

CASE 5323: Application of CITIES
SERVICE FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

CASE No.

5323

Application,

Transcripts,

Small Exhibits

ETC.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
September 18, 1974

EXAMINER HEARING

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IN THE MATTER OF:)

Application of Cities Service)
Oil Company for compulsory)
pooling, Eddy County, New Mexico)

Case No. 5323

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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: W. Thomas Kellahin, Esq.
(Cities Service) KELLAHIN & FOX
500 Don Gaspar
Santa Fe, New Mexico

For Bit Grinding Service: Donald G. Stevens, Esq.
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(Appearances continued)

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APPEARANCES (Continued):

For Michael and Corrine Grace: Nick Franklin, Esq.
LAMB, METZGAR, FRANKLIN &
LINES, P.A.
500 Second Street, N. W.
Albuquerque, New Mexico

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MR. STAMETS: Case 5323.

MR. CARR: Case 5323. Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico.

MR. STAMETS: We will call for appearances in Case No. 5323.

MR. KELLAHIN: Tom Kellahin, Kellahin and Fox, Santa Fe, New Mexico, appearing on behalf of the Applicant, Cities Service Oil Company. I have two witnesses to be sworn.

MR. STAMETS: Any other appearances in this case?

MR. STEVENS: Don Stevens, Attorney in Santa Fe, New Mexico, representing Bit Grinding Service, Incorporated, Carlsbad, a mineral owner of the subject acreage.

MR. STAMETS: Other appearances?

MR. FRANKLIN: My name is Nick Franklin, with the law firm of Lamb, Metzgar, Franklin and Lines in Albuquerque. We represent Michael Corrine Grace.

(Witnesses sworn.)

TOM HELLER

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Please state your name, by whom you are employed and in what capacity?

A Thomas Heller. I am employed by Cities Service Oil Company as a landman.

Q Mr. Heller, have you previously testified before the Commission?

A I have not.

Q What is your educational background?

A I have a degree in economics.

Q How long have you been employed by Cities Service?

A A little over two years.

Q In what capacity has that been?

A Landman.

Q And as a landman, what if any familiarity do you have with this case?

A I am familiar with it. I have worked with the people who have been handling it along with myself.

MR. KELLAHIN: If the Examiner please, are the witness' qualifications acceptable with regard to establishing the ownership of the acreage involved in efforts to obtain voluntary commitment?

MR. STAMETS: Yes. The Examiner recognizes the witness' qualifications as a landman in this case on those points.

BY MR. KELLAHIN:

Q Mr. Heller, would you please refer to what has been marked as Applicant's Exhibit No. 1, identify it and explain briefly what Cities Service is seeking?

A That is a map of the unit we are attempting to put together. You will note there are two outstanding tracts. One is unleased and one is leased. One is owned by Mr. Grace, oil and gas lease, and the other is unleased mineral interests owned by Bit Grinding Trust Fund.

Q With regard to Mr. Grace, what acreage does he own, what amount of acreage?

A Approximately 1.8 acres.

Q And with regard to Bit Grinding Service?

A The same approximately.

Q On your plat, the proposed unit area is outlined in blue, is that correct?

A Yes.

Q Would you please refer to what has now been marked as Exhibit No. 2. It is your letter of August 6?

A August 6.

Q Would you identify that, please?

A Yes. This is a letter we did write to Bit Grinding Service, Incorporated, asking them to join in our proposed well.

Q I show you what has been marked as Exhibit No. 3. Will you identify that?

A This is a letter to Mr. Grace wherein we did ask the same thing of Mr. Grace.

Q Please refer to what has been marked as Exhibit 4 and identify that?

A This is a letter to Bit Grinding Services correcting a discrepancy in the first letter as far as the minerals that they actually did own.

Q All right, sir, Exhibit No. 5?

A This is a letter from Mr. Leonard T. May who was acting as our agent at that time in attempting to secure a lease from Bit Grinding, and at that time, they declined not to lease.

Q As of this date, Mr. Heller, have either Mr. Grace or Bit Grinding Services, Inc. voluntarily committed their acreage to this venture?

A No.

MR. KELLAHIN: That concludes my examination of this witness, Mr. Examiner.

MR. STAMETS: Are there questions of the witness? Mr. Stevens?

CROSS EXAMINATION

BY MR. STEVENS:

Q Could you tell us the maximum amount paid to any royalty owner or leases under this tract, please?

A The maximum amount that we have paid at the present time, as near as I could tell, was \$250 an acre.

Q Did that include any royalties in excess of one acre?

A I don't believe it did.

Q Your exhibit, according to my copy, shows Exhibit 5 is dated January 10th which is a letter to Leonard T. May, Cities Service, and that on January 7, 1974, an offer was made. Could you tell us how much that offer was?

A No, I cannot.

Q Do you have any inkling as to whether it was a little bit less or greatly in excess of \$250 an acre?

A An inkling would say it would be around \$250 an acre.

Q Does Cities Service have leases in this area?

A Yes, they have.

Q Can you tell us the maximum that Cities Service might have paid for leases in that area?

A We recently purchased some leases in the latter part of last year and early this year for \$250 an acre.

Q And the areas shown in your Exhibit No. 1 to your knowledge, has any amount greater than that been paid by Cities Service for any lease?

A To my knowledge, no.

Q Have you given excess royalty in excess of one-eighth to --

A (Interrupting) I cannot say.

Q You don't know the answer to that?

A No.

Q Do you know as a practicing landman what leases are going for in the south Carlsbad area?

A Yes, I do.

Q Would you tell us approximately what that is?

A \$250 an acre.

Q Do you know of any higher than that at all?

A I have personally not bought a lease in excess of \$250 an acre.

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Q Do you know anybody who has?

A No, I do not.

Q Have you heard of anyone who has?

A No.

Q Your knowledge and your testimony is that you know of no lease that has been bought in excess of \$250 per acre in the South Carlsbad Field area?

A Personally, I do not know. I do not know of any that have been bought in excess of \$250.

Q Do you know of any royalty in excess of one-eighth that was granted in any leases purchased by any company?

A Yes.

Q What is the maximum you have heard of?

A $3/16$ and up to $1/4$ on railroad property.

Q One-fourth on railroad property. Do you know if that property had a bonus attached to it?

A It did.

Q Do you know the amount?

A I do not.

MR. STEVENS: I have no further questions at this time.

MR. STAMETS: Mr. Franklin, do you have any

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questions?

MR. FRANKLIN: No questions.

MR. STAMETS: Are there any other questions of this witness? He may be excused.

(Witness dismissed.)

MR. KELLAHIN: I call Mr. Motter.

E. F. MOTTER

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Motter, would you please state your name, by whom you are employed and in what capacity?

A E. F. Motter, Cities Service Oil Company. I am Engineering Manager of the southwest region in Midland, Texas.

Q Mr. Motter, have you previously testified before this Commission and had your qualifications as an expert accepted and made a matter of record?

A Yes, numerous times.

Q Are you familiar with the facts surrounding this particular Application?

A Yes, sir, I believe I am.

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MR. KELLAHIN: If the Examiner please, are the witness' qualifications acceptable?

MR. STAMETS: They are.

BY MR. KELLAHIN:

Q Mr. Motter, does Cities Service desire to be designated as operator of this particular unit?

A Yes, we would. A proration unit on the east half of Section 32 -- I might add that this is in our -- in the west pool. It is what we call the Russell Unit which we put together basically about five or six sections. I am not sure.

Q All right, sir. Would you please refer to what has been marked Applicant's Exhibit No. 6 and identify it and explain what information it contains?

A This is a detailed well estimate of the Tracy C No. 1 Well that this well will be called. Its location is 1980 from the north and 660 from the east line. This detailed estimate was made up in July the 30th, 1974 and we found nowadays we have to get these just about as late as possible to keep up with the rapid changing prices in tubular goods and drill costs and et cetera. This is pretty much a standard program that we have followed out in this area with 13 and 3/8 to a 405, approximately 400

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feet and 9 and 5/8 by 3000 in the Delaware and 51 on to TD in the Morrow. I don't know whether there is any reason to go into detail. The total is \$457,485. This is probably \$120,000 or \$130,000 more than we were coming up with here a year and a half ago with the same wells. Just as a matter of information, I might point out one little item that in a year's time up there where it says, "separator heater treater," those things have gone from about \$9000 a year ago to \$22,640. We have questioned people about this and they blame the steel shortage and labor situation.

Q In connection with this forced pooling application, Mr. Motter, do you have a recommended monthly charge for supervision to be assessed for non-consenting working interest owners?

A Yes, I do have. We have talked in the past before similar rules up here that we go by the COPAS rate, and I think our last hearing up here was in March at \$205 a month, but since that time, those of you who are aware of the COPAS data, they changed rates on April 1st and it is based on the average price paid to the oil worker's union during the previous period, and that has now increased to \$210 per month.

Q You then would request an amount to be charged of

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\$216 on the combined-fixed-rate basis?

A Yes, and that includes all of our supervision down to including production formula.

Q In addition, would you make a request for a provision in the Order allowing annual adjustment of the rate?

A Yes, because we have in those past. We would like the same wording in those, if possible.

Q Directing your attention, now, Mr. Motter to the charge with regard to drilling, the charge to be assessed against those individuals while the drilling takes place. What figure do you have?

A Again, this comes from the same source material and it was updated in April. Our current rate to the southwestern region is \$1536 per month for drilling supervision.

Q Would you request an additional provision in the Order to accommodate that additional charge?

A Yes, I would.

Q Let me direct your attention with regard to a risk factor to be assessed, Mr. Motter. Do you have any recommended risk factor?

A Yes, I do. I recommended 50 percent. We would

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like to direct the Examiner's attention, however, to what I believe was called Exhibit No. 1 and tell you why we believe that 50 percent is necessary. The Tracy C No. 1 that you see here indicates this location, two miles north of this, we recently drilled the Cities Service Simpson No. 1. This well produced 166 MCF per day on drill stem test in the Morrow. We did not run casing down there. We plugged the Pennsylvanian. To the south of us, a location south of us it is 1980, I believe and 1980 from the east line -- 1980 from the north and 1980 from the east -- and in Section 5, Belco just recently drilled a dry hole in the Morrow, and just in the last 30 days, we have had some serious problems on our Elizando Federal No. 2 which is located in Section 21 which would be about two locations north of this and one east. This well -- I don't have the exact figures with me -- but we could not get the original hole down to the Delaware to set pipe. As normal in this particular area, we lost circulation and dry-drilled and boulders started falling in on us to where we couldn't make trips. We tried to cement the hole to contain those boulders. This was unsuccessful. We then asked for your permission -- and you granted it -- to move the location 100 feet south.

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I am happy to say that we are through the Delaware and making progress. On the other hand, we spent approximately \$120,000 before we moved away from that location. We did change our casing program slightly to take care of this anticipated problem.

Q In addition, Mr. Motter, forced pooling orders often contain a provision requiring you to complete drilling or abandon the well within a given period of time. Would you be able to accomplish a completion of the well or its abandonment within 120 days after an order is entered? Would that pose any difficulty in this case?

A I don't know about 120 days. I think we could probably go with 180. We have several wells scheduled. This is on our program. We do have casing in reserve for the well, but that would probably be a safer figure due to some other unknown circumstances at this time.

MR. STAMETS: Let me clarify this point, Mr. Motter. Most of the orders come out and give you 90 days subsequent to the hearing to initiate the drilling and then an additional 120 days to complete the well. Now, I am not clear if you are asking for 180 days to commence the drilling?

THE WITNESS: I was thinking of 6 months, but if

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this is normal and if this is what you require, we will try to live with 120 days.

BY MR. KELLAHIN:

Q Let me restate that, Mr. Motter. Should the order be entered indicating that you would have 90 days in which to commence the well and an additional 120 days in which to complete the well, would that be a sufficient amount of time to satisfy your needs?

A Yes, I think it would.

Q Was Exhibit No. 6 prepared under your direction and supervision?

A Yes, sir, it was.

Q In your opinion, Mr. Motter, will approval of this application be in the best interest of conservation and prevention of waste and protection of correlative rights?

A Yes, I do.

MR. KELLAHIN: If the Examiner please, we move the introduction of Exhibits 1 through 6.

MR. STAMETS: Without objection, Exhibits 1 through 6 will be admitted.

(Whereupon, Applicant's Exhibits Nos. 1 through 6 were marked for identification and admitted into evidence.)

MR. KELLAHIN: That concludes our direct examination of this witness.

MR. STAMETS: Are there questions of this witness?
Mr. Stevens?

CROSS EXAMINATION

BY MR. STEVENS:

Q Mr. Motter, would you explain something to me? On this COPAS thing, these figures you gave of \$205 a month, this is an average for wells of that depth, is that why you are recommending that?

A In our particular case, that figure applies to all wells regardless of depth, \$216 per month.

Q Is that a Cities Service figure or COPAS figure?

A Well, that is more or less accepted by a certain group of major companies of which we get together and discuss and try to have some figure that everyone is agreeable with. I might comment that this \$216 is an increase from the \$205 which we had previously ruled on cases before. On the April date there was an adjustment.

Q Is that for oil wells and gas wells?

A Yes.

Q Is it cheaper or more expensive to produce a gas well than an oil well so far as administrative costs

and overhead are concerned?

A I don't really know how to answer that. I can see times when it could be lower. If you have a flowing oil well with no problems, it might be just as cheap to upgrade it as a flowing gas well. If a gas well that had a lot of water production and you had to haul water or you dispose of it, it would probably take a lot more supervision, so I quite frankly think that has to apply to the circumstances, but this is an average the way we look at it.

Q As a generality could you speak, as it relates to oil and gas wells, their cost administratively?

A Yes, I would say that if you want to take general practice that we have to assume that most gas wells will flow, and on that basis, it would probably take a little bit less supervision. As I say, though, this is supervision from the production foreman level up which includes my salary as well as some of the others and regardless of when the well goes in, this is going to go on.

Q Could you explain to me where the Simpson Well is? I couldn't find it on here.

A Yes. It shows up on there in Section 20. It was drilled 1980 from the north and 1980 from the east.

I believe that is correct, Mr. Stevens.

Q This Elizando Federal, I believe you have used that as justification for increasing the risk factor to be 50 percent because it was very costly to drill. Wouldn't these costs be paid for by the non-joiner in compulsory pooling?

A Well, that's true. I guess probably my biggest issue should be the dry hole immediately south of this particular proration unit.

Q Well, so on that basis of fact, the Elizando was more expensive to drill and shouldn't be a factor in consideration of risk, should it, the fact that it was more expensive to drill?

A I don't really know. I never considered it in that light. It is true that you would have more money to pay --

Q (Interrupting) Non-operators would have to pay for that?

A But on the other hand, what I am saying is, this has increased the risk in the area. Maybe I should state it this way, that there is a possibility that the figure that we have set out here of \$450,000, that might not be adequate.

Q I made a rough count of the deep dry holes and producers on your Exhibit 1 and I came up with 9 producers

and one dry hole.

A Well, I am sorry these are not on the plat, but there is a Belco Well that is not on there and that was a dry hole. It was in Section 5, immediately south.

Q That was in the west half?

A In the east half, 1980 from the north and 1980 from the east line to the best of my knowledge.

Q And there is a producer one location south of there, is that correct?

A Yes. The Belco Union Mead is a producer.

Q That makes it 9 and 2 then. Is it true, then, that some of these producers are also duals?

A That is true.

Q Do you have any idea roughly how many are duals?

A Oh, a rough estimate, I would say perhaps a fourth, if you are talking about the Strawn and Morrow.

Q Okay. We have 9 producers and 2 dry holes plus four more duals, so we are talking about 13 producers and two dry holes. Would that justify a risk, in your opinion of 50 percent?

A Yes, it does. The Simpson up north, we were as flabbergasted as anyone. There are producers all around it. We would love to have a well up there, and I am sorry, I don't

have an exhibit to show you. I had no idea we would get involved in this sort of thing.

Q Usually when you are claiming 50 percent on that basis, your map should show something on the order of 50 percent dry holes and 50 percent producers which your Exhibit No. 1 does not show that.

A Well, I personally don't feel that you can set a risk factor on a game of chance like this. You have to take almost each situation and apply what you feel your circumstances are to that particular well. If you want to broaden this particular area and get out of the area into perhaps the south Carlsbad, perhaps in your way of thinking, you can probably even get a higher percentage of risk, but personally, I don't think that is the way you have to consider these individual wells.

Q Well, isn't this on a structural ridge coming up to the South Carlsbad Field in this area?

A Yes, but I probably shouldn't do this since you are not on the stand, but I pose a question: If it is on a structural ridge, how do you explain a Belco dry hole and a Simpson dry hole?

Q Generally speaking in the South Carlsbad area, are you more likely to get a producer on a structural

ridge or not?

A I would say, yes, you are more likely to.

Q Is the Simpson on the structural ridge?

A Yes, we think it was.

Q Would it be lower, structurally, than the Elizando?

A We have two Elizando Wells, one in Section 28.

Quite frankly, I don't know if I -- I can check the records but really, It didn't have a sand problem. If you want to place it high or low, it was not low as to what we would accept as a water-oil contact. We fully expected it to be a producer, quite frankly, until we ran the drill stem test.

Q Your justification of a 50 percent risk factor, then, is not producers as opposed to dry holes, so then what is it?

A Based on what chance we think we have to establish production at that particular location.

Q Is that location on the ridge?

A Yes. So was Belco's on the ridge and the Simpson on the ridge.

Q In your opinion, was all the wells on the ridge an average of 50 percent being producers as opposed to dry holes?

A No, I think the statistics will show it was probably higher than that, but again, I don't believe that you can take that as criterion in establishing risk factor.

Q Well, you have explained to us that you can't take a risk factor based on the number of producers versus dry holes and you say that it depends on each well's circumstances. In your opinion, this well is a 50 percent risk factor, but you still haven't established why you think that other than the generalization that each well is different. Would you explain that more fully?

A Well, 50 percent is a figure that we have used for every well that we have completed in Eddy County with the exception of one. That's the number that we put on a well because you have to apply some risk factor. Quite frankly, in my estimation, I don't think there is what I would think is a gut cinch in the area. I think you've got to have a risk on every well you drill out there. We have to apply a risk on every well whether it is 100 percent or whether it is one like this particular well.

Q In all the wells that you have compulsory pooled, did you apply the 50 percent risk, and can you tell me what the ratio came out with producers and dry holes?

A Well, let's see, we forced pooled or compulsory pooled about four wells and one of them was dry.

Q So you have a 25 percent risk factor.

MR. STEVENS: No further questions.

MR. STAMETS: Are there any other questions of this witness?

CROSS EXAMINATION

BY MR. FRANKLIN:

Q In the area of the risk factor that you set, I am still a little confused as to what you used as a basis of your risk factor. If we eliminated the two dry holes that went into that area, what would you consider the risk factor for this area?

A Well, sir, I don't think that you can eliminate those when you consider this. They have to be taken into consideration as well as producers.

Q I realize that, but eliminating those two dry holes, if you were drilling, what would be the risk factor for that well?

A Well, you just don't eliminate dry holes, so I think to answer your question, sir, that is a supposition that you are going into an area that you have never had a dry hole in, certainly, you will have a lower risk factor.

I might point out that Cities Service's position is not necessarily the O.C.C. policy.

Q In regard to Exhibit No. 6, can you list any additional items other than drilling and supervision that is not on there that might up the cost?

A I don't quite know as I follow you on drilling items. I think we covered all the drilling.

Q There was a drilling supervision figure of \$5000 a month that you mentioned in your earlier testimony, and I am trying to find --

A (Interrupting) Well, normally, this is not applied on our particular forms on supervision because you do sign an operating agreement which this is covered in, so you normally don't add it to the cost of the well. In this particular case, I believe I said it was \$1536 a month and a well in this area will take anywhere from 45 to 60 days, so we are probably looking at around \$3000 for supervision.

I might make a statement here: We will be glad to swap out, but we would like a billing on pool support if the swap is not consummated.

Q In Cities Service's last Wolfcamp, Grace acreage was not involved. Will it be here?

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A Well, sir, I believe that is a problem for the Commission here. We have been down this road with them before, and I don't think they will accept an application to force pool anything other than the Pennsylvanian lower because of the statement situation, and so we have gone along with what their wishes are when these are filed on Pennsylvanian pooling.

Q What happens to your contribution in Delaware, in the Delaware rights? You are completing the Delaware?

A Well, those are voluntarily signed, normally signed from the grass roots down, and so those would be in anything that well might be completed in. It depends on what order comes from the Commission.

Q Well, we are asking here, of course, were you going to force pool rather than voluntary?

A We are going to have to obey the order of the Commission and I am sure they will compulsory pool the Pennsylvanian only.

Q Okay. Would you return the contribution in the Delaware or Lone Springs or Wolfcamp?

A I don't know if I follow you about the contribution. I am not trying to be difficult. I just don't follow your questioning here.

MR. STAMETS: I think maybe I can clarify that situation if I have it right. I believe Mr. Franklin is asking, if the well were unsuccessful in the Pennsylvanian and you completed it, say, as a gas well in the Wolfcamp on 160 acres, or as a Delaware oil well on 40 acres, would anyone who had contributed to the cost of drilling the well on the 320, who was not included on the final proration unit, receive their money back?

THE WITNESS: I can answer this in this manner: Those that joined voluntarily -- usually the joiner is usually from the grass roots on down -- and I am not an attorney, but I understand the orders that come from the Commission, in the Pennsylvanian, that those who did not join voluntarily are pooled under it, and the only case we have had is the Simpson and none of those people were charged any cost of the well when it was dry in the Pennsylvanian.

BY MR. FRANKLIN:

Q I have one last question: What price are you getting for your gas?

A Well, we can't tell you right now because we are in a state of a flux out there. We are negotiating right now.

Q How long have you not been selling gas?

A Where?

Q In that area.

A We are selling gas in the area right now.

Q Well, you stated your prices were in a slump.

What is the last price --

A (Interrupting) Well, we have some wells shut in because the contracts on an emergency basis have run out. They are under negotiation right now and those wells will be returned -- in fact, quite frankly, I anticipate that at any minute they will be returned to production.

Q Can you give us an idea of what price you are negotiating for?

A No, sir.

MR. KELLAHIN: I would object to this line of questioning as being totally irrelevant for the forced pooling application.

MR. STAMETS: The objection is sustained.

MR. FRANKLIN: I have no other questions.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Motter, you asked for a risk factor of 50 percent. Is that 21 percent of what you could have asked for?

MR. KELLAHIN: That's right.

THE WITNESS: I don't know how to answer that, sir.

MR. KELLAHIN: The answer is "yes."

THE WITNESS: On advice of counsel, the answer is "yes."

MR. STAMETS: Are there any other questions of this witness? He may be excused.

(Witness dismissed.)

MR. STAMETS: Does anyone have anything further to offer in this case? Mr. Franklin, do you have any testimony going to this case?

MR. FRANKLIN: No, sir, we don't.

MR. STAMETS: Mr. Stevens?

MR. STEVENS: No, sir.

MR. STAMETS: We will take the case under advisement.

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

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.

Richard L. Nye
COURT REPORTER

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5323, heard by me on 9-18-77, 1977.
Richard L. Nye, Examiner
New Mexico Oil Conservation Commission

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CITIES SERVICE OIL COMPANY

Box 1919
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March 12, 1975

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

Call 5323

Re: N.M.O.C.C. Order R-4885
Compulsory Pooling of Mineral Interests
Pennsylvanian Formation
E/2 Section 32, T-21-S, R-27-E,
NMPM, Eddy County, New Mexico

Gentlemen:

The New Mexico Oil Conservation Commission issued Order R-4885 on October 22, 1974 compulsory pooling all mineral interests in the Pennsylvanian formation underlying the E/2 Section 32, T-21-S, R-27-E, NMPM, Eddy County, New Mexico to be dedicated to the Cities Service Tracy-C No. 1 at a standard location.

Attached as required by N.M.O.C.C. Order R-4885 is an itemized schedule of well costs (Cities Service form - Drilling Well Estimate). All known Working Interest Owners in the subject unit are being furnished copies of the estimated well costs.

If there are any questions, please advise.

Very truly yours,

E. F. Motter
Engineering Manager
Southwest Region
E & P Division

EFM:mfg

BRK

OP 69

DETAILED WELL ESTIMATE

WELL NUMBER 1 LEASE Tracy "C"
 CONTRACTOR _____ LOCATION 1980' FNL, 660' FEL
 DATE 4/29/74 SECTION 32, T-21-S, R-27-E
 J. O. NO. _____ DEPTH 11700' COUNTY Eddy STATE New Mexico
Morrow Sandstone

DESCRIPTION	GRADE	SIZE	QUAN.	W	ESTIMATE PRODUCER	ESTIMATE DRY HOLE	REVISED ESTIMATE	ACTUAL COST
TANGIBLES								
Casing @ 400' H-40 ST & C	A	3 3/8	405	48	4500	4500		
H-40 ST & C	A	9 5/8	2350	32.3	16200	16200		
(Del. -SS) @ 3000' H-40 ST & C	A	9 5/8	650	36	4800	4800		
N-80 LT & C	A	5 1/2	9700	17	46000	-		
@ 11700' N-80 LT & C	A	5 1/2	2000	20	11500	-		
Well head connections	A				10500	1500		
Tubing N-80 Buttress	A	2 7/8	11300		21000	-		
Sucker rods								
XXXXXX Packer	A				1100	-		
Engine or motor								
Pumping unit								
Electrical equip. inc. Labor & Trans.								
Line pipe, fittings inc. Labor & Trans.								
TANK BATTERY								
Stock tanks Coated	A	210	1		3000	-		
G. B., settler, free water K. O. tank								
Separator, heater treater, etc.	A				10000	-		
Cost to install T. B.					2500	-		
INTANGIBLES								
Contract Drig. labor (footage) \$10.50/Ft.					122850	122850		
Rotary day work 6 Days @ \$2000/Day					12000	12000		
XXXXXXXXXX 6 Days					3000	-		
Subsurface casing equipment					3000	2000		
D. S. T., electric logs, etc.					12000	12000		
Acidizing, fracing					4000	-		
Perforating					2500	-		
Misc. company and contract labor					3000	2000		
Road building, location					5000	5000		
Cement & cementing service					12000	10000		
Cement squeeze jobs								
Drilling mud, chemicals					12000	12000		
Drilling bits, coreheads, reamers								
Well logging unit					3000	3000		
Rental of miscellaneous equip.					3500	3500		
Company, contract hauling					3000	2000		
Water, fuel					10000	10000		
Miscellaneous incidentals					5000	3000		
Total estimated cost - 100%					346950	226350		
Total estimate C. S. 36.69185 %					127302	83052		

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE NEW MEXICO 87501

March 14, 1975

C
Mr. E. F. Motter, Engineering Manager
Cities Service Oil Company
P. O. Box 1919
Midland, Texas 79701

Dear Mr. Motter:

O
In response to your letter of March 10, 1975, and following phone conversation of March 14, 1975, Cities Service Oil Company is hereby granted an extension of time until March 31, 1975, in which to commence the drilling of the Tracy C Well No. 1 in the E/2 of Section 32, T-21-S, R-27-E, Eddy County, New Mexico.

P
Said Tracy C Well No. 1 is to be drilled upon a pooled unit and it is our understanding that the delay is necessitated by a variety of difficulties in moving of a rig to the drill site.

The delay is granted in accordance with Commission Order No. R-4885, which order force pooled the acreage on which the well is to be drilled.

Y
Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/RLS/dr

Case 5323

Cocac 5323
March, Sept. 18, 1974
before this letter



CITIES SERVICE OIL COMPANY *th*

Box 1919
Midland, Texas 79701
Telephone: 915 684-7131

March 10, 1975

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

Re: NMOCC Order R-4885
Pooling of Mineral Interests
Pennsylvanian Formation
E/2 Section 32, T-21-S, R-27-E
Eddy County, New Mexico

Gentlemen:

As provided in New Mexico Oil Conservation Commission Order R-4885, Cities Service respectfully requests an additional extension of time be granted in which to commence drilling of the Tracy-C No. 1 at a standard location for the compulsory pooled mineral interests in the Pennsylvanian formation underlying the E/2 Section 32, T-21-S, R-27-E, NMFM, Eddy County, New Mexico. You have previously approved our request of December 31, 1974 to extend the commencement date to March 15, 1975.

The rig scheduled to drill the Tracy-C No. 1 is currently drilling Cities Service Tracy-B No. 1 in the City of Carlsbad, New Mexico. Drilling a deviated hole has required considerably more time than was originally estimated. It is anticipated this rig will move to the Tracy-C No. 1 March 14th or 15th; however, in the event of an unforeseen delay, we respectfully request an additional ten day extension or to March 25, 1975. Your early consideration of this request will be appreciated.

Very truly yours,

E. F. Motter
E. F. Motter
Engineering Manager
Southwest Region
E & P Division

EFM:mfg

concession
Game motion
1-14-75 to
3-31-75 would
be better

OIL CONSERVATION COMMISSION
P. O. BOX 2088
SANTA FE NEW MEXICO 87501

January 7, 1975

Cities Service Oil Company
P. O. Box 1919
Midland, Texas 79701

Attention: E. F. Motter

Re: OCCC Order No. R-4885, Pooling
of Mineral Interests, Pennsylvanian
Formation, E/2 of Section 32,
T-21-S, R-27-E, Eddy County,
New Mexico

Dear Mr. Motter:

For the reasons set out in your letter of December 31, 1974, and in accordance with the provisions of Commission Order No. R-4885, Cities Service Oil Company is hereby granted an extension of time to March 15, 1975, in which to commence the drilling of the well on the acreage pooled under said order.

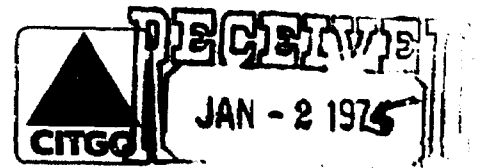
Very truly yours,

A. L. PORTER, Jr.
Secretary Director

ALP/RLS/dr

cc: Oil Conservation Commission - Artesia
Case 5323 ✓

CITIES SERVICE OIL COMPANY



OIL CONSERVATION COMMISSION
Box 1919 Santa Fe
Midland, Texas 79701
Telephone: 915 684-7131

December 31, 1974

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

Re: NMOC Order R-4885
Pooling of Mineral Interests
Pennsylvanian Formation
E/2 Section 32, T-21-S,
R-27-E, Eddy County, New Mexico

Gentlemen:

As provided in New Mexico Oil Conservation Commission Order R-4885, Cities Service Oil Company respectfully requests an extension of time be granted in which to commence the drilling of the Tracy-C No. 1 at a standard location for the compulsory pooled mineral interests in the Pennsylvanian formation underlying the E/2, Section 32, T-21-S, R-27-E, NMPM, Eddy County, New Mexico. Order R-4885 provides for commencement of drilling of the subject well by January 31, 1975; it is requested the commencement date be extended to March 15, 1975.

The rig scheduled to drill the Tracy-C No. 1 is currently drilling the Cities Service Tracy-B No. 1 in the City of Carlsbad. This well was scheduled to commence on November 1, 1974; however, because of necessary rig repairs commencement was delayed until November 9, 1974. Due to the Tracy-B No. 1 being a deviated hole and the extra precautions necessary for drilling in the City of Carlsbad, it is anticipated approximately 45 days' rig time will be required from the present date or to February 15, 1975, to complete drilling operations.

Your early consideration of this request is appreciated.

Very truly yours,

E. F. Motter
Engineering Manager
Southwest Region
E & P Division

EFM:mfg



OIL CONSERVATION COMMISSION

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

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

October 22, 1974

Mr. Tom Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: CASE NO. 5323
ORDER NO. R-4885
Applicant:
Cities Service Oil Co.

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.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other Mr. Don Stevens, Mr. Nick Franklin, Mr. Michael P. Grace,
Mr. Wilson T. Behles, Jr.

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. 5323
Order No. R-4885

APPLICATION OF CITIES SERVICE OIL
COMPANY 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 September 18, 1974, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 22nd day of October, 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, Cities Service Oil Company, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 32, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill its Tracy "C" Well No. 1 at a standard location for said 320-acre unit.

(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 or 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 50 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 \$1536.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$216.00 per month should be fixed as a reasonable charge for supervision while producing; that the producing supervision charge should be adjusted annually on the first day of April each year; 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 January 31, 1975, the order pooling said unit should become null and void and of no effect whatsoever.

(14) That an administrative procedure should be established to permit a delay in the required date of commencement set forth in Finding No. (13) above for good cause shown.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the E/2 of Section 32, Township 21 South, Range 27 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 Tracy "C" Well No. 1 to be drilled at a standard location for said 320-acre unit.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 31st day of January, 1975, 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 31st day of January, 1975, Order (1) of this order shall be null and void and of no effect whatsoever;

PROVIDED FURTHER, that for good cause shown, the Secretary-Director of the Commission may grant an extension of time in which to commence said well of up to 90 days;

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 Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Cities Service Oil Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and 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 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 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, 50 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 \$1536.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$216.00 per month is hereby fixed as a reasonable charge for supervision while producing, provided that this latter rate shall be adjusted on the first day of April of each year following the effective date of this order; that the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics,

-5-

Case No. 5323
Order No. R-4885

and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working 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

ALEX J. ARMIJO, Member

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

S E A L

dr/

Dockets Nos. 29-74 and 30-74 are tentatively set for hearing on October 2 and October 16, 1974. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - SEPTEMBER 18, 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:

- ALLOWABLE: (1) Consideration of the allowable production of gas from seventeen prorated pools in Lea, Eddy, Roosevelt, and Chaves Counties, New Mexico, for October, 1974;
- (2) Consideration of the allowable production of gas from five prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for October, 1974;

CASE 5288: (Continued from the August 7, 1974, Examiner Hearing)

Application of Merrion & Bayless for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of hydrocarbon production from the top of the Gallup formation at 5434 feet to the base of the Dakota formation at 6570 feet in its Keeling Federal Well No. 1 located in Unit B of Section 20, Township 25 North, Range 8 West, Dufers Point-Dakota Pool, San Juan County, New Mexico.

CASE 5313: Application of El Paso Natural Gas Company for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Aztec-Pictured Cliffs and Blanco-Mesaverde production in the wellbore of its Ludwick Well No. 11 located in Unit B of Section 9, Township 30 North, Range 10 West, San Juan County, New Mexico.

CASE 5292: (Continued from the August 7, 1974, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit El Paso Natural Gas Company, United States Fidelity and Guaranty Co., and all other interested parties to appear and show cause why each of the following wells should not be plugged and abandoned in accordance with a Commission-approved plugging program:

EPNG Ludwick Well No. 11, located in Unit B, Section 19, Township 30 North, Range 10 West, San Juan County, New Mexico;

EPNG Rincon Unit Well No. 127, located in Unit A, Section 28, Township 27 North, Range 6 West, Rio Arriba County, New Mexico; and

EPNG Warren A Well No. 2, located in Unit A, Section 23, Township 28 North, Range 9 West, San Juan County, New Mexico.

- CASE 5316: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Benson-Montin-Greer Drilling Corporation and Hartford Accident and Indemnity Company and all other interested parties to appear and show cause why the Segal Well No. 1 located in Unit K of Section 10, Township 31 North, Range 13 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.
- CASE 5317: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit R & G Drilling Company, Inc., and all other interested parties to appear and show cause why the Marron Well No. 42 in Unit M of Section 22, Township 27 North, Range 8 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.
- CASE 5318: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit William C. Russell and United States Fidelity and Guaranty Company and all other interested parties to appear and show cause why the Marron Well No. 46 located in Unit K of Section 23, Township 27 North, Range 8 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.
- CASE 5326: Application of William C. Russell for directional drilling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the directional drilling of his Hammond Well No. 1, the surface location of which is 1800 feet from the North line and 1650 feet from the East line of Section 26, Township 27 North, Range 8 West, Largo-Chacra Pool, San Juan County, New Mexico.
- CASE 5328: Application of R & G Drilling Company for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Blanco-Mesaverde and Basin-Dakota gas production in the wellbore of its Hammond Well No. 47, located in Unit K of Section 35, Township 27 North, Range 8 West, San Juan County, New Mexico.
- CASE 5312: Application of SEC Corporation for two non-standard carbon dioxide gas units, Harding County, New Mexico. Applicant, in the above-styled cause, seeks approval for two non-standard gas units in the South Bueyeros Carbon Dioxide Field, Harding County, New Mexico, the first comprising the W/2 NE/4, SE/4 NE/4, and NE/4 SE/4 of Section 32, Township 19 North, Range 30 East, to be dedicated to a well to be drilled in the approximate center of the SW/4 NE/4 of said Section 32; the second non-standard unit would comprise the SW/4 NE/4, N/2 SE/4 and SE/4 SE/4 of Section 5, Township 18 North, Range 30 East, and would be dedicated to a well in the approximate center of the NW/4 SE/4 of said Section 5.

- CASE 5314: Application of Gulf Oil Corporation for simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the simultaneous dedication of its W. A. Ramsay Wells Nos. 6, 7, and 20 located in Units H, N, and E, respectively, of Section 35, Township 21 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, to a standard 640-acre gas proration unit comprising all of said Section 35. Each of the aforesaid wells is at a non-standard location for a 640-acre unit in said pool.
- CASE 5315: Application of Texaco Inc. for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Blinbry, Tubb-Drinkard, and Fusselman production in the wellbore of its G. L. Erwin "B" Federal Well No. 4 located in Unit O of Section 35, Township 24 South, Range 37 East, Justis Field, Lea County, New Mexico.
- CASE 5319: Application of Alan Ralston dba Apollo Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Jalmat Gas Pool underlying the NW/4 of Section 25, Township 25 South, Range 36 East, Lea County, New Mexico, to form a 160-acre non-standard gas proration unit to be dedicated to applicant's Brown Well No. 1 located 1980 feet from the North line and 2310 feet from the West line of said Section 25. Applicant further seeks the pooling of all mineral interests in the Jalmat Pool underlying the following 40-acre oil proration units in said Section 25: the NW/4 NW/4 to be dedicated to Brown Well No. 2 located 330 feet from the North line and 825 feet from the West line; the NE/4 NW/4 to be dedicated to Brown Well No. 3 located 365 feet from the North line and 1650 feet from the West line; the SE/4 NW/4 to be dedicated to Brown Well No. 4 located 1690 feet from the North line and 1870 feet from the West line; and the SW/4 NW/4 to be dedicated to Brown Well No. 5 located 1650 feet from the North line and 990 feet from the West line. Also to be considered will be the cost of reworking said wells 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 wells and a charge for risk involved in reworking said wells.
- CASE 5320: Application of Lively Exploration Company for a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 341.33-acre non-standard gas proration unit comprising Lots 9, 10, 11, and 12 of Section 7, and Lots 1, 2, 3, and 4 and the E/2 W/2 of Section 18, Township 29 North, Range 8 West, Basin-Dakota Pool, San Juan County, New Mexico, to be dedicated to a well to be drilled at a standard location for said unit.

CASE 5321: Application of Northern Minerals, Inc. for pool creation and special pool rules, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the creation of the Miguel Creek-Hospah Oil Pool in Township 16 North, Range 6 West, McKinley County, New Mexico, and for the promulgation of special pool rules therefor, including the elimination of the requirement for surface casing and authority to inject water through casing. Applicant is currently conducting waterflood operations in said pool pursuant to authority granted by Order No. R-4649 and seeks administrative provision for the drilling of additional injection and production wells at orthodox and unorthodox locations.

CASE 5322: Application of Phillips Petroleum Company for an exception to Rule 104-C-I, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Commission Rule 104-C-I to permit the production of its Santa Fe Wells Nos. 41 and 86, both of which are located in Unit C of Section 26, Township 17 South, Range 35 East, Vacuum Grayburg-San Andres Pool, Lea County, New Mexico, said wells being located closer than the required 330 feet apart.

CASE 5323: Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests of Pennsylvanian age, or older, underlying the E/2 of Section 32, Township 21 South, Range 27 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 5324: Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests of Pennsylvanian age, or older, underlying the E/2 of Section 18, Township 22 South, Range 27 East, South Carlsbad Field, Eddy County, New Mexico, to be dedicated to applicant's Tracy "B" Well No. 1, the surface location of which is 2045 feet from the South line and 479 feet from the East line of said Section 18. 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 5325: Application of Cities Service Oil Company for directional drilling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to directionally drill its Tracy "B" Well No. 1, the surface location of which is 2045 feet from the South line and 479 feet from the East line of Section 18, Township 22 South, Range 27 East, South

Examiner Hearing - Wednesday - September 18, 1974

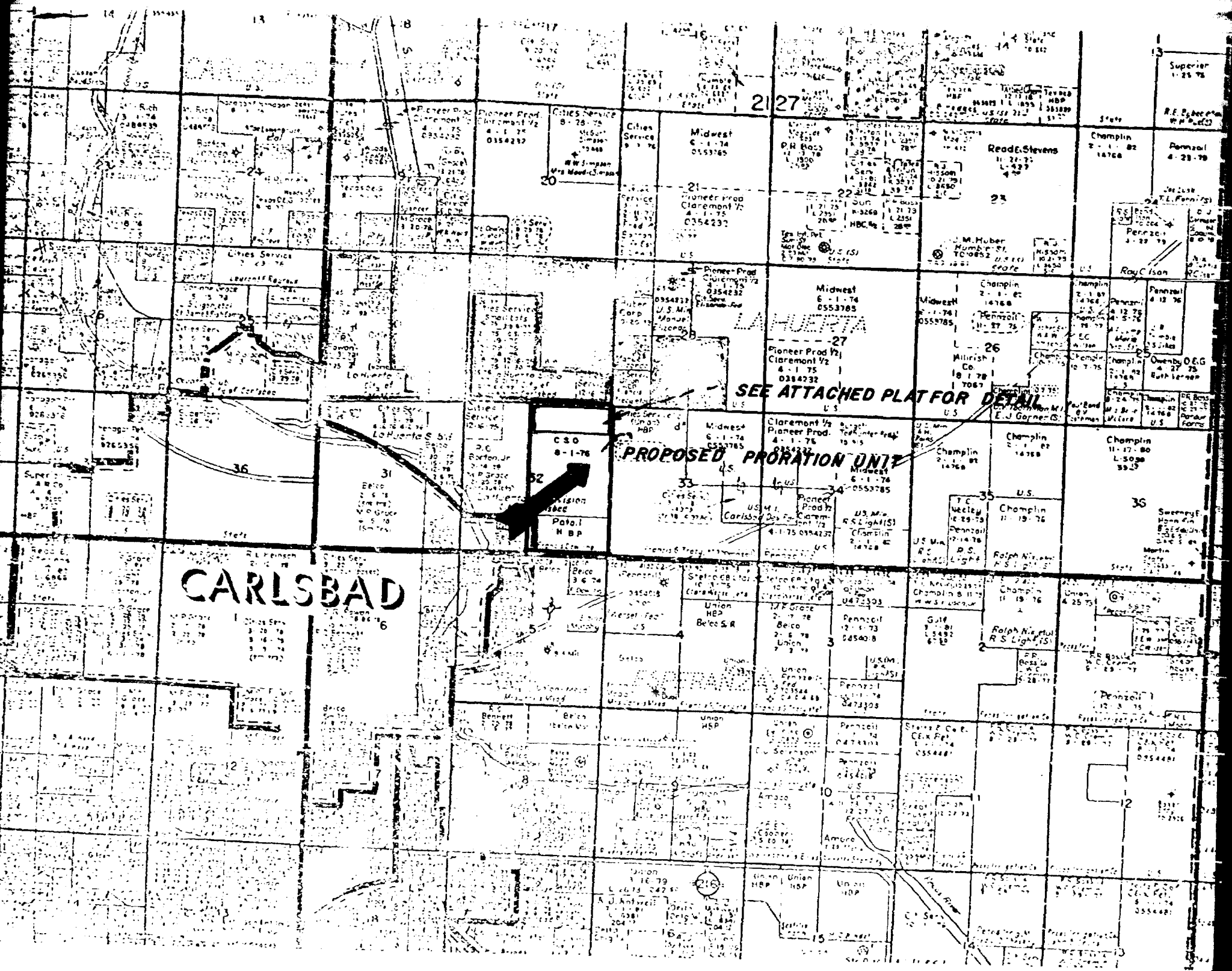
Docket No. 27-74

-5-

(Case 5325 continued from Page 4)

Carlsbad Field, Eddy County, New Mexico, in such a manner as to bottom said well in the Morrow formation at an orthodox location within 165 feet of a point 2145 feet from the North line and 825 feet from the East line of said Section 18. Applicant further seeks approval for the unorthodox location of said well in the Strawn formation, in the event production is therein encountered, within a 100-foot radius of a point 2600 feet from the North line and 675 feet from the East line of said Section 18. The E/2 of said Section 18 would be dedicated to the well for both formations.

CASE 5327: Application of Cities Service Oil Company for an unorthodox location and gas injection, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Empire-Abo Unit Well No. 111 to be drilled at a point 990 feet from the South line and 1880 feet from the West line of Section 35, Township 17 South, Range 27 East, Empire-Abo Pool, Eddy County, New Mexico. This well is to be used as a gas injection well and, in exception to the provisions of Order No. R-4808, is located 1140 feet from the outer boundary of the Citgo Empire-Abo Unit Boundary, rather than the required 1650 feet from the outer boundary.



CARLSBAD

PROPOSED PRORATION UNIT

SEE ATTACHED PLAT FOR DETAIL

Superior
1-25-78

Pennzoil
4-21-78

Pennzoil
4-12-78

Owens O.G.
4-27-75

Champlin
11-17-80

Swamy
1-1-78

Pennzoil
1-1-78

Union HSP
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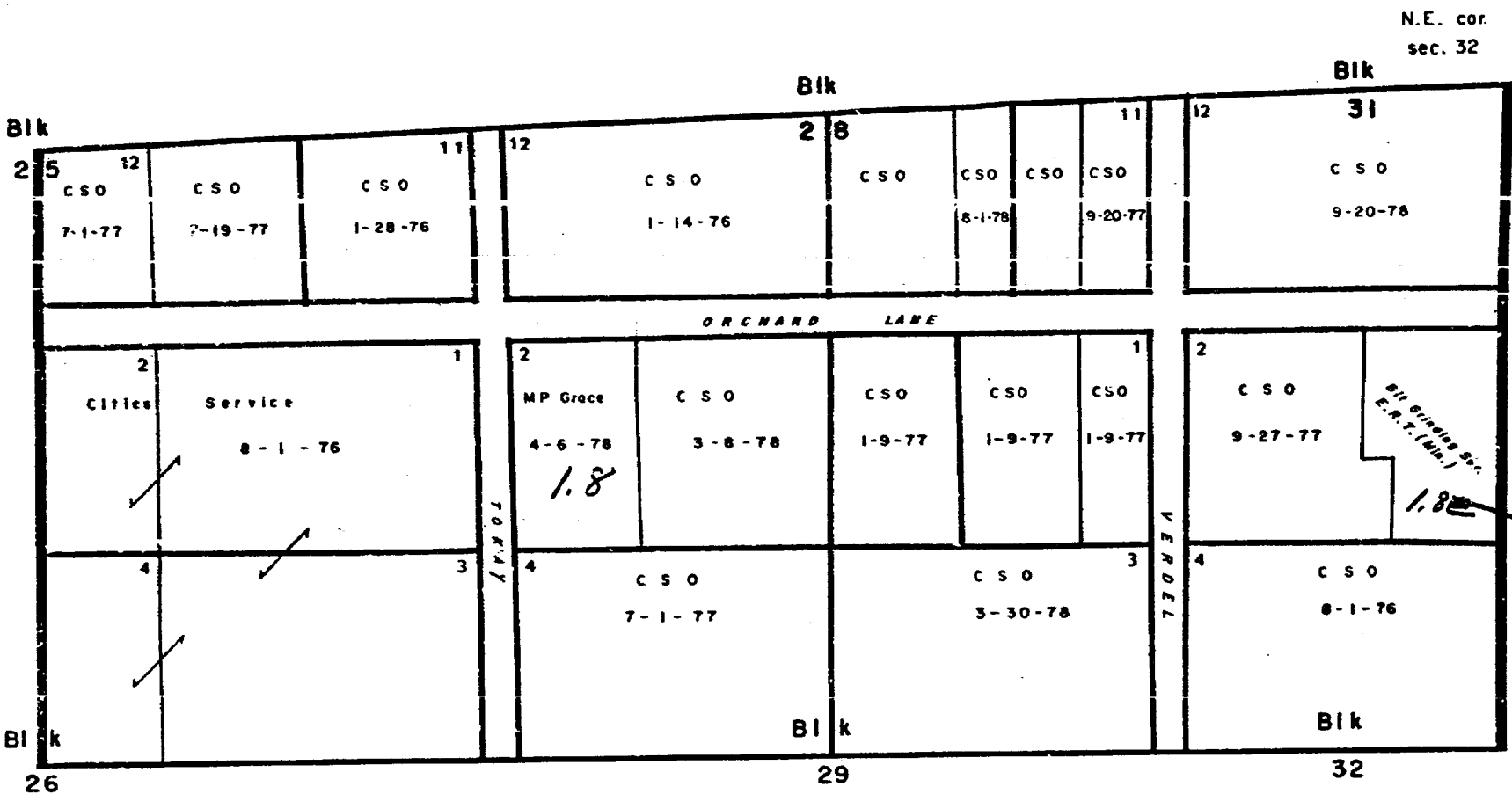
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Union HSP
1-1-78



BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
CITIES EXHIBIT NO. 1
CASE NO. 5323
Submitted by _____
Hearing Date 18 Sep 74

Part of La Huerta
Subdivision
Scale 1" = 200'

R. J.

BEFORE EXAMINER STAMETS	
OIL CONSERVATION COMMISSION	
Cities	EXHIBIT NO. 2
CASE NO.	5323
Submitted by	
Hearing Date	18 Sep 74

August 6, 1974

Bit Grinding Service, Inc.,
Employees' Retirement Trust Fund
907 E. Orchard Lane
Carlsbad, New Mexico 88220

Attention: Mr. Wilson T. Behles, Jr.

Subject: Proposed Cities Service No. 1 Tracy "C"
11,700-foot Morrow Test
SE/4 NE/4 of Section 32, T-21-S, R-27-E
Eddy County, New Mexico

Gentlemen:

We propose to drill an 11,700-foot Morrow test at a location in the SE/4 NE/4 of Section 32, T-21-S, R-27-E, Eddy County, New Mexico, in the early part of the last Quarter of this year. We estimate the cost of a producer at approximately \$457,500.00, and the cost of a dry hole at approximately \$267,000.00.

As the records indicate you own the minerals under a portion of Lot 2, Block 29, La Huerta Subdivision, located in the N/2 NE/4 of Section 32, we request you join Cities in drilling this proposed test. We estimate your mineral interest is approximately .49% of the proposed Proration Unit, which is the E/2 of Section 32.

You will recall you advised Mr. Leonard T. May on January 7, 1974, that you were not interested in leasing your mineral interest.

Please advise us of your decision in this matter at your earliest convenience so that we may proceed with preparations for the drilling of this test. We are enclosing a self-addressed, stamped envelope for your convenience.

Yours very truly,

CITIES SERVICE OIL COMPANY

J. Frank Riney
Landman

JFR:eh

No. 635947

SENT TO		OR DATE
Bit Grinding Service, Inc.		
STREET AND NO. Employees' Retirement Tr. Fund		
907 E. Orchard Lane		
P.O., STATE AND ZIP CODE		
Carlsbad, New Mexico 88220		
OPTIONAL SERVICES FOR ADDITIONAL FEES		
RETURN	1. Shows to whom and date delivered	15c
RECEIPT	With delivery to addressee only	65c
SERVICES	2. Shows to whom, date and where delivered	35c
	With delivery to addressee only	65c
DELIVER TO ADDRESSEE ONLY		
SPECIAL DELIVERY (extra fee required)		
PS Form 3809		NO INSURANCE COVERAGE PROVIDED— (See other side)
Apr. 1971		NOT FOR INTERNATIONAL MAIL

U.S. POSTAL SERVICE
OFFICIAL BUSINESS

Penalty for Private Use to Avoid Payment of Postage, \$300

Postmark of Delivering Office

PS Form 3811 Sep. 1972

SENDER INSTRUCTIONS

Print in the space below your name, address, including ZIP Code.

- If special services are desired, check block(s) on other side.
- Moistened gummed ends and attach to back of article.

Mr. J. Frank Riney
Cities Service Oil Company
P. Box 1919
Midland, Texas 79701

#1 Tracy "C"
Eddy Co., N.M.

RETURN TO

SENDER: Be sure to follow instructions on other side

PLEASE FILL IN SERVICE(S) INDICATED BY CHECKED (X) (S)

(Additional charges required for these services)

☐ Show address where delivered ☐ Deliver ONLY to addressee

RECEIPT

Received the numbered article described below

REGISTERED NO. _____ SIGNATURE OR NAME OF ADDRESSEE (Must always be present)

CERTIFIED NO. 635947 SIGNATURE OF ADDRESSEE'S AGENT, IF ANY

INSURED NO. _____

DATE DELIVERED _____

1974

R. J.

BEFORE EXAMINER STATES	
OIL CONSERVATION COMMISSION	
Cities	EXHIBIT NO. 3
CASE NO.	5323
Submitted by	
Hearing Date	18 Sep 74

August 6, 1974

Mr. Michael P. Grace
P. O. Box 1418
Carlsbad, New Mexico 38220

Subject: Proposed Cities Service No. 1 Tracy "C"
11,700-foot Morrow Test
SE/4 NE/4 of Section 32, T-21-S, R-27-E
Eddy County, New Mexico

Dear Mr. Grace:

We propose to drill an 11,700-foot Morrow test at a location in the SE/4 NE/4 of Section 32, T-21-S, R-27-E, Eddy County, New Mexico, in the early part of the last Quarter of this year. We estimate the cost of a producer at approximately \$457,500.00, and the cost of a dry hole at approximately \$267,000.00.

As the records indicate you are the owner of an Oil and Gas Lease covering a portion of Lot 2, Block 29, La Puerta Subdivision, located in the N/2 NE/4 of Section 32, we request you join Cities in drilling this proposed test. We estimate your Oil and Gas Lease covers approximately .58% of the proposed Proration Unit, which is the E/2 of Section 32.

Please advise us of your decision in this matter at your earliest convenience so that we may proceed with preparations for the drilling of this test. We are enclosing a self-addressed, stamped envelope for your convenience.

Yours very truly,

CITIES SERVICE OIL COMPANY

J. Frank Riney
Landman

JFR:eh

No. 635946

RECEIPT FOR CERTIFIED MAIL—SAC (10/11)

170
Mr. Michael P. Grace
STREET AND NO.
P. O. Box 1418
P.O. STATE AND ZIP CODE
Carlsbad, New Mexico 88220
OPTIONAL SERVICES FOR ADDITIONAL FEES
RETURN 1. Shows to whom and date delivered 15c
RECEIPT With delivery to addressee only 65c
SERVICES 2. Shows to whom, date and where delivered 35c
With delivery to addressee only 85c
DELIVER TO ADDRESSEE ONLY 50c
SPECIAL DELIVERY (extra fee required)

PS Form 3900 NO INSURANCE COVERAGE PROVIDED— (See other side)
Apr. 1971 NOT FOR INTERNATIONAL MAIL GPO: 1972 O-450-743

U.S. POSTAL SERVICE
OFFICIAL BUSINESS

PENALTY FOR PRIVATE
USE TO AVOID PAYMENT
OF POSTAGE, \$300

PS Form 3811 Sep. 1972

Postmark of Delivering Office

SENDER INSTRUCTIONS

Print in the space below your name, address, including ZIP Code.
• If special services are desired, check block(s) on other side.
• Moistened gummed ends and attach to back of article.

RETURN
TO

Mr. J. Frank Riney
Cities Service Oil Company
P. O. Box 1919
Midland, Texas 79701

#1 Tracy "C"
Eddy Co., N.M.

SENDER: Be sure to follow instructions on other side

PLEASE PRINT SERVICE(S) INDICATED BY CHECKED OR(S)
(Additional charges required for these services)
☐ Show address where delivered ☐ Deliver ONLY to addressee

RECEIPT

Received the numbered article described below

REGISTERED NO. SIGNATURE OR NAME OF ADDRESSEE (Must always be filled in)
CERTIFIED NO. 635946 Michael Grace
INSURED NO. SIGNATURE OF ADDRESSEE'S AGENT, IF ANY
DATE DELIVERED 8/5/80 Datto Jones
SHOW WHERE DELIVERED (If not delivered, show date and place)

R. J.

PROPOSED PRORATION UNIT	
OIL JOINT VENTURE COMMISSION	
Cities	EXHIBIT NO. 4
CASE NO.	5323
Submitted by	
Hearing Date	18 Sep 74

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

August 16, 1974

Bit Grinding Service, Inc.,
Employees' Retirement Trust Fund
907 E. Orchard Lane
Carlsbad, New Mexico 88220

Attention: Mr. Wilson T. Behles, Jr.

Re: Proposed Cities Service No. 1 Tracy "C"
11,700-foot Morrow Test
SE/4 NE/4 of Section 32, T-21-S, R-27-E
Eddy County, New Mexico
Proration Unit - E/2 of Section 32

Gentlemen:

Please refer to our letter of August 6, 1974; the second paragraph of our letter should read as follows:

"As the records indicate you own the minerals under a portion of Lot 2, Block 32, La Huerta Subdivision, located in the N/2 NE/4 of Section 32, we request you join Cities in drilling this proposed test. We estimate your mineral interest is approximately 0.53% of the proposed Proration Unit, which is the E/2 of Section 32."

We will appreciate your advising of your decision on whether or not you will participate in the drilling of this proposed test.

Thank you.

Yours very truly,

CITIES SERVICE OIL COMPANY

J. Frank Riney
Landman

JFR:eh

9/17

No. 635948

August 16, 1974

RECEIPT FOR CERTIFIED MAIL—30c (plus 000)

TO Bit Grinding Service, Inc.,
Employees' Retirement Trust Fund
STREET AND NO.
907 E. Orchard Lane
CITY, STATE AND ZIP CODE
Carlsbad, New Mexico 88220
OPTIONAL SERVICES FOR ADDITIONAL FEES
RETURN 1. Shows to whom and date delivered 15c
RECEIPT With delivery to addressee only 65c
SERVICES 2. Shows to whom, date and where delivered 35c
With delivery to addressee only 85c
DELIVER TO ADDRESSEE ONLY 50c
SPECIAL DELIVERY (extra fee required)

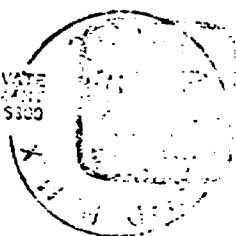
PS Form 3811
Apr. 1971

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL

(See other side)
• GPO: 1972 O-400-743

U.S. POSTAL SERVICE
OFFICIAL BUSINESS

PENALTY FOR PRIVATE
USE TO AVOID PAYMENT
OF POSTAGE, \$300



Postmark of Delivering Office

SENDER INSTRUCTIONS

Print in the space below your name, address, including ZIP Code.
• If special services are desired, check block(s) on other side.
• Mailed padded ends and attach to back of envelope.

RETURN
TO

Mr. J. Frank Riney
Cities Service Oil Company
P. O. Box 1919
Midland, Texas 79701

#1 Tracy "C"
(NMC-3571)

SENDER: Be sure to follow instructions on other side

PLEASE FURNISH SERVICE(S) INDICATED BY CHECKED BLOCKS
(Additional charges required for these services)
☐ Show address where delivered ☐ Deliver ONLY to addressee

RECEIPT

Received the numbered article described below

REGISTERED NO.

SIGNATURE OR NAME OF ADDRESSEE (must always be filled in)

CERTIFIED NO.

635948

INSURED NO.

SIGNATURE OF ADDRESSEE'S AGENT, IF ANY

DATE DELIVERED

AUG 16 1974

FROM WHERE DELIVERED (only if registered, and include ZIP CODE)

LEONARD T. MAY
LAWYER
304-B NORTH CANYON
CARLSBAD, NEW MEXICO 88220

AREA CODE 505
885-2939
885-9353

January 10, 1974

Mr. Ronnie G. Ward
Cities Service Oil Company
800 Vaughan Building
Midland, Texas 79701

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
Cities EXHIBIT NO. 6
CASE NO. 5323
Submitted by _____
Hearing Date 18 Sep 77

Dear Mr. Ward:

At your request and as agent for Cities Service Oil Company, I have attempted to secure a lease on property described as the east 164 feet and the north 159.889 feet of the west 55 feet of the east 219 feet, of Lot 2 in Block 32 of La Huerta, all being in the northeast quarter of Section 32, Township 21 South, Range 27 East, N.M.P.M.

The owner of the minerals under the above described real estate is Bit Grinding Service, Inc., Employees' Retirement Trust Fund. The trustees are Wilson T. Behles, Jr., chairman; H. V. Phillippi, and Herbert G. Behles. Mr. Wilson T. Behles, Jr., on January 7, 1974, advised me that they had decided not to lease and were not interested in leasing and had decided to hold the minerals without lease. He advised me that in the event they did decide to lease at any later time, they would lease to Cities Service, but he felt that they wanted to retain the minerals without lease.

Very truly yours,

Leonard T. May
Leonard T. May

LTM/nc

JAN 11 1974

OP 69

DETAILED WELL ESTIMATE

WELL NUMBER 1 LEASE Tracy C
 CONTRACTOR _____ LOCATION 1980' FNL 660' FEL
 DATE 7/30/74 SECTION 32-T21S-27E
 J. O. NO. _____ DEPTH 11700' COUNTY Eddy STATE New Mexico

DESCRIPTION	GRADE	SIZE	QUAN.	W	ESTIMATE PRODUCER	ESTIMATE DRY HOLE	REVISED ESTIMATE	ACTUAL COST
TANGIBLES								
Casing								
13-3/8" 40.5# H-40 ST&C	A		405'		6075	6075		
9-5/8" 32.3# H-40 LT&C			2550'		28050	28050		
9-5/8" 36# H-40 LT&C			520'		5850	5850		
5-1/2" 17# N-80 LT&C			10250'		92250	-		
5-1/2" 20# N-80 LT&C			1500'		15000	-		
Well head connections	A				10500	1500		
Tubing 2-7/8" 6.4# N-80	A		11300		24395	-		
Sucker rods								
Bottom hole pump								
Engine or motor								
Pumping unit								
Electrical equip. inc. Labor & Trans.								
Line pipe, fittings inc. Labor & Trans.					1000	-		
Packer	A		1		1500	-		
TANK BATTERY								
Stock tanks	A	310	1		3500	-		
G. B., settler, free water K. O. tank								
Separator, heater treater, etc.	A				22640	-		
Cost to install T. B.								
Labor & Transportation					3000	-		
INTANGIBLES								
Contract Drilg. labor (footage) @ \$12.25/Ft.					143325	143325		
Rotary day work 6 Days @ \$2200 Day					13200	13200		
Cable tool work								
Subsurface casing equipment					3500	2000		
D. S. T., electric logs, etc.					17000	17000		
Service rig work 7 Days @ \$600/Day					4200	-		
Acidizing, fracturing					4000	-		
Perforating					2560	-		
Misc. company and contract labor					3000	2000		
Road building, location					10000	10000		
Cement & cementing service					12000	10000		
Cement squeeze jobs								
Drilling mud, chemicals					12000	12000		
Drilling bits, coreheads, reamers								
Mud logging unit					1500	1500		
Rental of miscellaneous equip.					3500	3500		
Company, contract hauling					3000	2000		
Water, fuel					6000	6000		
Miscellaneous incidentals					5000	3000		
Total estimated cost - 100%					457485	267600		
Total estimate C. S.								

Case 5323

BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF CITIES SERVICE OIL COMPANY
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

AUG 23 1974
OIL CONSERVATION COMMISSION
SANTA FE

A P P L I C A T I O N

COMES NOW Cities Service Oil Company and applies to the Oil Conservation Commission of New Mexico for an order pooling all of the mineral interest underlying the E/2 of Section 32, Township 21 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, of Pennsylvanian age or older, and in support thereof would show the Commission:

1. Applicant owns the right to drill and develop the E/2 of said Section 32, and proposes to drill its Tracy "C" Well No. 1, to be located 1980 feet from the North line and 660 feet from the East line of said Section 32.

2. Applicant proposes to drill its Tracy "C" Well No. 1 to a depth sufficient to test the Morrow formation at approximately 11,700 feet.

3. All interest owners have agreed to either farm out, pool or participate in the drilling of the well with the exception of the following:

RECEIVED MAILED

Date 9-6-74

See page 2

Case 5323

BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF CITIES SERVICE OIL COMPANY
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

AUG 28 1974
OIL CONSERVATION COMMISSION
Santa Fe

A P P L I C A T I O N

COMES NOW Cities Service Oil Company and applies to the Oil Conservation Commission of New Mexico for an order pooling all of the mineral interest underlying the E/2 of Section 32, Township 21 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, of Pennsylvanian age or older, and in support thereof would show the Commission:

1. Applicant owns the right to drill and develop the E/2 of said Section 32, and proposes to drill its Tracy "C" Well No. 1, to be located 1980 feet from the North line and 660 feet from the East line of said Section 32.

2. Applicant proposes to drill its Tracy "C" Well No. 1 to a depth sufficient to test the Morrow formation at approximately 11,700 feet.

3. All interest owners have agreed to either farm out, pool or participate in the drilling of the well with the exception of the following:

Original Mailed

Date 9-6-74

See page 2

Person called - 4 in the afternoon

Michael P. Grace
National Parks Highway
Carlsbad, New Mexico 88220

1.9 acres more or less
in Lot 2, Block 29,
La Huerta Addition to
the City of Carlsbad,
New Mexico.

Bit Grinding Service, Inc.
Employee Retirement Trust fund

1.86 acres more or less
in Lot 2, Block 32,
La Huerta Addition to
the City of Carlsbad,
New Mexico.

P.O. Box 1418
Wilson T. Behles, Jr.
907 E. Orchard Lane
Carlsbad, N.M. 88220

DOCKET NUMBER

9-6-74

4. Applicant has made diligent effort to obtain voluntary agreement from the above interest owners and has been unable to do so.

5. In order to prevent waste, and to protect correlative rights, it is necessary that the described lands be pooled for production from formations of Pennsylvanian age or older.

WHEREFORE applicant prays that this application be set for hearing before the Commission or the Commission's duly appointed examiner, and that after notice and hearing as required by law the Commission enter its order pooling all of the E/2 of Section 32, Township 21 South, Range 27 East, N.M.P.M., as to formations of Pennsylvanian age or older, designating applicant as operator, together with provision for applicant to recover its costs of drilling and completing said well out of production, the allocation of such costs, as well as actual operating costs and charges for supervision, and a charge for the risk involved in drilling said well, and such other and further provision as may be proper.

Respectfully submitted,

CITIES SERVICE OIL COMPANY

By Jason W. Kellahin
KELLAHIN & FOX
P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

DRAFT

dr/

~~7th~~ ~~for Transcript~~
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:

PLS
APPLICATION OF CITIUS
SERVICE OIL COMPANY FOR
COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO

CASE NO. 5323

Order No. R-4885

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on Sept 18, 1974
at Santa Fe, New Mexico, before Examiner RLS

NOW, on this _____ day of _____, 19____, 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, Citius Service Oil Company,
seeks an order pooling all mineral interests in the Pennsylvanian
formation underlying the E/2
of Section 32, Township 21 South, Range 27 East,
NMPM, _____, Eddy County, New
Mexico.

(3) That the applicant has the right to drill and proposes to drill ~~a well~~ *its Tracy "C" Well No 1 at a standard location for said well 320-acre unit*

(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 50 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 \$1536.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and

-3-
Case No.
Order No. R

the producing supervision charge

That the ~~(11)~~ That \$216.00 per month should be fixed as a reasonable charge for supervision ~~(combined fixed rates)~~; ~~that the~~ ~~be adjusted annually on the first day of April each year;~~ ~~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 January 31, 1975, the order

pooling said unit should become null and void and of no effect ~~forth~~ (14) That an administrative procedure should be established ~~whatsoever~~ ~~to permit a delay in the required date of~~ ~~commencement of drilling~~ ~~in finding~~ ~~above~~ for good cause shown.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the E/2 of Section 32, Township 21 S. 4, Range 27 E. 4, 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~~

applicant's Tracy "C" Well No. 1 to be drilled at a
standard location for said 320-acre unit

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 31st day of January, 1975, 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 31st day of January, 1975, Order (1) of this order shall be null and void and of no effect whatsoever;

Provide further, that for good cause shown, the Secretary-Director of the Commission may grant an extension of time in which to commence said well of up to 90 days;

-4-
Case No.

Order No. R-

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 Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Cities Service Oil Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and ^{within} at least 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 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 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, 50 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.

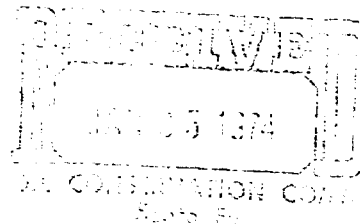
~~(9) That _____ per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, 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.~~

(9) The \$1536.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and

that \$ 216.00 per month is hereby fixed as a reasonable charge for supervision ^{while producing,} ~~(combined fixed rates)~~, provided that this ^{latter} rate shall be adjusted on the first day of April of each year following the effective date of this order; that the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

Filed 7

Case 5-11



-6-
Case No.
Order No. R-

(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.