice on the AFE it shows 11,750 oil string.

A Pardon me. Being an operator, I am dealing in round figures. You are right. I stand corrected.

Q Okay. Please refer to what has been marked as Exhibit 2, being the AFE. Was this prepared by Coquina Oil Corporation under your direction?

A It sure was.

Q Was a copy of this AFE submitted to Inexco on July 5?

A It was.

Q Have you examined the charges shown on this AFE, and in your opinion, do they appear reasonable?

A In today's prices, I think it is very reasonable.

Q And that is \$239,200 for a dry hole and \$410,500 for a producer?

A That's right.

Q Now, Mr. Nix, did you and Raymond Lamb of Artesia put this drilling deal together?

A That's right.

Q Would you just explain briefly to the Examiner the conversations you had with Inexco in efforts to participate in this well?

A Yes. As you say, Mr. Losee, Mr. Lamb had considerable knowledge about the area and the well in Section 25 and we decided to put the deal together. Due to the short-term lease, something had to be done in the area. Immediately, we contacted Franklin, Ashton and Fair, Pennzoil, Wilson, and Western, and they all indicated their willingness to go.

Q By that, to farm out their acreage?

A Either farm out or to participate, but was very anxious for us to continue with the deal there because it took somebody to put it together. Mr. Lamb had occasion to be in the New Mexico Oil Conservation office in Artesia on some matter not related to this, but he met a Mr. Riley Fluellen with Inexco who was their own representative, and at that time, Mr. Lamb explained to him what we were trying to do, and Mr. Fluellen asked Mr. Lamb to put into writing our proposal of which Mr. Lamb did. He done this

NIX-DIRECT

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by letter of 4/18/74, and this letter set out three proposals exactly the way it was made to other parties. Then, at a later date, he called Mr. Fluellen -- we hadn't heard -- or Mr. Lamb did, and I was on the conference phone, and he told him that this matter had been referred to Mr. Jack Gourley and that we would hear from him. On May 1st of that year, or this year, we got this letter from Mr. Gourley expressing his recommendation to the Company as to proposal No. 1 under the letter that I referred to of 4/18/74.

Q What was that proposal on that letter of 4/18/74 that he agreed to?

A The proposal was: (Reading) Proposal No. 1: Join the Unit and pay your share of the cost of the first well and proration unit and retain the interest throughout the life of the well. (End of reading.)

In other words, to join and participate in the unit, being the east half of 23, 22, 25.

Q Then on May 1 when he responded, Mr. Gourley did, does his letter say that they would recommend the Management Proposal No. 1?

A It does. Would you like for me to read?

Q Just read that part of it, yes.

A (Reading) In regard to your letter to Mr. Riley Fluellen of April 18th of '74, please be informed that Inexco is willing to recommend to Management the joining of the first well proposed by you in your letter. This would be Proposal No. 1 of your letter. (End of reading.)

Q Then Mr. Lamb, again, wrote a letter on May 28th, did he not?

A He did.

Q And on June 10, Mr. Gourley responded that they couldn't make any firm commitment until they had a written proposal, a more detailed proposal?

A That's right.

Q Then Mr. Lamb, on July 5, submitted to Mr. Gourley the AFE and asked Inexco to participate in the drilling of the well to the extent of their 1/8 of the acreage?

A That's right.

Q Then on July 17, did Inexco respond to this submittal of the AFE, and if so, what was their response?

A July 17?

Q July 10.

A Yes. Pardon me. (Reading) Inexco Oil Company is not interested in paying a proportionate 1/8 interest in only a one-half section unit. However, in the event a

NIX-DIRECT

working interest unit can be put together similar to the McKittrick Canyon Unit as outlined in your letter to me of April 18th of '74, we would be willing to recommend to Management that we pay our proportionate part of the drilling cost in the exploration well in the said unit, and consequently earn our proportionate part of the farming acreage in said unit. (End of reading.)

Q Now, at that time, Mr. Nix, you and Mr. Lamb had already sold this proposal to Coquina Oil Corporation and they had agreed to drill a well?

A That's right.

Q And the lease was expiring on August 1?

A That's right. And further, I would like to add this: That there was a reassignment clause in this lease from Franklin, Ashton and Fair back to the original leaseholder and we had to get a commitment out of Coquina to the fact that they would drill the well before this letter here was ever written. In other words, that Coquina had already committed themselves before this letter and at this late date, they are trying to change the whole deal and it was impossible, Mr. Examiner, to do it at this time.

Q Now, let me ask you: Those letters that you have been testifying to have been marked as part of Exhibit 3,

NIX-DIRECT

and there are six of them in number dated April 18.

May 1, May 28, June 10, July 5, and July 10, 1974, is that correct?

A That's correct.

Q With the exception of those letters, were Exhibits 1 and 2 prepared by you or under your supervision?

A That's right.

MR. LOSEE: We move the introduction of those exhibits, Mr. Examiner.

MR. STAMETS: They will be so admitted.

(Whereupon, Applicant's Exhibits Nos. 1, 2 and 3 were marked for identification and admitted into evidence.)

BY MR. LOSEE:

Q Mr. Nix, do you consider this proposed Morrow test well a development well or wildcat?

A It is very wild.

Q And in the 8-mile north and south, and 10-mile long area that you have denoted, there is only two producing Morrows out of 14 drilled that will pay out?

A With the exception or the possibility that maybe--

Q (Interrupting) Maybe the Hanagan Well?

A Yes.

NIX-DIRECT

Q Do you have an opinion as to what would be a fair risk factor, recognizing that the Commission's maximum authority is 200 percent in addition to the cost of drilling the well as a proper risk factor for drilling this well?

A I think it is just about as high a risk factor as you can get. We all know that the Morrow is a high risk factor, and in an area with this many dry holes around it, I would hate with my own money to drill it with any less or even that.

Q Coquina has prepared a Joint Operating Agreement and submitted it to the other participants. What is the well supervision in that for wells 8000 to 12,000 feet?

A \$146 a month, and that is a very reasonable figure as I see them go over my desk.

Q Do you feel like the approval of this Application will avoid the drilling of unnecessary wells and thereby prevent waste?

A That's right.

MR. LOSEE: I have no further questions at this time, Mr. Examiner.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Nix, there is one part of your testimony that

NIX-CROSS

I misunderstood. Concerning the McKittrick Canyon Well in Section 25, I believe you testified this was originally drilled by Honolulu many years ago and tested in various zones and completed as a dry hole. Then the Western Producers Company went into the well and tested the Morrow?

A Western -- am I right on that name?

MR. LOSEE: Western Oil Producers of Roswell.

THE WITNESS: That's right.

BY MR. STAMETS:

Q Now, did they complete that as a producible Morrow Well or a dry hole?

A No, sir, they were unable to even find an indication that, you know, in there -- they went into the old hole and had a whipstop, as I understand Mr. Lamb -- he sat on the well for them -- and that they were very unsuccessful on it.

MR. LOSEE: Then it was then abandoned?

THE WITNESS: Oh, yes.

BY MR. STAMETS:

Q I am curious about that because it is not covered by a red circle which would indicate a dry hole which penetrated the Morrow.

A Well, Mr. Lamb helped me prepare this before he

NIX-CROSS

left, and possibly we should have done that because it is a dry hole. I think the reason we fixed it like this, Mr. Examiner, is to show you that it did test in the Morrow going down, and also had enough indication that someone would go back into an old hole and try it. That's possibly a mistake on my part on the way I fixed this plat up.

Q The Commission records would reflect the true status of this well?

A That's right, sir. It is definitely a plugged well.

Q Mr. Nix, in the normal course of events, would this be a relatively short period of time for a company such as Inesco to make up their mind and determine whether or not they would participate in a well like this?

A Well, Mr. Examiner, we started negotiating with them back in April of this year, see, and gave them -- as you see on the exhibit there -- three different proposals there, and they indicated from the very first letter on that they would probably participate in the east half of 23. Then there was nothing to the contrary until after the thing had got so short and we had to do something, and Coquina had to obligate themselves to Franklin, Ashton

and Fair. In other words, Franklin, Ashton and Fair had their obligation to reassign this lease back within that last 30 days, so we had to get a firm commitment from them, and the first indication that we had on the deal of any change was this letter of July 10th.

Q Let's see. Mr. Lamb's letter of July 10th appears to be the first notice that Inexco had that the well was to be operated by Coquina and what the AFE was to be?

A Well there were several and numerous telephone conversations, and as I say, Mr. Lamb handled the deal entirely with Inexco, but I was on conference phones and they were advised before this date that Coquina had taken this. But to testify before you exactly when they were notified, I couldn't do that, but they were notified by phone.

Q You anticipate the completion date to be about 45 days from today, and I would assume that you would like an Order which would cause Inexco to make their determination prior to that date?

A That's right, sir.

MR. STAMETS: Are there other questions of the witness?

MR. LOSEE: No questions, but I have a statement.

MR. STAMETS: You may be excused.

(Witness dismissed.)

MR. LOSEE: First, the mechanics of the expiring lease, of course, made it imperative that if the well was going to be drilled, it would be started the day before August 1st or the lease would run out. We would request the Examiner -- and, of course, Inexco will have the period of time that the Commission says after entry of the Order within which to decide to participate -- and we would like to ask that the time be shortened to 15 or 20 days so that we haven't topped the Pennsylvanian formation at the time they have to make their election.

I have nothing further.

MR. STAMETS: Is there anything further in this case? If not, we will take the case under advisement.

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STATE OF NEW MEXICO)
COUNTY OF SANTA FE) SS.

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

[Signature]
COURT REPORTER

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5299, heard by me on *July 21*, 1974.

[Signature] Examiner
New Mexico Oil Conservation Commission

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

August 27, 1974

L. R. TRUJILLO
CHAIRMAN
LAND COMMISSIONER
ALEX S. ARAGON
MEMBER
STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

Mr. A. J. Losee
Losee & Carson
Attorneys at Law
Post Office Box 239
Artesia, New Mexico 88210

Re: CASE NO. 5299

ORDER NO. R-4845

Applicant:

Coquina Oil Corporation

Dear Sir:

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

Very truly yours,

A. L. Porter, Jr.

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other Inexco Oil Co., 1100 Milam Bldg. Suite 1900, Houston, 77002

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5299
Order No. R-4845

APPLICATION OF COQUINA OIL
CORPORATION FOR COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 21, 1974, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 27th day of August, 1974, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Coquina Oil Corporation, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 23, Township 22 South, Range 25 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and is drilling its FAF Federal Well No. 1 at a standard location for said unit in the NE/4 SE/4 of said Section 23.

(4) That there are interest owners in the proposed pro-ration 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.

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CASE NO. 5299
Order No. R-4845

(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 that 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 that 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 \$146.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator 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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the E/2 of Section 23, Township 22 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 applicant's FAF Federal Well No. 1, now being drilled at a standard location for said unit in the NE/4 SE/4 of said Section 23.

PROVIDED HOWEVER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

CASE NO. 5299
Order No. R-4845

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

(3) That after the effective date of this order the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 15 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 Commission 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 Commission and the Commission 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 Commission 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 that 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 15 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 15 days from the date the schedule of estimated well costs is furnished to him.

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CASE NO. 5299
Order No. R-4845

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

(9) That \$146.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

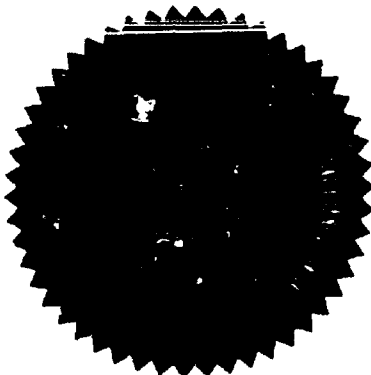
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working 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 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 Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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



STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

I. R. TRUJILLO, Chairman

Alfred J. Armitage
ALFRED J. ARMITAGE, Member

A. L. Porter, Jr.
A. L. PORTER, Jr., Member & Secretary

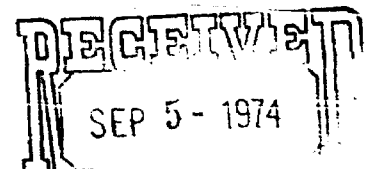
S E A L

jr/



COQUINA OIL CORPORATION

BUILDING OF THE SOUTHWEST
MIDLAND, TEXAS 79701



OIL CONSERVATION COM.
Santa Fe

September 3, 1974

Re: McKittrick Prospect
E/2 Sec. 23, T-22-S,
R-25-E, Eddy County,
New Mexico
OCC Case #5299
Order #R-4845

Certified Mail, Return
Receipt Requested

Inexco Oil Company
1100 Milam Bldg..
Suite 1900
Houston, Texas 77002

Gentlemen:

Pursuant to the Conservation Commission's captioned Order,
a xerox copy which is enclosed for your reference, attached
is a revised copy of our AFE for the FAF Federal #1 well
which is presently drilling on the captioned acreage. The
foregoing is furnished in compliance with paragraphs three
and four of the said Order.

Yours very truly,

COQUINA OIL CORPORATION

F. Ferrell Davis
F. Ferrell Davis

FFD/js

CC/
New Mexico Oil Conservation
Capital Bldg.
Santa Fe, New Mexico 87501
ATTN: Mr. I.R. Trujillo

Mr. A.J. Losee
P.O. Drawer 239
Artesia, New Mexico 88210

Mr. Ralph Nix
204-A American Home Bldg.
Artesia, New Mexico 88210

532

Docket No. 24-74

Dockets Nos. 25-74 and 26-74 are tentatively set for hearing on September 4 and September 18. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 21, 1974

9 A.M. - OIL CONSERVATION COMMISSION 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

- CASE 5294: Application of Shenandoah Oil Corporation for a buffer zone allowable, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the assignment of a special buffer zone allowable to its Gissler "A" Wells Nos. 1 and 3, located 430 feet from the North line and 1720 feet from the West line, and 1320 feet from the North line and 2310 feet from the West line, respectively, of Section 23, Township 17 South, Range 30 East, Grayburg Jackson Pool, Eddy County, New Mexico. These wells offset an active waterflood project and have received an apparent response to water injection.
- CASE 5295: Application of Amoco Production Company for a non-standard proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 480-acre non-standard gas proration unit comprising the N/2 and SE/4 of Section 24, Township 20 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to its Gillully Federal Gas Com Well No. 4 and its Gillully "A" Federal Well No. 7 located in Units B and O, respectively, of said Section 24.
- CASE 5296: Application of Texaco Inc. for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Vacuum-Upper Pennsylvanian production with the presently commingled North Vacuum-Abo and North Vacuum-Wolfcamp production in the wellbore in its New Mexico "Q" State Well No. 4 located in Unit P of Section 25, Township 17 South, Range 34 East, Vacuum Field, Lea County, New Mexico.
- CASE 5297: Application of Exxon Corporation for a non-standard proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 160-acre non-standard gas proration unit comprising the NE/4 of Section 35, Township 20 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to its Eumont Gas Com 3 Well No. 1 and its Fopeano Federal A/C Well No. 7, located in Units A and G, respectively, of said Section 35.
- CASE 5298: Application of General American Oil Company of Texas for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 29, Township 17 South, Range 29

Docket No. 23-74

DOCKET: COMMISSION HEARING - MONDAY - AUGUST 19, 1974

OIL CONSERVATION COMMISSION - 9 A.M. - MORGAN HALL, STATE LAND OFFICE
BUILDING, SANTA FE, NEW MEXICO

CASE 5262: (DE NOVO)

Application of Petro-Lewis Corporation for pool contraction, creation, and special pool rules, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the Media-Entrada Oil Pool by the deletion of the NW/4 of Section 22, Township 19 North, Range 3 West, Sandoval County, New Mexico, and the creation of a new pool for Entrada production comprising said lands. Applicant further seeks the promulgation of special rules for said pool, including a provision for 160-acre proration units and the establishment of a special depth bracket allowable for said pool of up to 750 barrels per day.

Upon application of Petro-Lewis Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 5152: (Reopened) Continued from July 24, 1974 Examiner Hearing

In the matter of Case No. 5152 being reopened pursuant to the provisions of Order No. R-4713, which order established a special depth bracket allowable for the Media-Entrada Oil Pool, Sandoval County, New Mexico. All interested parties may appear and show cause why said special depth bracket allowable should not be rescinded.

ir/

(Case 5298 continued from Page 1)

East, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5299: Application of Coquina Oil Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 23, Township 22 South, Range 25 East, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5300: Application of Mesa Petroleum Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp formation underlying the SE/4 of Section 7, Township 16 South, Range 36 East, North Shoe Bar-Wolfcamp Pool, Lea County, New Mexico, to be dedicated to a well to be drilled 555 feet from the South line and 2085 feet from the East line of said Section 7. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5301: Application of Cleary Petroleum Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Quarry Unit Area comprising 5177 acres, more or less, of Fee and Federal lands in Township 22 South, Range 32 East, Lea County, New Mexico.

Well: FAF Federal #1 County: Sedg State: New Mexico

Location: 2180' FSL & 600' FEL, Sec. 23, T-22-S, R-25-E Foot Test: 11,700'

Date: 7-3-74 Day: 10 Month: July Year: 1974

LEASEHOLD COSTS:

1. Acreage Cost
2. Legal
3. Commissions
- Total Leasehold

EQUIPMENT:

4. Casing			
a) 13 3/8" Surface 60 FT. @ 20.00	\$ 1,200		\$ 1,200
b) 8 5/8" Interm. 2400' @ 10.00	24,000		24,000
c) 5 1/2" Oil Str. 11700' @ 8.00	---		93,600
5. Tubing 2 3/8" 11700' @ 2.50	---		29,250
6. Floating Equipment, Centralizers	1,000		1,500
7. Well Head, Pumping Equipment Rods, Etc.	1,000		6,000
8. Treater, separator & tanks complete	---		14,000
9. Flow lines	---		1,500
10. Fittings, attachments connection and hook-up	---		2,000
Total Tangibles	\$ 27,200		\$173,050

INTANGIBLES:

11. Surveying	\$ 250		\$ 250
12. Roads, location, tank grading	3,000		3,000
13. Damages	750		750
14. Contract Drilling 11700 Ft. @ 10.50	122,850		122,850
6 Day work @ 2500 /day	15,000		15,000
15. Cement & cementing services:			
Surface: 100 ex. @ 10.00	1,000		1,000
Inter.: 1000 ex. @ 4.000	4,000		4,000
Oil Str. 500 ex. @ 3.000	---		3,000
16. Drilling Fluids	25,000		25,000
17. Drill stem testing 3 tests @ \$ 1200	3,600		3,600
18. Coring	---		---
Coring Analysis	---		---
19. Electric Log	5,000		5,000
20. Perforating	---		3,000
21. Acidizing	---		2,000
22. Acidizing & Fracturing	---		12,000
23. Pulling Units (Swabbing, workovers)	---		4,000
24. Plugging	3,000		---
25. Equipment Rental	1,000		2,000
26. Trucking	500		1,000
27. Professional Services			
a) Geology	1,500		1,500
b) Engineering	1,000		2,000
c) Supervision	2,000		2,000
28. Contingencies 10 %	19,550		21,500
Total Intangibles	\$212,000		\$237,450

TOTAL \$239,200 \$410,500

ACCEPTED AND ACKLED TO:

(DATE)

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION

EXHIBIT NO. 2

CASE NO. 5299

Submitted by _____

Hearing Date _____

N. RAYMOND LAMB
P. O. Box 457
Artesia, New Mexico 88210

April 18, 1974

OIL CONSERVATION COMMISSION	
EXHIBIT NO.	3
CASE NO.	5299
Submitted by	
Hearing Date	

Mr. Reilly Fluellen, Exploration Geologist
Inexco Oil Company
1100 Milam Building, Suite 1900
Houston, Texas 77002

Re: McKittrick Unit, Secs. 23, 24
25, and 26, T22S, R25E

Dear Reilly:

This letter is to confirm our conversation of recent date in the Oil Commission office in Artesia.

Your company owns the SE/4 SE/4, 40 acres, under lease No. 10459 dated October 1, 1969, in Section 23, T22S, R25E, Eddy County, New Mexico. We are attempting to put together a 4-section, 2560-acre, unit for a 11,700' test to Morrow formation. We submit three proposals for your consideration.

1. Join the unit and pay your share of the cost in the first well and proration unit, and retain that interest through the life of the well.

2. Some of the owners desire to spread their interest by amending interest in first well after payout to the entire unit. In your case you would have 1/3th working interest in first well to payout, then convert to 1/64th under the well and remainder of unit.

3. To farmout your 40-acre tract to operator and retain 1/8th of 8/8ths royalty under your tract prorated to the proration unit.

The test well proration will be E/2 Section 23.

Mr. Reilly Fluellen

-2-

April 18, 1974

The above are briefly the proposals we outlined to you in our conversation.

In view of the early expiration date of Franklin, Aston, Fair lease, we would appreciate your earliest convenient reply.

Respectfully submitted,



N. Raymond Lamb

NRL:rh



May 1, 1974

Mr. N. Raymond Lamb
P.O. Box 457
Artesia, New Mexico 88210

Re: McKittrick Unit
Secs. 23, 24, 25 & 26
Twp. 22 S, Rge. 25 E

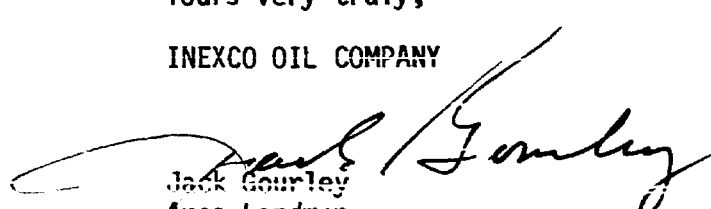
Dear Mr. Lamb,

In regards to your letter to Mr. Reilly Fluellen of April 18, 1974, please be informed that Inexco is willing to recommend to management the joining of the first well proposed by you in your letter. This would be proposal number 1 of your letter.

Once you have determined who the operator and /or other parties will be in this venture, please make a formal written request to Inexco outlining your plans in detail.

Yours very truly,

INEXCO OIL COMPANY


Jack Gourley
Area Landman

JG/cjr

N. RAYMOND LAMB
P.O. Box 457
Artesia, New Mexico 88210

May 28, 1974

Mr. Jack Gourley, Area Landman
Inexco Oil Company
1100 Milam Building, Suite 1900
Houston, Texas 77002

Re: McKittrick Unit
Secs. 23, 24, 25 &
N/2 & SE/4 26 T 22S
R25E

Dear Mr. Gourley:

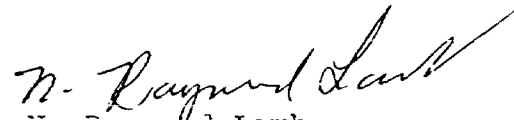
For your convenience, attached is a copy of your letter of May 1, 1974, pertaining to the above reference.

We are in the position of firming up the proposals so that we can deliver the McKittrick deal. Our prime prospect for the deal is Coquina Oil Corporation. You will be advised of any change in operator.

We would appreciate your management, consideration and approval in joining with us in the drilling of the well in E/2 Sec. 23 T 22S R25E.

Your earliest reply would be a great help to us.

Respectfully submitted,


N. Raymond Lamb

NRL:ah

N. RAYMOND LAMB
P.O. Box 457
Artesia, New Mexico 88210

May 28, 1974

Mr. Jack Gourley, Area Landman
Inexco Oil Company
1100 Milam Building, Suite 1900
Houston, Texas 77002

Re: McKittrick Unit
Secs. 23, 24, 25 &
N/2 & SE/4 26 T 22S
R25E

Dear Mr. Gourley:

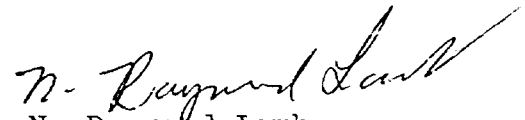
For your convenience, attached is a copy of your letter of May 1, 1974, pertaining to the above reference.

We are in the position of firming up the proposals so that we can deliver the McKittrick deal. Our prime prospect for the deal is Coquina Oil Corporation. You will be advised of any change in operator.

We would appreciate your management, consideration and approval in joining with us in the drilling of the well in E/2 Sec. 23 T 22S R25E.

Your earliest reply would be a great help to us.

Respectfully submitted,


N. Raymond Lamb

NRL:ah



June 10, 1974

Mr. N. Raymond Lamb
P.O. Box 457
Artesia, New Mexico 88210

Re: McKitterick Unit
Secs. 23, 24, 25 &
N $\frac{1}{2}$ & SE $\frac{1}{4}$ of 26
T22S, R25E

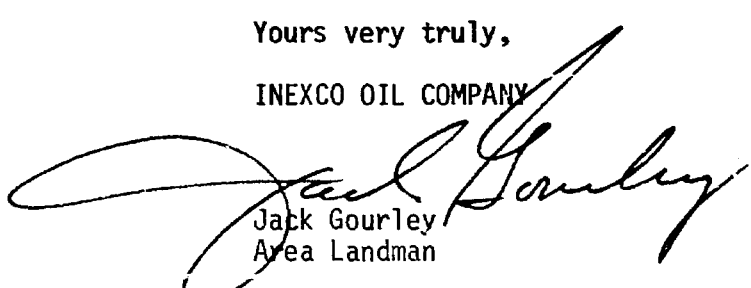
Dear Mr. Lamb,

We are in receipt of your letter of May 28, 1974, regarding the above referenced acreage. Due to the heavy volume of farmouts being considered by our company, we have a policy of not requesting farmout agreements from our contracts section until we have a firm commitment from a prospective farmee.

Once you have an operator for your prospect and are in a position to make a definite proposition to Inexco with regards to the above mentioned area, we will be more than happy to request management approval. In order to do this, we will need a detailed proposal, whereby, you set out specifications such as proposed spud date, proposed total depth, objectives, etc.

Yours very truly,

INEXCO OIL COMPANY



Jack Gourley
Area Landman

JG/cr

N. RAYMOND LAMB
P. O. Box 457
Artesia, New Mexico 88210

July 5, 1974

AIR MAIL

Mr. Jack Gourley
Inexco Oil Company
1100 Milan Building, Suite 1900
Houston, Texas 77002

Dear Mr. Gourley:

On April 18, 1974, we submitted three proposals for your consideration in connection with the drilling of a Morrow test well in the E/2 Section 23, Township 22 South, Range 25 East, N.M.P.M. On May 1, you informed me that Inexco was willing to recommend to management the joining in the unit and paying its share of costs of drilling the first well and retain that interest through the life of the well.

Coquina Oil Corporation, Midland, Texas, as operator, is proposing to drill the Morrow test well, located in the NE/4 SE/4 of said Section 23, dedicating the E/2 of said section as the spacing unit for the well. Inexco owns the SE/4 SE/4 of Section 23 and 1/8th of the acreage included within the spacing unit.

Accordingly, we enclose the AFE of Coquina for this well, dated June 25, 1974, reflecting dry hole costs of \$241,230 and flowing well costs of \$412,780. By reason of an August 1, 1974, expiration date, it is necessary that Coquina commence operations on or before July 31, 1974. Accordingly, we will appreciate your early consideration to the enclosed AFE and return to us of one approved copy.

Mr. Jack Gourley
Inexco Oil Company

July 3, 1974

-2-

As soon as practicable after receipt of your AFE, Coquina will
furnish you with an A.A.P.L. Form 610 Operating Agreement.

Very truly yours,

N. Raymond Lamb

Enclosure

cc: Mr. Ralph Nix
Coquina Oil Corporation



INEXCO OIL COMPANY

July 10, 1974

Mr. N. Raymond Lamb
Post Office Box 457
Artesia, New Mexico 88210

Re: McKittrick Unit
Sections 23, 24, 25 and 26
Township 22 South, Range 25 East
Eddy County, New Mexico

Your Letter of July 5, 1974

Dear Mr. Lamb:

Pursuant with the above references, it was my understanding, subsequent to the time of my letter to you dated May 1, 1974, that by telephone I had told you that Inexco would be willing to recommend to management that we pay our proportionate cost in the captioned unit if a working interest unit was formed. As you will recall from said telephone conversation, you felt that this venture was dead due to reassignment problems from some of the other companies in this area.

Inexco Oil Company is not interested in paying our proportionate 1/8 interest in only a one-half section unit. However, in the event a working interest unit can be put together similar to the McKittrick Unit as outlined in your letter to me dated April 18, 1974, we would be willing to recommend to management that we pay our proportionate part of the drilling costs in the exploratory well in the said unit and consequently, earn our proportionate part of farmin acreage in said unit.

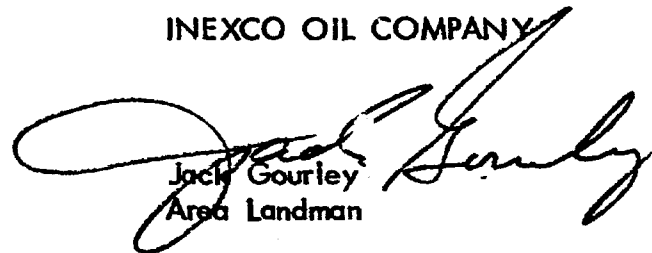
In the above referenced letter you stated that Coquina must commence operations on or before July 31, 1974. This is a similar short notice situation which we were faced with in our last conversations. It is extremely difficult for Inexco to evaluate an A.F.E. and an operating agreement with such short notice. If you are able to put a working interest unit together as mentioned above, then we will need to evaluate your operating agreement as soon as possible before an A.F.E. can be approved.

Mr. N. Raymond Lamb
July 10, 1974
Page Two

For me to be optimistic to you, in view of the pressing time factor, regarding all of the above would be doing you a disservice. However, if you can put a working interest unit deal together and forward your operating agreement quickly, I will do the best I can.

Yours very truly,

INEXCO OIL COMPANY


Jack Gourley
Area Landman

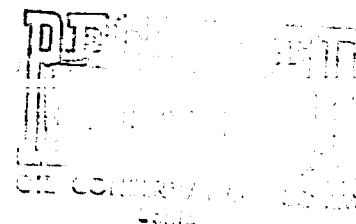
JG/cv

A. J. LOSEE
JOEL M. CARSON

LAW OFFICES
LOSEE & CARSON, P.A.
300 AMERICAN HOME BUILDING
P. O. DRAWER 239
ARTESIA, NEW MEXICO 88210

AREA CODE 505
746-3508

19 July 1974



New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Gentlemen:

Enclosed herewith, you will please find, in triplicate,
Application of Coquina Oil Corporation for compulsory
pooling, Eddy County, New Mexico.

We should appreciate your setting this matter for hearing
before an examiner at the earliest possible date.

Very truly yours,

LOSEE & CARSON, P.A.

A. J. Losee

AJL:jw
Enclosures

cc w/enclosure: Mr. F. Ferrell Davis,
Coquina Oil Corporation

Mr. N. Raymond Lamb

DOCKET MAILED
8-1-74

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF)
COQUINA OIL CORPORATION FOR)
COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

Case No. _____

APPLICATION

COMES COQUINA OIL CORPORATION, by its attorneys,
and in support hereof, respectfully states:

1. That, except as hereinafter noted, applicant is the owner and operator of the entire working interest from the surface through the Pennsylvanian formation underlying the E/2 of Section 23, Township 22 South, Range 25 East, N.M.P.M., to be dedicated to a well located 2,180 feet from the South line and 660 feet from the East line of said Section 23, Eddy County, New Mexico.

2. By virtue of a farmout from Franklin, Aston & Fair, Inc. and Pennzco Company, applicant is the owner of the oil and gas leasehold estate comprising the NE/4, N/2 SE/4, SW/4 SE/4 of said Section 23. Inexco Oil Company, 1100 Milam Building, Suite 1900, Houston, Texas, 77002, is the owner of the oil and gas leasehold estate comprising the SE/4 SE/4 of said Section 23, and it has not agreed to pool its interest with applicant.

*Send
to
DOCKET MAIL*

8-9-76

3. That, to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in the E/2 of said Section 23 the opportunity to recover or receive without unnecessary expense his just and

fair share of the gas in said pool, all mineral interests, whatever they may be, from the surface through the Pennsylvanian formation underlying the E/2 of said Section 23 should be pooled.

4. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

5. That applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge attributable to each non-consenting working interest.


WHEREFORE, applicant prays:

A. That this application be set for hearing before an examiner and that notice of said hearing be given as required by law.

B. That upon hearing, the Commission enter its order pooling all mineral interests, whatever they may be, from the surface through the Pennsylvanian formation underlying the E/2 of said Section 23, Township 22 South, Range 25 East, N.M.P.M., to form a 320-acre gas spacing unit to be dedicated to applicant's well at a standard location 2,180 feet from the South line and 660 feet from the East line of said Section 23.

C. And for such other relief as may be just in the premises.

COQUINA OIL CORPORATION

By: 
A. J. Losee for

LOSEE & CARSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

DRAFT

Expedite

gi/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

in

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5299

Order No. R-4845

APPLICATION OF COQUINA OIL CORPORATION
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

gld

de

ASU

all

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 21, 1974, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this _____ day of August, 1974, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Coquina Oil Corporation, seeks an order pooling all mineral interests in the _____ Pennsylvanian formation underlying the E/2 of Section 23, Township 22 South, Range 25 East, NMPM, _____, Eddy County, New Mexico.

Case No.
Order No. R-

(3) That the applicant has the right to drill ~~and propose~~ ^{and is drilling}
~~its FAF Federal Well No. 1~~
~~to drill a well~~ at a standard location for said unit ~~in the~~
~~NEMSEIN~~ ^{of said Section 23.}

(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 that 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 that 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.

-3-
Case No.
Order No. R

(11) That \$146.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator 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 _____, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the E/2 of Section 23, Township 22 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

Well No. 1, now being drilled
at a standard location for said unit in the NE 1/4 SE 1/4 of said Section 23.

~~PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the _____ day of _____, 1974, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;~~

~~PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the _____ day of _____, 1974, Order (1) of this order shall be null and void and of no effect whatsoever;~~

~~PROVIDED FURTHER,~~ ^{However,} that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

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

(3) That after the effective date of this order ~~and at least~~ ^{within} ~~30 days prior to commencing said well~~ the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within ~~30~~ ¹⁵ 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 Commission 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 Commission and the Commission 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 Commission 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 that has paid his share of estimated costs in advance as provided

-5-
Case No.
Order No. R-

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 ¹⁵~~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 ¹⁵~~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 \$146.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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(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 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 Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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