

CASE 6763: ADAMS EXPLORATION COMPANY
FOR COMPULSORY POOLING AND AN UNORTHODOX
LOCATION, LEA COUNTY, NEW MEXICO

CASE NO.

6764

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6763
Order No. R-6232

APPLICATION OF ADAMS EXPLORATION
COMPANY FOR COMPULSORY POOLING AND
AN UNORTHODOX LOCATION, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 12, 1979, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 9th day of January, 1980, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Adams Exploration Company, seeks an order pooling all mineral interests in the North Osudo-Morrow Gas Pool underlying Section 16, Township 20 South, Range 36 East, NMPM, North Osudo-Morrow Gas Pool, Lea County, New Mexico, to form a standard 640-acre gas proration unit for said pool.

(3) That the applicant has the right to drill and proposes to drill a well for said unit at an unorthodox location 660 feet from the South line and 660 feet from the West line of said Section 16.

(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

-2-

Case No. 6763

Order No. R-6232

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.

(11) That \$3000.00 per month while drilling and \$300.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before April 1, 1980, 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 North Osudo-Morrow Gas Pool underlying Section 16, Township 20 South, Range 36 East, NMPM, North Osudo-Morrow Gas Pool, Lea County, New Mexico, are hereby pooled to form a standard 640-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 660 feet from the South line and 660 feet from the West line of said Section 16, which location is hereby approved.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of April, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of April, 1980, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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

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

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner 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, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$3000.00 per month while drilling and \$300.00 while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in

-5-

Case No. 6763
Order No. R-6232

excess of what are reasonable, attributable to each non-consenting working interest.

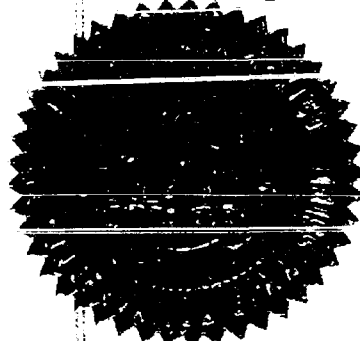
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

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

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

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

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director

fd/

KELLAHIN and KELLAHIN

ATTORNEYS AT LAW

500 DON GASPAR AVENUE

P. O. BOX 1769

SANTA FE, NEW MEXICO 87501

JASON W. KELLAHIN
W. THOMAS KELLAHIN
KAREN AUBREY

TELEPHONE 982-4288
AREA CODE 505

March 10, 1980

Mr. Joe D. Ramey
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

re: Adams Exploration Company

Dear Mr. Ramey:

Our firm represents Adams Exploration Company. The New Mexico Oil Conservation Division entered Order No. R-6232 on January 9, 1980, approving Adams Exploration Company's forced pooling application. *Case 6763* *File*

That order provided that the well must be commenced by April 1, 1980. The order further provided that the Division may extend the commencement date for good cause.

I have been informed by Mr. James C. Brown of Adams Exploration Company that in December of 1979, Adams executed and paid for a drilling contract with Warton Drilling Company to drill the subject well. I am further informed that the most efficient scheduling of the Warton rig will cause the subject well to be commenced after April 1, 1980, but prior to May 15, 1980. Adams is unable to commence the subject well prior to April 1, 1980 without incurring additional expense.

Accordingly, I would appreciate an extension of the subject order to provide for a commencement date not later than May 15, 1980.

Very truly yours,

W. T. Kellahin
W. Thomas Kellahin

APPROVED:

OIL CONSERVATION DIVISION

By *Joe D. Ramey*

JOE D. RAMEY, DIRECTOR

Dated *3/12/80*

cc: Mr. James C. Brown
WTK:msf



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

February 22, 1980

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

Kellahin & Kellahin
P. O. Box 1769
Santa Fe, New Mexico 87501

Attention: Mr. W. T. Kellahin

Re: Order No. R-6232
Case No. 6763

Gentlemen:

Reference is made to your letter dated February 19, 1980, wherein you advise that Adams Exploration Company has determined that an unorthodox gas well location 1650 feet from the South line and 660 feet from the West line of Section 16, Township 20 South, Range 36 East, NMPM, Lea County, New Mexico, is preferable to the unorthodox location approved by Order No. R-6232, said approved location being 660 feet from the South and West lines of Section 16.

Inasmuch as the new proposed unorthodox location is less unorthodox than the previously approved one, and the only affected offset operator has waived objection to your drilling at the new proposed location, the amended location is hereby approved.

Yours very truly,

JOE D. RAMEY
Director

JDR/DSN/fd

cc: OCD Hobbs
✓ Case File 6763
Well File L-16-205-36E Adams

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

KELLAHIN and KELLAHIN
Attorneys at Law

500 Don Gaspar Avenue
Post Office Box 1944

CONSERVATION DIVISION
Santa Fe, New Mexico 87501 SANTA FE

Telephone 982-4235
Area Code 505

RECEIVED
FEB 20 1980
February 19, 1980

Mr. Dan Nutter
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

re: Adams Exploration Company
Case No. 6763
Order No. R-6232

Dear Dan:

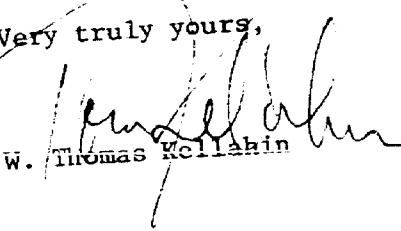
In accordance with our conversation of January 23, 1980, I have obtained and enclosed a waiver from Jake L. Hamon, the affected offset operator, in the referenced case.

You will recall that Order No. R-6232 approves an unorthodox well location 660' FSL and 660' FWL. Subsequent to entry of the Order, Adams Exploration Company determined a new unorthodox well location 660' FWL and 1650' FSL of Section 16 would be a better location.

You had informed me that we could amend our location without another hearing, provided we obtained a waiver from Mr. Hamon.

I would appreciate you providing us with approval to commence a well pursuant to the above Order, but at the new location.

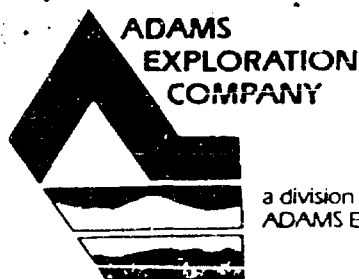
Very truly yours,


W. Thomas Kellahin

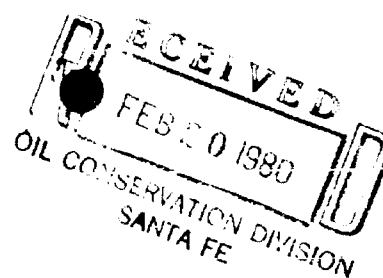
encl.

cc: James C. Brown

WTK:msf



a division of
ADAMS ENERGY



January 31, 1980

Jake L. Hamon
611 Petroleum Building
Midland, Texas 79701

Attn: John Casey

RE: T-20-S, R-36-E, NMPM,
LEA COUNTY, NEW MEXICO
Sec. 16

Dear Sir:

It is our understanding that you own an interest in and operate oil and gas leases from which there is Morrow gas production in Secs. 17 and 20, T-20-S, R-36-E, NMPM, LEA COUNTY, NEW MEXICO. Those leases offset the above Sec. 16 to the west and south. As you know, Adams Exploration Company owns oil and gas operating rights in Sec. 16 and has obtained approval for an unorthodox location for a Morrow gas test 660' FSL and 660' FWL of Sec. 16. You previously waived your right to object to our application for approval of such unorthodox location.

We have now decided that geologically, a better location for our Morrow gas test would be 660' FWL and 1650' FSL of Sec. 16. We ask that you waive your right to object to this new unorthodox location by signing a copy of this letter and returning it to us as we have to go to the New Mexico Oil Conservation Division for their approval.

Thank you for your help in this matter.

yours truly,

ADAMS EXPLORATION COMPANY

By James C. Brown
James C. Brown

JCB/jpk

410 WEST OHIO - SUITE 202

MIDLAND, TEXAS 79701

PHONE (915) 683-3303

Jake L. Hamon
January 31, 1980
Page -2-

The undersigned hereby waives its
right to object to your proposed
new unorthodox location this 31st
day of January, 1980.

Jake L. Hamon

By *Jake L. Hamon*

STATE OF NEW MEXICO
 ENERGY AND MINERALS DEPARTMENT
 OIL CONSERVATION DIVISION
 STATE LAND OFFICE BLDG.
 SANTA FE, NEW MEXICO
 12 December 1979

EXAMINER HEARING

 IN THE MATTER OF:)
)
)

Application of Adams Exploration)
 Company for compulsory pooling and)
 an unorthodox location, Lea County,)
 New Mexico.)

CASE 6763

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
 Division:

Ernest L. Padilla, Esq.
 Legal Counsel to the Division
 State Land Office Bldg.
 Santa Fe, New Mexico 87501

For the Applicant:

W. Thomas Kellahin, Esq.
 KELLAHIN & KELLAHIN
 500 Don Gaspar
 Santa Fe, New Mexico 87501

I N D E X

MARK SWINFURTH

Direct Examination by Mr. Kellani

3

Cross Examination by Mr. Nutter

13

E X H I B I T S

Applicant Exhibit One, Plat

4

Applicant Exhibit Two, AFE

8

Applicant Exhibit Three, Letter

9

Applicant Exhibit Four, Letter

10

Applicant Exhibit Five, Letter

12

Applicant Exhibit Six, Letter

MR. NUTTER: Call Case Number 6763.

MR. PADILLA: Application of Adams Exploration Company for compulsory pooling and an unorthodox location, Lea County, New Mexico.

MR. KELLAHIN: I'm Tom Kellahin of Santa Fe, appearing on behalf of the applicant, and I have one witness.

(Witness sworn.)

MARK SWINFURTH

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you please state your name, by whom you're employed, and in what capacity?

A My name is Mark Swinfurth. I'm employed by Adams Exploration Company as a geologist.

Q Mr. Swinfurth, have you previously testified before the Division as a geologist?

A I have.

Q And were your qualifications accepted and

made a matter of record?

A. They were.

Q. And have you made a study of and are you familiar with the facts surrounding this particular application?

A. Yes, I have.

MR. KELLAHIN: We tender Mr. Swinfurth as an expert geologist.

MR. NUTTER: Mr. Swinfurth is qualified.

Q. Would you please refer to what we've marked as Exhibit Number One and identify that?

A. Exhibit Number One is a structure map of a portion of Lea County in the North Osudo-Morrow Field. The structure contours are on top of the Morrow Clastic section.

I've also shown on this map Section 16, in which we propose to form a 640-acre proration unit and drill an unorthodox location, which is shown in red in the southwest quarter of Section 16.

Also on the map I have shown in yellow hachured area, which is now designated the Osudo North-Morrow Field, and those wells are shown in yellow, which are also in that field.

Q. What is the exact footage location for the proposed well?

A. The proposed location would be 660 feet from the south and west lines of Section 16.

Q. And what acreage would you dedicate to the well?

A. 640 acres, the total of Section 16.

Q. What is a standard location for the North Osudo-Morrow Pool?

A. The standard location would be 1650 from the lease -- from the section line.

Q. Are any of the Morrow wells drilled in the North Osudo Field at a standard location?

A. To date one has been drilled. It's the Redfern Well in Section 18. It's a 1650 location out of the south and east lines of that section.

Q. And there are some seven other wells that are at unorthodox locations?

A. That is right.

Q. All right. Would you explain to the Examiner why you propose to drill at this unorthodox location as opposed to a standard location?

A. Yes, sir. Studies of the Morrow Sands which produce in the field indicate that from well to well it's very difficult to determine the sand thicknesses and the sand presence in any direction from our known wells. So the closer that we can get to production would minimize

the risk. It is known that to the east in Section 9, the Continental Sanderson had no Morrow Sand.

Q That's in Section 9?

A In Section 9.

Q Okay.

A In the northeast quarter of Section 9.

Also, in Section 14 to the east of Section 16 the Continental Sanderson A-14 had no Morrow Sand in the well.

Somewhere between the well in Section 17 and the well in Section 9 the Morrow Sand apparently is no longer present. I have shown on my map a line, a north/south heavy line, which indicates as best I can that place where Morrow Sand is no longer present in an up-dip direction.

Q That's not an absolute line based upon known geological data, is it, Mr. Swinfurth?

A No, sir, that's -- that's a hedge, right down the center of the section. I cannot say whether it would be closer to the west side or closer to the east side. All I know is that it is in some -- somewhere between the well in 17 and the well in 9, the Morrow Sand is not present.

Q Would you turn to the structural contours and explain to us what, if any, significance structure plays with regards to this Morrow Field?

A. It appears that as you go up structure, which would be in an easterly direction or down structure in a northwesterly and westerly direction from our proposed location, that the farther down structure or the farther off the top of the structure, the likelihood of Morrow Sand development is -- is more certain.

Q. Would that conclude -- cause you to reach the conclusion that you ought to move this well to the north in any way?

A. The amount of information that we have indicates that the sand will shale out somewhere to the east. We propose to drill the well as close as we can to known production because we just don't have enough information to do anything else.

Q. All right. If I understand you correctly, Mr. Swinfurth, you're not then willing to rely on the structural information as depicted on this exhibit, to cause you to move this location to either a standard location or some location farther north?

A. No, sir, I think the closeology, if you'll pardon the expression, is about the best geology we can use.

Q. May we conclude, then, in your opinion, that the proposed location is the optimum location from which

to drain this particular proration unit?

A. Yes, sir, we feel that's the optimum location.

Q. Would you please refer to what we've marked as Exhibit Number Two, and identify that?

A. Yes, sir. Exhibit Number Two is authority for expenditure pertaining to the well which we propose to drill in the southwest quarter of Section 16, the Adams No. 1 State 16.

Q. Would you summarize for us what those costs are anticipated to be?

A. The drilling costs, a total drilling cost of \$846,700 is expected for completed well to the Morrow at approximately 11,800 feet.

Q. Let's take a moment and go back to Exhibit Number One and have you describe for me what the ownership is in Section 16 and which of the owners have agreed to participate in the drilling of the well and which ones have not.

A. Adams Exploration Company has obtained a farmout from Cotton Petroleum for the west half of Section 16, 320 acres.

Adams has also obtained a written approval from the southeast quarter participants, Zachry, Penrose,

and Charm, Wiser Oil for the southeast quarter of Section 16 to also farmout to Adams.

Amoco owns the northeast quarter of Section 16 and they have not as yet agreed to farmout or join our proposed well.

Q Excluding Amoco for the moment, has the proposed authority for expenditure been tendered and accepted by all of the other interested working parties in the unit?

A Yes, sir. They have -- I'm not sure that they have returned -- we have not signed an operating agreement as yet. They have said they will farmout to us and I don't know the status of whether they've approved our AFE or not.

Q All right. Based upon your knowledge, though, Mr. Swinfurth, the proposed AFE to the best of your knowledge is consistent and acceptable for drilling of Morrow wells to this depth in this area?

A Yes, sir, it is.

Q Would you refer to what we've marked as Exhibit Number Three and identify that?

A Exhibit Number Three is a letter from Adams Exploration Company to Amoco Production Company in Houston asking them to either farmout to us or join us in the drilling of the proposed well.

Q And that letter was sent certified mail return receipt requested?

A Yes, sir, it was.

Q And what, if any, response did you receive from Amoco?

A We received a letter from Amoco saying that they would -- they would consider joining or farming out to us on the basis of a 50 percent back-in after payout of the well. We had obtained a third back-in commitment from Cotton, from Charm, and from Penrose, and we felt that under the circumstances, the high risk of the well, would only substantiate a third back-in.

Amoco was not -- has not agreed to that and so we have come to the Commission to ask for some relief.

Q I refer you to Applicant Exhibit Number Five and ask you to identify that.

A That is the letter in which Amoco said they would farmout on a 50 percent back-in after payout. But they said that if the well location exception in which we are asking for 660 location exception, if that exception is granted by the Commission, they would re-evaluate their participation in the well.

Q You indicated just a moment ago that you felt the proposed prospect was a high risk, Mr. Swinfurth.

Can you make a recommendation to the Examiner as to what you anticipate that risk to be?

A. Well, I would say that that location is a very high risk location, partially due to some depletion from the wells to the west of us and, of course, knowing that there is a shale out of the Morrow Sands, the producing sands to the east of us, we are risking considerably drilling in that section at all.

Hopefully, at the proposed location we will drill the optimum location in the section and hopefully we will find some producing sand.

Q. Based upon your study, Mr. Swinfurth, do you have a recommendation to the Examiner with regards to a risk factor to be assessed against Amoco?

A. I would recommend that a full 200 percent risk factor be imposed on Amoco.

Q. And you desire that Adams Exploration Company be designated the operator?

A. I do.

Q. What are your plans for drilling the well, Mr. Swinfurth?

A. We hope to drill the well this year. We are drilling the well in conjunction with a drilling fund. Their monies must be spent before the end of the year for income tax purposes, and we would hope that if the Com-

mission sees fit, that they will rule on our application as soon as possible.

Q Do you have a recommendation to make to the Examiner with regards to overhead charges to be assessed on a proportionate basis against Amoco? While drilling and after completion of the well?

A Yes, sir. I understand that approximately \$3000 per month while drilling and \$300 a month charges after completion are approximately what is being done in the area, and I would recommend those charges being imposed.

Q In regards to this application for the unorthodox location, Mr. Swinfurth, have you notified all offsetting operators of your proposed location?

A Yes, sir, we have. We notified Amerada, who is the offset operator to the south.

Q And what, if any, response did you receive from Amerada?

A And in our Exhibit Number Six we would received notification that they would not oppose our proposed location.

I have also verbally been in contact with Hamon, who is the operator to the west and they have verbally told me that they would in fact send us a letter also stating that they had no objection to our proposed location.

Q Were Exhibits One through Six prepared by you directly or compiled under your direction and supervision?

A Yes, they were.

Q And in your opinion will approval of this application be in the best interests of conservation, the prevention of waste, and the protection of correlative rights?

A Yes.

MR. KELLAHIN: Move the introduction of Exhibits One through Six.

MR. NUTTER: Applicant's Exhibits One through Six will be admitted in evidence.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Swinfurth, all this correspondence that we have here between Amoco and Adams apparently ceases with this letter from Adams on November 26th, in which you advised them that you'd be having a hearing for the 660/660 location. Was there anything significant about the fact that in their letter of November 14th they were talking about a well to be drilled at an orthodox location in Section 16?

A. No, sir. The -- originally when we talked to them, which is back in the middle of the summer, by phone, we proposed an unorthodox location to them and subsequently they didn't answer us at all.

We then proposed a 660 location and in the process of their answering our original request, they continued to talk about a regular spaced location; however, by phone later they have agreed that if we are -- we do obtain a 660 location, they will join in the drilling with us.

Q. I see, so there's considerably more risk in drilling a standard location than this unorthodox location.

A. Yes, sir, there is.

Q. And they have indicated that they would voluntarily join with you in the drilling of the well if you --

A. Yes.

Q. -- succeed in getting approval for this 660/660 location.

A. That is right. We plan to drill the well, if we cannot get a 660 location, at a regular location, but it would be -- it would reduce our risk, obviously, to drill at 660 and it would also reduce our risk to have Amoco

join us. So for all those reasons we ask for a 660 location.

MR. NUTTER: Are there any further questions of the witness? He may be excused.

Do you have anything further, Mr. Kellahin?

MR. KELLAHIN: No, sir.

MR. NUTTER: Does anyone have anything they wish to offer in Case Number 6763?

We'll take the case under advisement.

(Hearing concluded.)

REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a Certified Shorthand Reporter,
DO HEREBY CERTIFY that the foregoing and attached Transcript
of Hearing before the Oil Conservation Division was reported
by me; that the said transcript is a full, true, and correct
record of the hearing, prepared by me to the best of my
ability.

Sally W. Boyd C.S.R.
Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is
a complete and correct transcript of the proceedings in
the Ex. hearing of Case No. 6763,
heard by me on 12/12 1979.

[Signature] Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
12 December 1979

EXAMINER HEARING

IN THE MATTER OF:)

Application of Adams Exploration)
Company for compulsory pooling and)
an unorthodox location, Lea County,)
New Mexico.)

CASE 6763

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
Santa Fe, New Mexico 87501

I N D E X

MARK SWINFURTH

Direct Examination by Mr. Kellahin	3
Cross Examination by Mr. Wutter	13

E X H I B I T S

Applicant Exhibit One, Plat	4
Applicant Exhibit Two, AFE	8
Applicant Exhibit Three, Letter	9
Applicant Exhibit Four, Letter	10
Applicant Exhibit Five, Letter	
Applicant Exhibit Six, Letter	12

MR. WINTER: Call Case Number 6763.

MR. PADILLA: Application of Adams Exploration Company for compulsory pooling and an unorthodox location, Lea County, New Mexico.

MR. KELLAHIN: I'm Tom Kellahin of Santa Fe, appearing on behalf of the applicant, and I have one witness.

(Witness sworn.)

MARK SWINFURTH

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you please state your name, by whom you're employed, and in what capacity?

A My name is Mark Swinfurth. I'm employed by Adams Exploration Company as a geologist.

Q Mr. Swinfurth, have you previously testified before the Division as a geologist?

A I have.

Q And were your qualifications accepted and

made a matter of record?

A. They were.

Q. And have you made a study of and are you familiar with the facts surrounding this particular application?

A. Yes, I have.

MR. KELLAMIN: We tender Mr. Swinfurth as an expert geologist.

MR. MUTTER: Mr. Swinfurth is qualified.

Q. Would you please refer to what we've marked as Exhibit Number One and identify that?

A. Exhibit Number One is a structure map of a portion of Lea County in the North Osudo-Morrow Field. The structure contours are on top of the Morrow Clastic section.

I've also shown on this map Section 16, in which we propose to form a 640-acre proration unit and drill an unorthodox location, which is shown in red in the southwest quarter of Section 16.

Also on the map I have shown in yellow hachured area, which is now designated the Osudo North-Morrow Field, and those wells are shown in yellow, which are also in that field.

Q. What is the exact footage location for the proposed well?

A The proposed location would be 600 feet from the south and west lines of Section 16.

Q And what acreage would you dedicate to the well?

A 640 acres, the total of Section 16.

Q What is a standard location for the North Osudo-Morrow Pool?

A The standard location would be 1650 from the lease -- from the section line.

Q Are any of the Morrow wells drilled in the North Osudo Field at a standard location?

A To date one has been drilled. It's the Redfern Well in Section 18. It's a 1650 location out of the south and east lines of that section.

Q And there are some seven other wells that are at unorthodox locations?

A That is right.

Q All right. Would you explain to the Examiner why you propose to drill at this unorthodox location as opposed to a standard location?

A Yes, sir. Studies of the Morrow Sands which produce in the field indicate that from well to well it's very difficult to determine the sand thicknesses and the sand presence in any direction from our known wells. So the closer that we can get to production would minimize

the risk. It is known that to the east in Section 9, the Continental Sanderson had no Morrow Sand.

Q That's in Section 9?

A In Section 9.

Q Okay.

A In the northeast quarter of Section 9.

Also, in Section 14 to the east of Section 16 the Continental Sanderson A-14 had no Morrow Sand in the well.

Somewhere between the well in Section 17 and the well in Section 9 the Morrow Sand apparently is no longer present. I have shown on my map a line, a north/south heavy line, which indicates as best I can that place where Morrow Sand is no longer present in an up-dip direction.

Q That's not an absolute line based upon known geological data, is it, Mr. Swinfurth?

A No, sir, that's -- that's a hedge, right down the center of the section. I cannot say whether it would be closer to the west side or closer to the east side. All I know is that it is in some -- somewhere between the well in 17 and the well in 9, the Morrow Sand is not present.

Q Would you turn to the structural contours and explain to us what, if any, significance structure plays with regards to this Morrow Field?

A. It appears that as you go up structure, which would be in an easterly direction or down structure in a northwesterly and westerly direction from our proposed location, that the farther down structure or the farther off the top of the structure, the likelihood of Morrow Sand development is -- is more certain.

Q. Would that conclude -- cause you to reach the conclusion that you ought to move this well to the north in any way?

A. The amount of information that we have indicates that the sand will shale out somewhere to the east. We propose to drill the well as close as we can to known production because we just don't have enough information to do anything else.

Q. All right. If I understand you correctly, Mr. Swinfurth, you're not then willing to rely on the structural information as depicted on this exhibit, to cause you to move this location to either a standard location or some location farther north?

A. No, sir, I think the closeology, if you'll pardon the expression, is about the best geology we can use.

Q. May we conclude, then, in your opinion, that the proposed location is the optimum location from which

to drain this particular operation unit?

A. Yes, sir, we feel that's the optimum location.

Q. Would you please refer to what we've marked as Exhibit Number Two, and identify that?

A. Yes, sir. Exhibit Number Two is authority for expenditure pertaining to the well which we propose to drill in the southwest quarter of Section 16, the Adams No. 1 State 16.

Q. Would you summarize for us what those costs are anticipated to be?

A. The drilling costs, a total drilling cost of \$846,700 is expected for completed well to the Morrow at approximately 11,800 feet.

Q. Let's take a moment and go back to Exhibit Number One and have you describe for me what the ownership is in Section 16 and which of the owners have agreed to participate in the drilling of the well and which ones have not.

A. Adams Exploration Company has obtained a farmout from Cotton Petroleum for the west half of Section 16, 320 acres.

Adams has also obtained a written approval from the southeast quarter participants, Bachry, Penrose,

and Charm, Wiser Oil for the southeast quarter of Section 16 to also farmout to Adams.

Anoco owns the northeast quarter of Section 16 and they have not as yet agreed to farmout or join our proposed well.

Q Excluding Anoco for the moment, has the proposed authority for expenditure been tendered and accepted by all of the other interested working parties in the unit?

A Yes, sir. They have -- I'm not sure that they have returned -- we have not signed an operating agreement as yet. They have said they will farmout to us and I don't know the status of whether they've approved our AFE or not.

Q All right. Based upon your knowledge, though, Mr. Swinfurth, the proposed AFE to the best of your knowledge is consistent and acceptable for drilling of Morrow wells to this depth in this area?

A Yes, sir, it is.

Q Would you refer to what we've marked as Exhibit Number Three and identify that?

A Exhibit Number Three is a letter from Adams Exploration Company to Anoco Production Company in Houston asking them to either farmout to us or join us in the drilling of the proposed well.

Q And that letter was sent certified mail return receipt requested?

A Yes, sir, it was.

Q And what, if any, response did you receive from Amoco?

A We received a letter from Amoco saying that they would -- they would consider joining or farming out to us on the basis of a 50 percent back-in after payout of the well. We had obtained a third back-in commitment from Cotton, from Charn, and from Penrose, and we felt that under the circumstances, the high risk of the well, would only substantiate a third back-in.

Amoco was not -- has not agreed to that and so we have come to the Commission to ask for some relief.

Q I refer you to Applicant Exhibit Number Five and ask you to identify that.

A That is the letter in which Amoco said they would farmout on a 50 percent back-in after payout. But they said that if the well location exception in which we are asking for 50 percent location exception, if that exception is granted by the Commission, they would re-evaluate their participation in the well.

Q You indicated just a moment ago that you felt the proposed prospect was a high risk, Mr. Swinfurth.

Can you make a recommendation to the Examiner as to what you anticipate that risk will be?

A. Well, I would say that that location is a very high risk location, partially due to some depletion from the wells to the west of us and, of course, knowing that there is a shale out of the Morrow Sands, the producing sands to the east of us, we are risking considerably drilling in that section at all.

Hopefully, at the proposed location we will drill the optimum location in the section and hopefully we will find some producing sand.

Q. Based upon your study, Mr. Swinfurth, do you have a recommendation to the Examiner with regards to a risk factor to be assessed against Amoco?

A. I would recommend that a full 200 percent risk factor be imposed on Amoco.

Q. And you desire that Adams Exploration Company be designated the operator?

A. I do.

Q. What are your plans for drilling the well, Mr. Swinfurth?

A. We hope to drill the well this year. We are drilling the well in conjunction with a drilling fund. Their monies must be spent before the end of the year for income tax purposes, and we would hope that if the Com-

mission sees fit, that they will rule on our application as soon as possible.

Q Do you have a recommendation to make to the Examiner with regards to overhead charges to be assessed on a proportionate basis against Amoco? While Drilling and after completion of the well?

A Yes sir. I understand that approximately \$3000 per month while drilling and \$200 a month charges after completion are approximately what is being done in the area, and I would recommend those charges being imposed.

Q In regards to this application for the unorthodox location, Mr Swinfurth, have you notified all offsetting operators of your proposed location?

A Yes, sir, we have. We notified Amerada, who is the offset operator to the south.

Q And what, if any, response did you receive from Amerada?

A And in our Exhibit Number Six we would received notification that they would not oppose our proposed location.

I have also verbally been in contact with Hamon, who is the operator to the west and they have verbally told me that they would in fact send us a letter also stating that they had no objection to our proposed location.

Q Were Exhibits One through Six prepared by you directly or compiled under your direction and supervision?

A Yes, they were.

Q And in your opinion with approval of this application be in the best interests of conservation, the prevention of waste, and the protection of correlative rights?

A Yes.

MR. KELLAMIN: Move the introduction of Exhibits One through Six.

MR. NUTTER: Applicant's Exhibits One through Six will be admitted in evidence.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Swinfurth, all this correspondence that we have here between Amoco and Adams apparently ceases with this letter from Adams on November 26th, in which you advised them that you'd be having a hearing for the 660/660 location. Was there anything significant about the fact that in their letter of November 14th they were talking about a well to be drilled at an orthodox location in Section 16?

A. Yes, sir. The -- originally when we talked to them, which is back in the middle of the summer, by phone, we proposed an unorthodox location to them and subsequently they didn't answer us at all.

We then proposed a 660 location and in the process of their answering our original request, they continued to talk about a regular spaced location; however, by phone later they have agreed that if we are -- we do obtain a 660 location, they will join in the drilling with us.

Q. I see, so there's considerably more risk in drilling a standard location than this unorthodox location.

A. Yes, sir, there is.

Q. And they have indicated that they would voluntarily join with you in the drilling of the well if you --

A. Yes.

Q. -- succeed in getting approval for this 660/660 location.

A. That is right. We plan to drill the well, if we cannot get a 660 location, at a regular location, but it would be -- it would reduce our risk, obviously, to drill at 660 and it would also reduce our risk to have Amoco

join us. So for all these reasons to ask for a GAO location.

MR. NUTTER: Are there any further questions of the witness? He may be excused.

Do you have anything further, Mr. Kellahan?

MR. KELLAHAN: No, sir.

MR. NUTTER: Does anyone have anything they wish to offer in Case Number 6763?

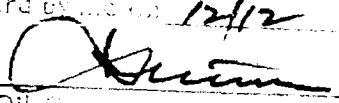
We'll take the case under advisement.

(Hearing concluded.)

REPORTER'S CERTIFICATION

I, SALLY W. BOYD, a Certified Shorthand Reporter,
DO HEREBY CERTIFY that the foregoing and attached Transcript
of Hearing before the Oil Conservation Division was reported
by me; that the said transcript is a full, true, and correct
record of the hearing, prepared by me to the best of my
ability.

Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is
a correct report of the proceedings in
the hearing of Case No. 6763,
heard by me on 12/12 1979.
 Examiner
Oil Conservation Division



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

January 10, 1980

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

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

Re: CASE NO. 6763
ORDER NO. R-6232

Applicant:

Adams Exploration Company

Dear Sir:

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

Yours very truly,

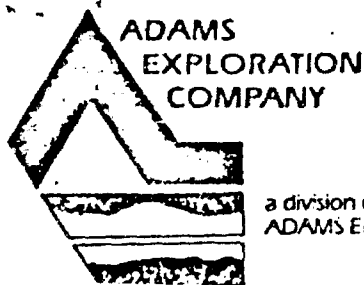
JOE D. RAMEY
Director

JDR/fd

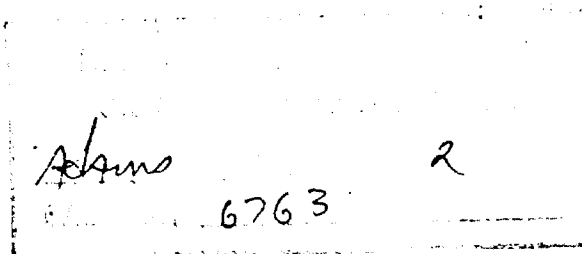
copy of order also sent to:

Hobbs OCD	<u>X</u>
Artesia OCD	<u>X</u>
Aztec OCD	

Other _____



a division of
ADAMS ENERGY



AUTHORITY FOR EXPENDITURE

WELL NAME: State 16 No. 1 - Osudo Prospect

COUNTY: Lea STATE: New Mexico

LOCATION: 660' FS & WL, Sec. 16, T-20-S, R-36-E

PROPOSED DEPTH: 11,800' FORMATION: Morrow OIL or GAS Gas

DATE: 12-3-79 AMENDED: 1. 2. 3.

The following is an estimate only and it is understood and agreed that this AFE shall be your authority to drill said well and incur such expenses as are necessary, whether the cost is more or less than the following sum. Blowout insurance, if elected, is not included in this estimate.

	ESTIMATED COST	ACTUAL COST
I LEASEHOLD COSTS:		
1. Acreage Costs		
2. Legal		
3. Commissions		
4. Other		
TOTAL LEASEHOLD		
II EQUIPMENT BEFORE CASING POINT:		
5. Cattleguards & Road Equip. Casing	1,000	
6. Conductor " @ \$/cft		
7. Surface 500/ 13-3/8" @ 17.25 \$/cft	8,700	
8. Interm 5500/ 8-5/8 " @ 9.25 \$/cft	50,900	
9. Liner " @ \$/cft		
10. Bradenhead Cementing Equip.	5,000	
11. Float, Centralizers, etc.	1,000	
12. Misc. Lease Equip.- Fencing, etc.	1,000	
TOTAL TANGIBLE BCP	67,600	
III INTANGIBLE COSTS BEFORE CASING POINT:		
13. Surveying	400	
14. Dirt Work - Roads, Location	10,000	
15. Surface Damages	2,000	
Drilling:		
16. Contract ft @ \$/ft.		
17. Daywork 65 days @ 4700 \$/day	305,500	
18. Turnkey		
19. Lump Sum (MI MO RU RD)	20,000	

ADAMS EXPLORATION COMPANY

PAGE -2-

Authority for Expenditure

20. Bits
21. Fuel
22. Water
23. Drlg Mud & Chemicals, Cmtng Services
24. Conductor
25. Surface
26. Intermediate
27. Liner
28. Drill Stem Tests 2 @ 1500 each
29. ~~Logging & Core Analysis~~ Mud Logger
30. Open Hole Logging
31. Tool & Equipment Rental
32. Trucking
33. Welding
34. P & A Cost
35. Geological Services
36. Engineering Services
37. Supervision
37. Contingencies 5 %

TOTAL INTANGIBLE COSTS
BEFORE CASING POINT

TOTAL TANGIBLE COSTS
BEFORE CASING POINT

TOTAL COSTS BEFORE CASING POINT

ESTIMATED COST

ACTUAL COST

20,000	
45,500	
15,000	
15,000	
5,000	
12,000	
3,000	
8,000	
25,000	
10,000	
3,000	
1,000	
4,000	
8,000	
3,000	
6,000	
26,000	
547,400	
67,600	
615,000	

Authority for Expenditure

IV EQUIPMENT AFTER CASING POINT:

	ESTIMATED COST	ACTUAL COST
38. Production Casing 4½" @ 8 \$/cft	94,400	
39. Tubing 2-3/8" @ 3.50 \$/cft	41,300	
40. Remaining Well Head	20,000	
41. Prod. Csg. Float Equip. Pumping Equip.	1,000	
42. Pumping Unit		
43. Prime Mover		
44. Rods		
45. Bottom Hole Pump		
46. Surface Pumping Equip.		
47. Oil Tanks	5,000	
48. SWD Tanks	3,000	
49. Heaters & Separators	10,000	
50. Flowlines & Battery Connections	2,000	
51. Misc. Lease Equip. Chemical Pump, etc.		
52. Packers, Plugs & Sleeves	2,000	
TOTAL TANGIBLES ACP	178,700	

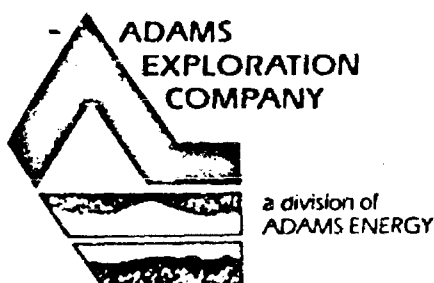
V INTANGIBLE COSTS AFTER CASING POINT:

53. Dirt Work - Battery, Cementing Services	1,000	
54. Production Casing	5,000	
55. Squeezing	---	
56. Cased Hole Logs & Temp. Survey	3,000	
57. Perforating - Stimulation	6,000	
58. Acid	10,000	
59. Fracture Treatment		
60. Pulling Unit	10,000	
61. Tool & Equipment Rental	5,000	
62. Trucking	1,000	
63. Welding	1,000	
64. Misc. Labor	2,000	
65. Engineering Services	2,000	
Supervision	2,000	
66. Contingencies 10 %	5,000	
TOTAL INTANGIBLE COSTS ACP	53,000	
TOTAL TANGIBLE COSTS ACP	178,700	
TOTAL COSTS AFTER CSG. PT.	231,700	
TOTAL COSTS BEFORE CSG. PT.	615,000	
TOTAL WELL COSTS	846,700	

PREPARED BY: J. I. Berry

ACCEPTED AND AGREED TO: _____

COMPANY: _____ BY: _____ DATE: _____



BEFORE EXAMINER NOTARY	
OIL CONSERVATION DIVISION	
<i>Adams</i>	EXHIBIT NO. <u>3</u>
CASE NO.	<u>6763</u>

October 10, 1979

CERTIFIED MAIL NO. 367006
RETURN RECEIPT REQUESTED

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

Attention: Mike Burkhardt

RE: NE/4 Sec. 16, T-20-S, R-36-E,
LEA COUNTY, NEW MEXICO

Gentlemen:

Please refer to William J. Braden's letter to you of July 18, 1979 wherein he requested a farmout of the oil and gas leasehold interest in the above land. Adams Exploration Company has assumed Braden's position under a farmout from Cotton Petroleum Corporation that he spoke of in that letter on the W/2 Sec. 16, T-20-S, R-36-E, Lea County, New Mexico and we propose drilling a Morrow gas test under that farmout on a proration unit composed of all of said Sec. 16 this year.

We hereby renew the offer of Braden to farmin your leasehold interest in Sec. 16 on the basis of our commencing a well within 90 days and your reserving an overriding royalty under the farmout which will give us an 81.25% net revenue interest before payout. At payout, you will have the option to convert your overriding royalty to a 1/3 working interest. As an alternative, we invite your participation on this well and will be glad to furnish you with our estimate of its cost.

Because time is of the essence in getting this well spudded in 1979, we will be forced to commence a compulsory pooling action before the New Mexico Oil Conservation Division if we have not made satisfactory arrangements to handle your interest before the end of this month. We certainly do not like to proceed in this manner but we feel we must if we are going to get a well drilled this year.

Page -2-

Thank you for your consideration of our request and if you have any questions, please feel free to call us.

Yours truly,


ADAMS EXPLORATION COMPANY

James C. Brown

JCB/jpk

xc: William J. Braden
Building of the Southwest
Midland, Texas 79701

1. The following service is requested (check one) <input checked="" type="checkbox"/> Show to whom and date delivered _____ \$_____ <input type="checkbox"/> Show to whom, date, and address of delivery _____ \$_____ <input type="checkbox"/> RESTRICTED DELIVERY <input type="checkbox"/> Show to whom and date delivered _____ \$_____ <input type="checkbox"/> RESTRICTED DELIVERY <input type="checkbox"/> Show to whom, date, and address of delivery \$_____ (CONSULT POSTMASTER FOR FEES)		2. ARTICLE ADDRESSED TO: Amoco Production Company P. O. Box 3092 Houston, Texas 77001	
3. ARTICLE DESCRIPTION REGISTERED NO. 367006		INSURED NO. _____ 4. I have obtained signature of addressee or agent _____ I have received the article described above. SIGNATURE <input type="checkbox"/> Addressee <input checked="" type="checkbox"/> Authorized agent _____	
5. DATE OF DELIVERY DEC 15 1979		POSTMARK DEC 15 1979	
6. ADDRESS (Complete only if request for return receipt) _____		7. ADDRESSEE'S INITIALS _____	
8. UNABLE TO DELIVER BECAUSE: _____			

PS Form 3800 Apr. 1976									
<div style="text-align: center;">  </div>									
POSTMARK OR DATE									
TOTAL POSTAGE AND FEES		\$1.00							
CONSULT POSTMASTER FOR FEES		OPTIONAL SERVICES							
RETURN RECEIPT SERVICE		SHOW TO WHOM DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY \$							
		SHOW TO WHOM DATE AND DELIVERY \$							
SPECIAL DELIVERY		SHOW TO WHOM DATE AND ADDRESS OF DELIVERY \$							
		SHOW TO WHOM DATE AND DELIVERY \$							
CERTIFIED FEE		RESTRICTED DELIVERY \$							
		\$1.50							
POSTAGE		\$1.15							
P.O. STATE AND ZIP CODE		108 B-2 3092 NEW YORK, N.Y. 10001							
STREET AND NO.		108 B-2 3092							
CITY AND STATE		NEW YORK, N.Y.							
SENT TO		108 B-2 3092							
(See Reverse)									
NO INSURANCE COVERAGE PROVIDED—NOT FOR INTERNATIONAL MAIL									
RECEIPT FOR CERTIFIED MAIL									
No. 367006									

Amoco Production Company
 October 10, 1979
 Page -2-

Thank you for your consideration of our request and if
 you have any questions, please feel free to call us.

Yours truly,

ADAMS EXPLORATION COMPANY

James C. Brown

JCB/jpk

xc: William J. Braden
 Building of the Southwest
 Midland, Texas 79701

PS Form 3800, Apr. 1976

1. The following service is requested (check one)
☒ Show to whom and date delivered
☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
☐ Show to whom and date delivered
☐ RESTRICTED DELIVERY
☐ Show to whom, date, and address of delivery
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 Amoco Production Company
 P. O. Box 3092
 Houston, Texas 77001

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 367006

4. I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent
 DATE OF DELIVERY OCT 15 1979 POSTMARK
 ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

CLERK'S INITIALS

★ GPO: 1979-272-362

PS Form 3800, Apr. 1976

NO. 367006

RECEIPT FOR CERTIFIED MAIL

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

SENT TO
 Amoco Production Co.
 P.O. Box 3092
 Houston, Texas 77001

POSTAGE \$1.75

CERTIFIED FILE

OPTIONAL SERVICES

CONSULT POSTMASTER FOR FEES

TOTAL POSTAGE AND FEES \$1.75

POSTMARK TX OCT 10 1979

Amoco Production Company
October 10, 1979
Page -2-

Thank you for your consideration of our request and if
you have any questions, please feel free to call us.

Yours truly,

ADAMS EXPLORATION COMPANY

James C. Brown

JCB/jpk

cc: William J. Braden
Building of the Southwest
Midland, Texas 79701

PS Form 3800, Apr. 1976

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

1. The following service is requested (check one):
☒ Show to whom and date delivered
☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
☐ Show to whom and date delivered
☐ RESTRICTED DELIVERY
Show to whom, date, and address of delivery: \$_____
(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

3. ARTICLE DESCRIPTION:
REGISTERED NO. 367006 CERTIFIED NO. INSURED NO.

4. DATE OF DELIVERY: OCT 15 1979

5. ADDRESS (Complete only if returnable):

6. UNABLE TO DELIVER BECAUSE:

POSTMARK: OCT 10 1979

POSTMASTER'S INITIALS:

No. 367006
RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO: Amoco Production Co.
STREET AND NO.: P.O. Box 3092
CITY, STATE AND ZIP CODE: Houston, TX 77001

POSTAGE: \$.75

CERTIFIED FEE: \$.80

SPECIAL DELIVERY: \$

RESTRICTED DELIVERY: \$

OPTIONAL SERVICES:

RETURN RECEIPT SERVICE: \$.45

SHOW TO WHOM AND DATE DELIVERED: \$

SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY: \$

SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY: \$

SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY: \$

TOTAL POSTAGE AND FEES: \$ 1.40

POSTMARK OR DATE: OCT 10 1979



Amoco Production Company

500 Jefferson Building
P.O. Box 3092
Houston, Texas 77001

November 14, 1979

Re: Farmout Request
NE/4, Section 16, T-20-S, R-36-E
Lea County, New Mexico

Adams Exploration Company
410 W. Ohio, Suite 202
Midland, Texas 79701

DIRECTOR OF OPERATIONS	
OIL CONCENTRATION DIVISION	
Adams	EXHIBIT NO. 4
CASE NO.	6263

Attention: Mr. James C. Brown

Gentlemen:

Reference is made to Mr. William J. Braden's letter of July 18, 1979 and subsequent telephone conversation of November 7, 1979 between your Mr. James Brown and Mike Burkhart of this office regarding a farmout of Amoco's acreage in the NE/4, Section 16, T-20-S, R-36-E, Lea County, New Mexico.

As discussed in that conversation, Amoco was willing to farmout its leasehold interest to Adams Exploration subject to the following terms and provisions among others commonly found in Amoco contracts.

- 1) On or before January 1, 1980, Adams Exploration shall commence the drilling of 12,600' Morrow test at an orthodox location in the SW/4, Section 16, T-20-S, R-36-E with the related proration unit comprising all of Section 16.
- 2) Commercial production will be required to earn 100' below total depth drilled and logged, but in no event before the base of Morrow formation. *below*
- 3) Amoco will retain a proportionate 1/16th of 8/8ths overriding royalty with the option at payout to convert the override to a proportionate 50% working interest.
- 4) Amoco will retain a call on production.
- 5) In the event the well location is changed to an unorthodox location, Amoco reserves the right to re-evaluate its position and Amoco's offer to farmout its interest as stated above shall terminate.

*Adams has
1/3 back in from
Cotton. I think
50% back in
too high consider
high risk.*

Adams Exploration Company
Page 2
November 14, 1979

This letter should not be construed as a formal contract, but shall serve as evidence of Amoco's offer. If the above is acceptable, please confirm your acceptance so that we may prepare a formal contract.

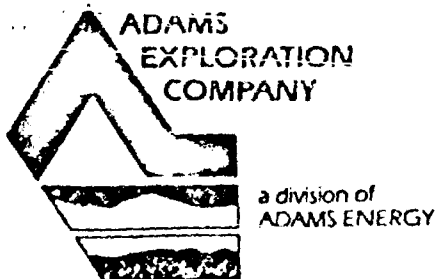
Yours very truly,

Mike W. Burkhardt

Mike W. Burkhardt
Land Department

MWB/ta
483B

cc: Mr. William J. Braden
Building of Southwest
Midland, Texas 79701



Adams 5
6763
November 26, 1979

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

Attn: Mike W. Burkhardt
Land Department

*called to discuss management well and
change today in order to do
12/6/79 - will join*

RE: T-20-S, R-36-E,
LEA COUNTY, NEW MEXICO
Sec. 16: NE/4

Gentlemen:

Please refer to your letter to us dated November 14, 1979 regarding the terms on which you are willing to farmout your oil and gas leasehold interest in the above land for a Morrow gas test to be drilled in the SW/4 Sec. 16 on a proration unit comprised of all of Sec. 16. We have an application pending before the New Mexico Oil Conservation Division seeking approval of a nonstandard location for that well, which will be 660' FSL and 660' FWL of Sec. 16. That hearing is scheduled for December 12, 1979 in Santa Fe.

As previously discussed on the telephone, we feel that the farmout terms offered in the above letter for this well are too tough and we have kept our compulsory pooling action covering your leasehold interest in the above land on the docket of the Oil Conservation Docket. It too will be heard December 12, 1979.

In your letter, you indicated that you wanted to reevaluate your farmout offer if the location of the well was changed. We are confident that we can get approval of the above specified non-standard location and would appreciate your going ahead and making a decision on whether or not you want to join in the drilling of that well by virtue of your oil and gas leasehold interest in the above land. We will furnish you with our Authority For Expenditure as soon as it is ready.

Amoco Production Company
November 26, 1979
Page -2-

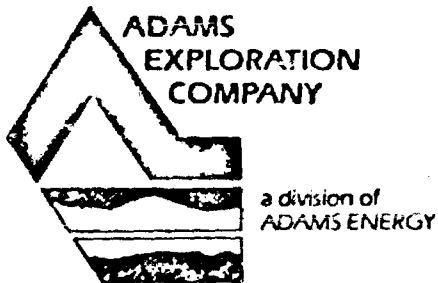
Thank you for your attention to this matter. If you
should have any questions, please call.

Yours truly,

ADAMS EXPLORATION COMPANY

James C. Brown

JCB/jpk



NEW MEXICO OIL CONSERVATION DIVISION
ADAMS EXHIBIT NO. 6
SHEET NO. 6763

November 29, 1979

Amerada Hess Corporation
P. O. Box 840
Seminole, Texas 79360

Attn: R. L. Laxton
(Lakson) *R.L.L.*

RE: T-20-S, R-36-E, NMPM,
LEA COUNTY, NEW MEXICO
Sec. 16

Gentlemen:

The records of Lea County, New Mexico ^{(Township should be 20-S) *R.L.L.*} indicate that you own the oil and gas leasehold estate below 7000 feet subsurface in the N/2 N/2 and SW/4 NW/4 Sec. 21, T-8-S, R-36-E, NMPM, LEA COUNTY, NEW MEXICO which offsets the above Sec. 16 to the south. As you have been previously advised, Adams Exploration Company has applied to the New Mexico Oil Conservation Division for approval of an unorthodox location for a Morrow gas test to be drilled 660' FSL and 660' FWL of Sec. 16 on a proration unit consisting of all of Sec. 16. We herein request that you waive any right to object to our application for approval of such unorthodox location for that well.

Thank you for your consideration of this request.

Yours truly,

ADAMS EXPLORATION COMPANY

James C. Brown
James C. Brown

JCB/jnk

(Above referenced township should be 20-S)

The undersigned hereby waives its right to object to the above described application this 3 day of Dec., 1979.

Amerada Hess Corporation

By *R.L. Lakson*



ADAMS
EXPLORATION
COMPANY

a division of
ADAMS ENERGY

Adams Ex 2
Co 6763

AUTHORITY FOR EXPENDITURE

WELL NAME: State 16 No. 1 - Osudo Prospect

COUNTY: Lea STATE: New Mexico

LOCATION: 660' FS & WL, Sec. 16, T-20-S, R-36-E

PROPOSED DEPTH: 11,800' FORMATION: Morrow OIL or GAS Gas

DATE: 12-3-79 AMENDED: 1. 2. 3.

The following is an estimate only and it is understood and agreed that this AFE shall be your authority to drill said well and incur such expenses as are necessary, whether the cost is more or less than the following sum. Blowout insurance, if elected, is not included in this estimate.

	ESTIMATED COST	ACTUAL COST
I LEASEHOLD COSTS:		
1. Acreage Costs		
2. Legal		
3. Commissions		
4. Other		
TOTAL LEASEHOLD		
II EQUIPMENT BEFORE CASING POINT:		
5. Cattleguards & Road Equip. Casing	1,000	
6. Conductor " @ \$/cft		
7. Surface 500/ 13-3/8" @ 17.25 \$/cft	8,700	
8. Interm. 5500/ 8-5/8 " @ 9.25 \$/cft	50,900	
9. Liner " @ \$/cft		
10. Bradenhead Cementing Equip.	5,000	
11. Float, Centralizers, etc.	1,000	
12. Misc. Lease Equip.- Fencing, etc.	1,000	
TOTAL TANGIBLE BCP	67,600	
III INTANGIBLE COSTS BEFORE CASING POINT:		
13. Surveying	400	
14. Dirt Work - Roads, Location	10,000	
15. Surface Damages	2,000	
Drilling:		
16. Contract ft @ \$/ft.		
17. Daywork 65 days @ 4700 \$/day	305,500	
18. Turnkey		
19. Lump Sum (MI MO RU RO)	20,000	

Authority for Expenditure

	<u>ESTIMATED COST</u>	<u>ACTUAL COST</u>
20. Bits	20,000	
21. Fuel	45,500	
22. Water	15,000	
23. Drlg Mud & Chemicals, Cmtng Services	15,000	
24. Conductor		
25. Surface	5,000	
26. Intermediate	12,000	
27. Liner		
28. Drill Stem Tests 2 @ 1500 each	3,000	
29. Logging & Core Analysis Mud Logger	8,000	
30. Open Hole Logging	25,000	
31. Tool & Equipment Rental	10,000	
32. Trucking	3,000	
33. Welding	1,000	
34. P & A Cost	4,000	
35. Geological Services	8,000	
36. Engineering Services	3,000	
Supervision	6,000	
37. Contingencies 5 %	26,000	
TOTAL INTANGIBLE COSTS BEFORE CASING POINT	547,400	
TOTAL TANGIBLE COSTS BEFORE CASING POINT	67,600	
TOTAL COSTS BEFORE CASING POINT	615,000	

Authority for Expenditure

ESTIMATED COST

ACTUAL COST

IV EQUIPMENT AFTER CASING POINT:

38.	Production Casing	4 1/2	"@	8	\$/cft
39.	Tubing	2-3/8	"@	3.50	\$/cft
40.	Remaining Well Head				
41.	Prod. Csg. Float Equip.				
	Pumping Equip.				
42.	Pumping Unit				
43.	Prime Mover				
44.	Rods				
45.	Bottom Hole Pump				
46.	Surface Pumping Equip.				
47.	Oil Tanks				
48.	SWD Tanks				
49.	Heaters & Separators				
50.	Flowlines & Battery Connections				
51.	Misc. Lease Equip. Chemical Pump, etc.				
52.	Packers, Plugs & Sleeves				
	TOTAL TANGIBLES ACP				

94,400

41,300

20,000

1,000

5,000

3,000

10,000

2,000

2,000

178,700

V INTANGIBLE COSTS AFTER CASING POINT:

53.	Dirt Work - Battery, Cementing Services				
54.	Production Casing				
55.	Squeezing				
56.	Cased Hole Logs & Temp. Survey				
57.	Perforating - Stimulation				
58.	Acid				
59.	Fracture Treatment				
60.	Pulling Unit				
61.	Tool & Equipment Rental				
62.	Trucking				
63.	Welding				
64.	Misc. Labor				
65.	Engineering Services				
	Supervision				
66.	Contingencies	10	%		

1,000

5,000

3,000

6,000

10,000

10,000

5,000

1,000

1,000

2,000

2,000

2,000

5,000

53,000

TOTAL INTANGIBLE COSTS ACP

TOTAL TANGIBLE COSTS ACP

178,700

TOTAL COSTS AFTER CSG. PT.

231,700

TOTAL COSTS BEFORE CSG. PT.

615,000

TOTAL WELL COSTS

846,700

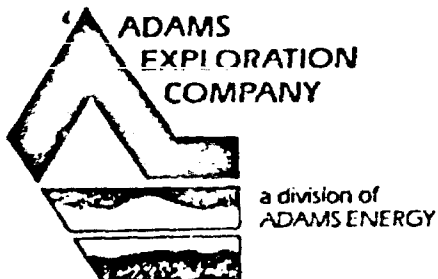
PREPARED BY: J. T. Berry

ACCEPTED AND AGREED TO:

COMPANY:

BY:

DATE:



October 10, 1979

CERTIFIED MAIL NO. 367006
RETURN RECEIPT REQUESTED

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

Attention: Mike Burkhart

Adams Ex 3
Cs 6763

RE: NE/4 Sec. 16, T-20-S, R-36-E,
LEA COUNTY, NEW MEXICO

Gentlemen:

Please refer to William J. Braden's letter to you of July 18, 1979 wherein he requested a farmout of the oil and gas leasehold interest in the above land. Adams Exploration Company has assumed Braden's position under a farmout from Cotton Petroleum Corporation that he spoke of in that letter on the W/2 Sec. 16, T-20-S, R-36-E, Lea County, New Mexico and we propose drilling a Morrow gas test under that farmout on a proration unit composed of all of said Sec. 16 this year.

We hereby renew the offer of Braden to farmin your leasehold interest in Sec. 16 on the basis of our commencing a well within 90 days and your reserving an overriding royalty under the farmout which will give us an 81.25% net revenue interest before payout. At payout, you will have the option to convert your overriding royalty to a 1/3 working interest. As an alternative, we invite your participation on this well and will be glad to furnish you with our estimate of its cost.

Because time is of the essence in getting this well spudded in 1979, we will be forced to commence a compulsory pooling action before the New Mexico Oil Conservation Division if we have not made satisfactory arrangements to handle your interest before the end of this month. We certainly do not like to proceed in this manner but we feel we must if we are going to get a well drilled this year.

Amoco Production Company
October 10, 1979
Page -2-

Thank you for your consideration of our request and if
you have any questions, please feel free to call us.

Yours truly,

ADAMS EXPLORATION COMPANY

James C. Brown

JCB/jpk

xc: William J. Braden
Building of the Southwest
Midland, Texas 79701

PS Form 3800, Apr. 1976

1. The following service is requested (check one):
☒ Show to whom and date delivered
☒ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
☐ Show to whom and date delivered
☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
☐ Show to whom, date, and address of delivery
☐ Show to whom, date, and address of delivery
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
 Amoco Production Company
 P. O. Box 3092
 Houston, Texas 77001

3. ARTICLE DESCRIPTION
 REGISTERED NO. 367006 INSURED NO.

4. DATE OF DELIVERY
 OCT 15 1979

5. ADDRESS (Complete only if request for return receipt)
 ADDRESS

6. UNABLE TO DELIVER BECAUSE
 CLERK'S INITIALS

7. SIGNATURE
 AUTHORIZED AGENT

8. POSTMARK

9. RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

PS Form 3800, Apr. 1976

1. POSTAGE
 \$1.50

2. SPECIAL DELIVERY
 \$0.40

3. RETURN RECEIPT SERVICE
 \$0.40

4. RESTRICTED DELIVERY
 \$0.40

5. SHOW TO WHOM AND DATE
 \$0.40

6. SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY
 \$0.40

7. SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
 \$0.40

8. SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
 \$0.40

9. TOTAL POSTAGE AND FEES
 \$1.40

10. POSTMARK ON WRITING

11. POSTAGE AND FEES

12. POSTAGE AND FEES

13. POSTAGE AND FEES

14. POSTAGE AND FEES

15. POSTAGE AND FEES

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99. POSTAGE AND FEES

100. POSTAGE AND FEES

Amoco Production Company
October 10, 1979
Page --2--

Thank you for your consideration of our request and if
you have any questions, please feel free to call us.

Yours truly,

ADAMS EXPLORATION COMPANY

James C. Brown

JCB/jjk

xc: William J. Braden
Building of the Southwest
Midland, Texas 79701

PS Form 3800, Apr. 1976

1. The following service is requested (check one)
☒ Show to whom and date delivered
☐ Show to whom, date, and address of delivery
☐ RESTRICTED DELIVERY
Show to whom and date delivered
☐ RESTRICTED DELIVERY
Show to whom, date, and address of delivery
(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
367006

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

5. DATE OF DELIVERY OCT 15 1979 POSTMARK 10 1979

6. ADDRESS (Complete only if request)

7. UNABLE TO DELIVER BECAUSE

8. CLERK'S INITIALS

PS Form 3800, Apr. 1976

No. 367006
RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

PS Form 3800, Apr. 1976

SENT TO
Amoco Production Co.
P.O. Box 3092
Houston, TX 77001

POSTAGE \$.15

CERTIFIED FEE \$.40

SPECIAL DELIVERY \$.55

RESTRICTED DELIVERY \$.55

RETURN RECEIPT SERVICE \$.55

CONSULT POSTMASTER FOR FEES

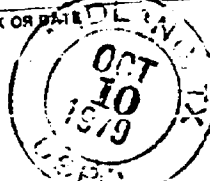
TOTAL POSTAGE AND FEES \$ 1.15

POSTMARK OR INITIALS TX OCT 10 1979

No. 367006

RECEIPT FOR CERTIFIED MAIL

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

SENT TO <i>Amoco Production Co.</i>	
STREET AND NO. <i>P.O. Box 3092</i>	
PO, STATE AND ZIP CODE <i>Houston, TX 77001</i>	
POSTAGE	\$.75
CERTIFIED FEE	\$.40
CONSULT POSTMASTER FOR FEES	
OPTIONAL SERVICES	
SPECIAL DELIVERY	
RESTRICTED DELIVERY	
RETURN RECEIPT SERVICE	
SHOW TO WHOM AND DATE DELIVERED	\$.15
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	
TOTAL POSTAGE AND FEES	\$1.40
POSTMARK OR DATE 	

PS Form 3800, Apr. 1976

1. ARTICLE ADDRESSED TO: Amoco Production Company P. O. Box 3092 Houston, Texas 77001	
2. ARTICLE DESCRIPTION REGISTERED NO. 367006	INSURED NO.
3. (Always obtain signature of addressee or agent) I have received the article described above. SIGNATURE <input type="checkbox"/> Addressee <input checked="" type="checkbox"/> Authorized agent	
4. DATE OF DELIVERY OCT 15 1979	
5. ADDRESS (Complete only if request for return receipt is made)	
6. UNABLE TO DELIVER BECAUSE:	

RECEIVED
OCT 15 1979
POSTMASTER'S INITIALS

xc: William J. Braden
Building of the Southwest
Midland, Texas 79701

JCB/jpk

James C. Brown

ADAMS EXPLORATION COMPANY

Yours truly,

Thank you for your consideration of our request and if
you have any questions, please feel free to call us.

Amoco Production Company
October 10, 1979
Page -7-



Amoco Production Company

500 Jefferson Building
P.O. Box 3092
Houston, Texas 77001

November 14, 1979

Re: Farmout Request
NE/4, Section 16, T-20-S, R-36-E
Lea County, New Mexico

Adams Exploration Company
410 W. Ohio, Suite 202
Midland, Texas 79701

*Adams Ex 4
Co 6763*

Attention: Mr. James C. Brown

Gentlemen:

Reference is made to Mr. William J. Braden's letter of July 18, 1979 and subsequent telephone conversation of November 7, 1979 between your Mr. James Brown and Mike Burkhart of this office regarding a farmout of Amoco's acreage in the NE/4, Section 16, T-20-S, R-36-E, Lea County, New Mexico.

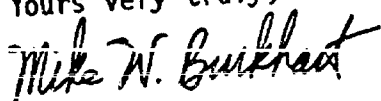
As discussed in that conversation, Amoco was willing to farmout its leasehold interest to Adams Exploration subject to the following terms and provisions among others commonly found in Amoco contracts.

- 1) On or before January 1, 1980, Adams Exploration shall commence the drilling of 12,600' Morrow test at an orthodox location in the SW/4, Section 16, T-20-S, R-36-E with the related proration unit comprising all of Section 16.
- 2) Commercial production will be required to earn 100' below total depth drilled and logged, but in no event before the base of Morrow formation. *below*
- 3) Amoco will retain a proportionate 1/16th of 8/8ths overriding royalty with the option at payout to convert the override to a proportionate 50% working interest.
- 4) Amoco will retain a call on production.
- 5) In the event the well location is changed to an unorthodox location, Amoco reserves the right to re-evaluate its position and Amoco's offer to farmout its interest as stated above shall terminate.

Adams Exploration Company
Page 2
November 14, 1979

This letter should not be construed as a formal contract, but shall serve as evidence of Amoco's offer. If the above is acceptable, please confirm your acceptance so that we may prepare a formal contract.

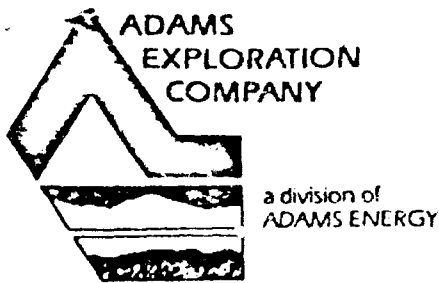
Yours very truly,



Mike W. Burkhart
Land Department

MWB/ta
483B

cc: Mr. William J. Braden
Building of Southwest
Midland, Texas 79701



*Adams 245
66763*

November 26, 1979

*Called 11/27/79. Management will advise
decision today on what to do*

11/6/79 - will join

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

Attn: Mike W. Burkhardt
Land Department

RE: T-20-S, R-36-E,
LEA COUNTY, NEW MEXICO
Sec. 16: NE/4

Gentlemen:

Please refer to your letter to us dated November 14, 1979 regarding the terms on which you are willing to farmout your oil and gas leasehold interest in the above land for a Morrow gas test to be drilled in the SW/4 Sec. 16 on a proration unit comprised of all of Sec. 16. We have an application pending before the New Mexico Oil Conservation Division seeking approval of a nonstandard location for that well, which will be 660' FSL and 660' FWL of Sec. 16. That hearing is scheduled for December 12, 1979 in Santa Fe.

As previously discussed on the telephone, we feel that the farmout terms offered in the above letter for this well are too tough and we have kept our compulsory pooling action covering your leasehold interest in the above land on the docket of the Oil Conservation Docket. It too will be heard December 12, 1979.

In your letter, you indicated that you wanted to reevaluate your farmout offer if the location of the well was changed. We are confident that we can get approval of the above specified non-standard location and would appreciate your going ahead and making a decision on whether or not you want to join in the drilling of that well by virtue of your oil and gas leasehold interest in the above land. We will furnish you with our Authority For Expenditure as soon as it is ready.

Amoco Production Company
November 26, 1979
Page -2-

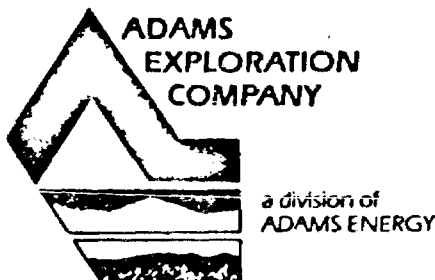
Thank you for your attention to this matter. If you
should have any questions, please call.

Yours truly,

ADAMS EXPLORATION COMPANY

James C. Brown

JCB/jpk



*Adams & Co
Es 6763*

November 29, 1979

Amerada Hess Corporation
P. O. Box 840
Seminole, Texas 79360

Attn: R. L. Laxton
(Lakson) *R.L.L.*

RE: T-20-S, R-36-E, NMPM,
LEA COUNTY, NEW MEXICO
Sec. 16

Gentlemen:

The records of Lea County, New Mexico *(Township should be 20-S) R.L.L.* indicate that you own the oil and gas leasehold estate below 7000 feet subsurface in the N/2 N/2 and SW/4 NW/4 Sec. 21, T-8-S, R-36-E, NMPM, LEA COUNTY, NEW MEXICO which offsets the above Sec. 16 to the south. As you have been previously advised, Adams Exploration Company has applied to the New Mexico Oil Conservation Division for approval of an unorthodox location for a Morrow gas test to be drilled 660' FSL and 660' FWL of Sec. 16 on a proration unit consisting of all of Sec. 16. We herein request that you waive any right to object to our application for approval of such unorthodox location for that well.

Thank you for your consideration of this request.

Yours truly,

ADAMS EXPLORATION COMPANY

James C. Brown
James C. Brown

JCB/jpk

(Above referenced township should be 20-S)

The undersigned hereby waives its right to object to the above described application this 3 day of Dec., 1979.

Amerada Hess Corporation

By *R.L. Lakson*

- CASE 6760: Application of Sun Oil Company for an unorthodox location, non-standard gas proration unit, infill findings, and simultaneous dedication, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its State "AY" Well No. 5, located in Unit E of Section 36, Township 7 South, Range 35 East, Todd-Upper San Andres Gas Pool, to be simultaneously dedicated with its State "AY" Well No. 3 in Unit F of Section 36 to a 160-acre non-standard gas proration unit comprising the NW/4 of Section 36. Also sought are findings that the proposed well is necessary to effectively and efficiently drain that portion of the proration unit which cannot be so drained by the existing unit well.
- CASE 6761: Application of Phillips Petroleum Company for an unorthodox gas well location and approval of infill drilling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of an Atoka-Morrow test well to be drilled 660 feet from the North and West lines of Section 2, Township 24 South, Range 28 East; applicant further seeks a finding that the drilling of said well is necessary to effectively and efficiently drain that portion of the proration unit, being the W/2 of said Section 2, which cannot be so drained by the existing well.
- CASE 6762: Application of Joe Don Cook for an exception to Order No. R-3221, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221 to permit disposal of produced brine into an unlined surface pit located in Section 1, Township 19 South, Range 31 East, Shugart Pool.
- CASE 6763: Application of Adams Exploration Company for compulsory pooling and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the North Osuda-Morrow Gas Pool underlying Section 16, Township 20 South, Range 36 East, to be dedicated to a well to be drilled at an unorthodox location 660 feet from the South and West lines of said Section 16. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6725: (Continued from November 14, 1979, Examiner Hearing)
- Application of Adams Exploration Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying Section 16, Township 20 South, Range 36 East, North Osuda-Morrow Gas Pool, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6725: (Continued from November 28, 1979, Examiner Hearing)
- Application of Tenneco Oil Company for three non-standard gas proration units, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 291.23-acre non-standard gas proration unit comprising the W/2 of Section 6 and the NW/4 of Section 7, a 347.58-acre unit comprising the W/2 of Section 19 and the NW/4 of Section 30, and a 375.17-acre unit comprising the SW/4 of Section 30 and the W/2 of Section 31, all in Township 29 North, Range 8 West, Basin-Dakota Pool, each unit to be dedicated to a well to be drilled at a standard location thereon.
- CASE 6751: (Continued from November 28, 1979, Examiner Hearing)
- Application of Tenneco Oil Company for the rescission of special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the rescission of the special pool rules for the Catclaw Draw-Morrow Gas Pool to provide for 320-acre spacing rather than 640 acres. In the absence of objection, the pool rules will be rescinded and the pool placed on standard 320-acre spacing for Pennsylvanian gas pools rather than the present 640-acre spacing.
- CASE 6764: Application of Lee Crane for surface commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the surface commingling of undesignated Ojo Alamo and Oswell-Farmington production from his Martin Wells Nos. 1 and 3 located in Section 34, Township 30 North, Range 11 West.
- CASE 6765: Application of Mesa Petroleum Company for an exception to Order No. R-111-A and an unorthodox well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the casing-cementing rules of Order No. R-111-A to complete its Bass Federal Well No. 2 to be drilled at an unorthodox location 1450 feet from the North line and 1850 feet from the West line and its Bass Federal Well No. 3 to be drilled in Unit D, both in Section 6, Township 20 South, Range 31 East, by setting surface casing in the "Red Bed" section of the basal Rustler formation and production casing at total depth. Both casing strings would have cement circulated to the surface.

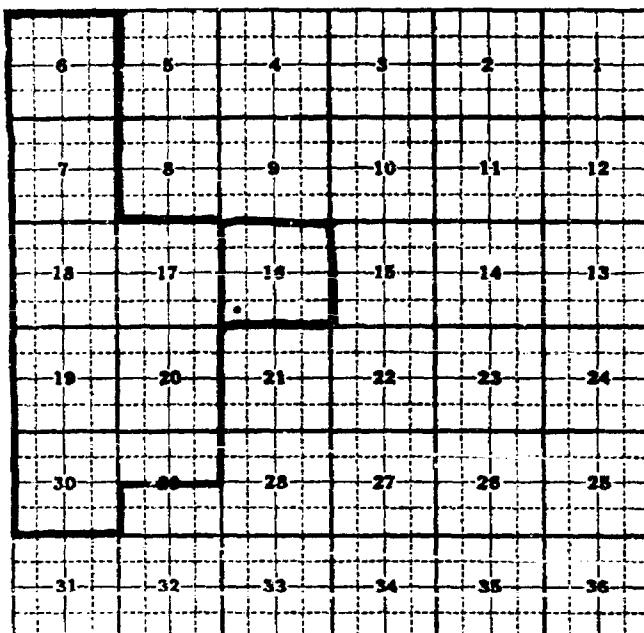
Name

Address

Ph.

Remarks:

North Osage Morrow Gas Pool
T20S R36E



T R State
or County

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

KELLAHIN and KELLAHIN
Attorneys at Law
500 Don Gaspar Avenue
Post Office Box 1769
Santa Fe, New Mexico 87501

Telephone 932-4285
Area Code 505

November 19, 1979

Mr. Joe Ramey
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

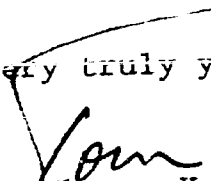
Case 6763

re: Adams Exploration
Compulsory Pooling

Dear Joe:

Please set the enclosed Application for hearing on
December 12, 1979.

Very truly yours,


W. Thomas Kellahin

WTK:mm
Enclosure

cc: Mr. James C. Brown

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF ADAMS EXPLORATION COMPANY FOR
COMPULSORY POOLING, AND UNORTHODOX
LOCATION, LEA COUNTY, NEW MEXICO

APPLICATION

Case 6763

COMES NOW Adams Exploration Company and as provided
by Section 70-2-17, New Mexico Statutes Annotated-1978, applies
to the Oil Conservation Division for an order pooling all
the mineral interests in and under Section 16, T20S, R36E,
NMPM, Lea County, New Mexico, being a proration unit consist-
ing of 640 acres, more or less, for a test of all producing
depths to the base of the *Can pool Morrow only for 640* *1000*
~~Pennsylvanian~~ Formation at an
Unorthodox location 660 feet from the South and 660 feet
from the West line of said section, and in support thereof
would show the Division:

1. Applicant is the owner of a right to drill and
develop in Section 16 and proposes to dedicate Section 16 to
a Morrow test well.

2. Applicant has obtained voluntary agreement for
pooling from all but the following:

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

NE/4 of Section

Attention: Mike Burkhart

11/1/69
W. Thomas Kellahin

3. As required by the provisions of Commission Rule 104, Applicant proposes to dedicate all of Section 16, Township 20 South, Range 36 East, N.M.P.M., Lea County, New Mexico to the well.

4. Applicant requests that it be designated operator of the pooled unit requested above, that a risk factor of 200% be assessed along with other charges.

5. Applicant has been unable to obtain voluntary agreement for the pooling of the unpooled interests indicated in paragraph 2 above, and in order to avoid the drilling of unnecessary wells to protect correlative rights, and to prevent waste, the Commission should pool all interests in the spacing or proration unit as a unit.

WHEREFORE, Applicant respectfully requests that the Division set this matter for hearing before the Division duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling all interest underlying Section 16, Township 20 South, Range 36 East, N.M.P.M., Lea County, New Mexico and designating Applicant operator of the pooled unit, together with provision for Applicant to recover its costs out of production including a risk factor to be determined by the Division and with provisions for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear for approval of the requested unorthodox well location and for such further orders as may be proper in the premises.

Respectfully submitted,

ADAMS EXPLORATION COMPANY

By *W. Thomas Kellahin*

W. Thomas Kellahin

KELLAHIN & KELLAHIN

P. O. Box 1769

Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF ADAMS EXPLORATION COMPANY FOR
COMPULSORY POOLING, AND UNORTHODOX
LOCATION, LEA COUNTY, NEW MEXICO

APPLICATION

Case 6763

COMES NOW Adams Exploration Company and as provided by Section 70-2-17, New Mexico Statutes Annotated-1978, applies to the Oil Conservation Division for an order pooling all the mineral interests in and under Section 16, T20S, R36E, NMPM, Lea County, New Mexico, being a proration unit consisting of 640 acres, more or less, for a test of all producing depths to the base of the Pennsylvanian Formation at an Unorthodox location 660 feet from the South and 660 feet from the West line of said section, and in support thereof would show the Division:

1. Applicant is the owner of a right to drill and develop in Section 16 and proposes to dedicate Section 16 to a Morrow test well.

2. Applicant has obtained voluntary agreement for pooling from all but the following:

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

NE/4 of Section

Attention: Mike Burkhart

3. As required by the provisions of Commission Rule 104, Applicant proposes to dedicate all of Section 16, Township 20 South, Range 36 East, N.M.P.M., Lea County, New Mexico to the well.

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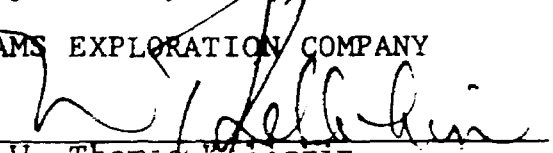
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Respectfully submitted,

ADAMS EXPLORATION COMPANY

By


W. Thomas Kellahan

KELLAHAN & KELLAHAN

P. O. Box 1769

Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF ADAMS EXPLORATION COMPANY FOR
COMPULSORY POOLING, AND UNORTHODOX
LOCATION, LEA COUNTY, NEW MEXICO

APPLICATION

Case 6763

COMES NOW Adams Exploration Company and as provided by Section 70-2-17, New Mexico Statutes Annotated-1978, applies to the Oil Conservation Division for an order pooling all the mineral interests in and under Section 16, T20S, R36E, NMPM, Lea County, New Mexico, being a proration unit consisting of 640 acres, more or less, for a test of all producing depths to the base of the Pennsylvanian Formation at an Unorthodox location 660 feet from the South and 660 feet from the West line of said section, and in support thereof would show the Division:

1. Applicant is the owner of a right to drill and develop in Section 16 and proposes to dedicate Section 16 to a Morrow test well.

2. Applicant has obtained voluntary agreement for pooling from all but the following:

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

NE/4 of Section

Attention: Mike Burkhardt.

3. As required by the provisions of Commission Rule 104, Applicant proposes to dedicate all of Section 16, Township 20 South, Range 36 East, N.M.P.M., Lea County, New Mexico to the well.

4. Applicant requests that it be designated operator of the pooled unit requested above, that a risk factor of 200% be assessed along with other charges.

5. Applicant has been unable to obtain voluntary agreement for the pooling of the unpooled interests indicated in paragraph 2 above, and in order to avoid the drilling of unnecessary wells to protect correlative rights, and to prevent waste, the Commission should pool all interests in the spacing or proration unit as a unit.

WHEREFORE, Applicant respectfully requests that the Division set this matter for hearing before the Division duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling all interest underlying Section 16, Township 20 South, Range 36 East, N.M.P.M., Lea County, New Mexico and designating Applicant operator of the pooled unit, together with provision for Applicant to recover its costs out of production including a risk factor to be determined by the Division and with provisions for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear for approval of the requested unorthodox well location and for such further orders as may be proper in the premises.

Respectfully submitted,

ADAMS EXPLORATION COMPANY

By

W. Thomas Kellahin

KELLAHIN & KELLAHIN

P. O. Box 1769

Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

DRAFT

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

dr/

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

CASE NO. 6763

Order No. R- 6232

3/18
APPLICATION OF ADAMS EXPLORATION COMPANY
FOR COMPULSORY POOLING AND AN UNORTHODOX
LOCATION, LEA COUNTY, NEW MEXICO.



ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 12,
19 79, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of December, 1979, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

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

(2) That the applicant, Adams Exploration Company,
seeks an order pooling all mineral interests in the North Osudo-
Morrow Gas Pool underlying ~~the~~ _____
of Section 16, Township 20 South, Range 36 East,
NMPM, North Osudo-Morrow Gas Pool, Lea County, New

Mexico *to form a standard 640-acre gas
production unit for said pool.*

(3) That the applicant has the right to drill and proposes ~~for said unit~~ at an unorthodox location 660 feet from the South to drill a well/ line and 660 feet from the West line of said. Section 16.

(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.

*while drilling and
\$300.00 per month
while producing*

(11) That \$3000.00 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 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 April 1, 1980, 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, Pool
in the North Osudo-Morrow Gas/ formation underlying the xxxxxxx
of Section 16, Township 20 South, Range 36 East,
NMPM, North Osudo-Morrow Gas Pool, Lea County, New Mexico,
are hereby pooled to form a standard 640- acre gas spacing
and proration unit to be dedicated to a well to be drilled
at an unorthodox location 660 feet from the South line and 660
feet from the West line of said Section 16, which location is
herby approved.

PROVIDED HOWEVER, that the operator of said unit shall
commence the drilling of said well on or before the first day of
April, 1980, and shall thereafter continue the drilling
of said well with due diligence to a depth sufficient to test the
Morrow formation;

PROVIDED FURTHER, that in the event said operator does not
commence the drilling of said well on or before the first day of
April, 1980, Order (1) of this order shall be null
and void and of no effect whatsoever, unless said operator obtains
a time extension from the Division for good cause shown.

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

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

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner 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, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

which drilling and \$300.00 which producing are

(9) That \$3000.00 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.

-6-
Case
Order No.

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

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

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

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

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.