

CASE 5729: PENROC OIL CORP. FOR  
COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO

CASE NO.

5729

---

APPLICATION,  
TRANSCRIPTS,  
SMALL EXHIBITS,  
ETC.

# PENROC Oil Corporation

P. O. DRAWER 831 • MIDLAND, TEXAS • 79701

Telephone (915) 683-1861

*Examiner  
Nutter*

September 16, 1976

Re: Case No. 5729

Order No. R-5256

Penroc Oil Corporation

Compulsory Pooling

Eddy County, New Mexico

*file*

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

Gentlemen:

Reference is made to the captioned Hearing Case No. 5729 and subsequent issued Order No. R-5256 whereby Penroc Oil Corporation was granted compulsory pooling of mineral interests in the N/2 Section 33, T19S, R28E, NMPM, Eddy County, New Mexico.

Interest involved totaled 25% undivided in the N/2 of Section 33 and owned by Dwayne Hamilton and Robert K. Hillin of Midland, Texas.

Since submittal of a detailed schedule of estimated well costs, Hillin has sold his interest to Hamilton and Hamilton has elected to join in drilling with the total 25% interest.

A duplicate of the same estimated well costs as submitted to Hillin and Hamilton is enclosed. It is also the same as offered as an exhibit at the hearing held August 4, 1976.

The proposed well will commence before the November 1, 1976, deadline date noted in Order No. R-5256.

Very truly yours,

PENROC OIL CORPORATION

*Sterling J. Talley*  
Sterling J. Talley

SJT/be

**PENROC Oil Corporation**

P. O. DRAWER 831 • MIDLAND, TEXAS • 79701

Telephone (915) 683-1861

WELL COST ESTIMATE

STATE New Mexico COUNTY Eddy FIELD Undesignated - Morrow  
 LEASE Angell Ranch WELL NO. 1  
 SEC. 33 BLK. OR TWP. 19 S RGE. OR SURV. 23 E  
 PROPOSED DEPTH 11,300' HORIZON Morrow  
 NO. ACRES 320 PROPOSED SPUD DATE 9-10-76  
 DRILLING CONTRACTOR Moranco

ESTIMATED LEASEHOLD COST

|   |          |
|---|----------|
| Lease Bonus and/or Brokerage                                |          |
| Legal Fees (Title Opinion, Abstracts, Recording Fees, etc.) | \$ 600   |
| Other (Travel Expense, Telephone, etc.)                     | 500      |
| TOTAL Estimated Lease Acquisition Cost . . . . .            | \$ 1,100 |

ESTIMATED DRY HOLE COSTIntangible Well Costs

|  |         |
|--|---------|
| Surveying Location   | 225     |
| Surface Damages  | 700     |
| Location and Road  | 8,500   |
| Drilling <u>11,300</u> ft. at \$ <u>11.50</u> /ft.           | 129,950 |
| Day Work <u>6</u> days at \$ <u>2800.00</u> /day             | 16,800  |
| <del>XXXXXXXXXXXX</del> Gas Separation Equipment             | 2,500   |
| Mud and Admixtures   | 25,000  |
| <del>XXXXXXXXXXXX</del> Water                                | 25,000  |
| Cement and Cementing Services                                | 9,000   |
| Drill Stem Tests ( <u>5</u> )                                | 8,500   |
| <del>XXXXXXXXXXXX</del> Pit Lining, Yellow Jacket,           | 3,200   |
| Logging: Electric Pit Level & Flow line Monitor              | 9,000   |
| Hydrocarbon (mud)  | 4,400   |
| Trucking   | 1,200   |
| Misc. Consumable Equipment (Shoes, centralizers, bits, etc.) | 2,000   |
| Overhead and Supervision                                     | 3,500   |
| Plugging   | 5,000   |

Well Equipment Costs

|   |          |
|---|----------|
| Casing: Delivered & includes 4% Tax   |          |
| Surface <u>400</u> ft. of <u>13 3/8"</u> @ \$ <u>15.00</u> /ft.                     | \$ 6,500 |
| Intermediate <u>2500</u> ft. of <u>8 5/8"</u> @ \$ <u>7.20</u> /ft. 18,000          |          |
| <del>XXXXXXXXXXXX</del> <u>400</u> ft. of <u>8 5/8"</u> @ \$ <u>9.20</u> /ft. 3,680 | 21,680   |

|  |           |
|--|-----------|
| TOTAL Estimated Dry Hole Costs . . . . . | \$283,755 |
|--|-----------|

|                              |  |
|------------------------------|--|
| Less Contributions . . . . . |  |
|------------------------------|--|

|                                       |  |
|---------------------------------------|--|
| NET Estimated Dry Hole Cost . . . . . |  |
|---------------------------------------|--|

|  |  |
|--|--|
| Estimated . . . . . Interest of Dry Hole . . . . . |  |
|--|--|

ESTIMATED COMPLETION COSTS

|  |         |                               |           |
|--|---------|-------------------------------|-----------|
| <u>Intangible Well Costs</u>                                   |         |                               |           |
| Unit Time  | 7       | day at \$ 800.00 /day         | \$ 5,600  |
| Perforating  |         |                               | 6,500     |
| Treating (acidizing and fracturing, etc.)                      |         |                               | 25,000    |
| Cement and Cementing Services                                  |         |                               | 7,500     |
| Trucking   |         |                               | 1,350     |
| Equipment Rental   |         |                               | 1,500     |
| Installation Cost of Lease Equipment                           |         |                               | 3,000     |
| Overhead and Supervision                                       |         |                               | 3,000     |
| * 9600' @ \$4.52 = 43,392; 1700' @ \$5.30 = 9010               |         |                               |           |
| <u>Well Equipment Costs</u> Includes 4% tax & delivered        |         |                               |           |
| Casing *   | 11,300' | ft. of 4 1/2" at \$ /ft.      | 52,402    |
| Tubing   | 11,300' | ft. of 2 3/8" at \$ 2.75 /ft. | 31,075    |
| Well Head Equipment  |         |                               | 9,500     |
| Tanks  |         |                               | 2,600     |
| Separation and/or Treating Equipment                           |         |                               | 15,000    |
| Metering Equipment   |         |                               | ---       |
| Flow Lines   |         |                               | 1,500     |
| Pumping Unit and Engine or Motor                               |         |                               | ---       |
| Rods, Pump, Polish Rod, Packers, <del>xxx</del> Fittings, etc. |         |                               | 1,500     |
| Other  |         |                               | 5,000     |
| TOTAL Estimated Additional Cost for Producer . . . . .         |         |                               | \$172,027 |
| TOTAL COST OF COMPLETED WELL . . . . .                         |         |                               | \$450,782 |
| Estimated _____ Interest of Producing Well . . . . .           |         |                               |           |

COMPANY: PENROC OIL CORPORATION

APPROVED BY: S. J. Talley

DATE: 7/26/76



BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
August 4, 1976

EXAMINER HEARING

IN THE MATTER OF:

Application of Penroc Oil Corporation ) CASE  
for compulsory pooling, Eddy County, ) 5729  
New Mexico. )

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: William F. Carr, Esq.  
Legal Counsel for the Commission  
State Land Office Building  
Santa Fe, New Mexico

For the Applicant: Jason W. Kellahin, Esq.  
KELLAHIN & FOX  
Attorneys at Law  
500 Don Gaspar  
Santa Fe, New Mexico

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

I N D E X

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

Page

STERLING TALLEY

|                                    |    |
|------------------------------------|----|
| Direct Examination by Mr. Kellahin | 3  |
| Cross Examination by Mr. Nutter    | 12 |

EXHIBIT INDEX

Page

|  |    |
|--|----|
| Applicant's Exhibit One, Map                   | 12 |
| Applicant's Exhibit Two, Cities Service Letter | 12 |
| Applicant's Exhibit Three, Ferguson Oil Letter | 12 |
| Applicant's Exhibit Four, Dorchester Letter    | 12 |
| Applicant's Exhibit Five, Hillin Letter        | 12 |
| Applicant's Exhibit Six, Request Letter        | 12 |
| Applicant's Exhibit Seven, Well Cost Estimate  | 12 |
| Applicant's Exhibit Eight, Cross Section       | 12 |

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212



1 MR. NUTTER: We will call next Case Number 5729.

2 MR. CARR: Case 5729, application of Penroc Oil  
3 Corporation for compulsory pooling, Eddy County, New Mexico.

4 MR. KELLAHIN: If the Examiner please, Jason Kellahin,  
5 Kellahin and Fox, Santa Fe, appearing for the applicant and I  
6 have one witness.

7 (THEREUPON, the witness was duly sworn.)

8  
9 STERLING TALLEY

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

12  
13 DIRECT EXAMINATION

14 BY MR. KELLAHIN:

15 Q Would you state your name, please?

16 A Sterling Talley.

17 Q By whom are you employed and in what position,  
18 Mr. Talley?

19 A I'm President of Penroc Oil Corporation, Midland,  
20 Texas.

21 Q Have you ever testified before the Oil Conservation  
22 Commission and made your qualifications a matter of record?

23 A Yes, I have.

24 MR. KELLAHIN: Are the witness' qualifications  
25 acceptable?

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

1 MR. NUTTER: Yes, they are.

2 Q (Mr. Kellahin continuing.) Mr. Talley, are you  
3 familiar with the application of Penroc Oil Corporation in  
4 Case 5729?

5 A Yes, I am.

6 Q What does the applicant propose in this case?

7 A The applicant proposes to compulsory pool twenty-five  
8 percent of a three-hundred-and-twenty acre proration unit in  
9 Eddy County, New Mexico.

10 Q Now, referring to what has been marked as Exhibit  
11 Number One would you identify that exhibit, please?

12 A Yes, Exhibit One is a map of portions of 19 South,  
13 28 East and also 20 South, 28 East, that covering a portion of  
14 the Winchester area as well as other undesignated producing  
15 areas that have occurred recently. It also shows the lease  
16 ownership in the area. It shows the wells that have  
17 penetrated the Wolfcamp formation or deeper with the shallow  
18 wells having been left off.

19 Those wells that have been circled are color  
20 coded as to what the wells were completed in as a producing  
21 zone. You will note in the legend that blue is Wolfcamp, red  
22 is Strawn, orange is Atoka and yellow is Morrow.

23 The area which we are interested in here is the  
24 north half of Section 33, 19 South, 28 East. It is indicated  
25 on this map as being outlined in red and also it showed a

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

1 normal three-hundred-and-twenty acre proration unit location  
2 where Penroc proposes to drill an eleven-thousand-three-  
3 hundred-foot Morrow test.

4 Q Now, does Penroc own the working interest other  
5 than the twenty-five percent?

6 A Penroc has by the farmout route, seventy-five percent  
7 of the lease ownership, yes.

8 Q Referring now to Exhibits Two and Three, would you  
9 identify those exhibits, please?

10 A Exhibits Number Two and Number Three, the first one,  
11 Number Two is a letter from Cities Service whereby they have  
12 accepted Penroc's request for a farmout and Exhibit Number Three  
13 is a letter from Ferguson Oil Company. By the way, Cities  
14 Service owns twenty-five percent of that lease. Ferguson Oil  
15 Company, their agreement letter on also a twenty-five percent  
16 increment.

17 Q And then Number Four.

18 A Number Four is a letter from Dorchester Exploration  
19 owning another twenty-five percent of the leasehold. At  
20 first they turned me down and then you will note the notes on  
21 the right-hand part of the letter whereby they changed their  
22 minds by telephone conversation and did agree to go along  
23 with the farmout proposal.

24 I might add at this time, Cities Service is preparing  
25 the farmout agreement with Dorchester and Ferguson being carried

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

## sid morrison reporting service

General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

1 on that agreement.

2 Q So Penroc will have seventy-five percent under a  
3 farmout then?

4 A Yes.

5 Q Now, referring to Exhibit Number Five, would you  
6 identify that exhibit, please?

7 A Exhibit Number Five is a letter from Robert K. Hillin  
8 who jointly owns, along with Duane Hamilton, the remaining  
9 twenty-five percent of the lease whereby collectively they  
10 have turned down any type of deal, either farmout or join.

11 Q Now, Exhibit Number Six, would you identify that  
12 exhibit, please?

13 A I don't have a copy. I think Exhibit Six is a letter  
14 whereby your office transmitted a copy of the request for  
15 compulsory pooling and signed receipts where they had received  
16 those.

17 Q Now, you say Hillin and Hamilton own twenty-five  
18 percent, in what percentage do they own that twenty-five  
19 percent?

20 A Hillin owns three-fourths of the twenty-five and  
21 Hamilton owns one-fourth of the twenty-five.

22 MR. NUTTER: What are we talking about, Mr. Talley,  
23 are we talking about the entire three-hundred-and-twenty?

24 A Yes.

25 Q (Mr. Kellahin continuing.) Is this an undivided

1 interest in the three-twenty?

2 A. No, this is a divided interest.

3 MR. NUTTER: Now, when we look here at Exhibit Number  
4 One, it appears that there are possibly four leases involved  
5 here, they are marked by the little dashed lines or is it one  
6 lease or just what is the status here?

7 A. Well, there is more than one lease but all of the  
8 leases are of the same percentage, Cities Service twenty-five,  
9 Ferguson twenty-five and so forth.

10 MR. NUTTER: For practical purposes you can say this  
11 is one three-hundred-and-twenty acre lease?

12 A. Right, yes, sir.

13 MR. NUTTER: Then when you talk about Hillin and  
14 Hamilton owning, what percent was it?

15 A. Twenty-five percent collectively. In other words,  
16 this three-hundred-and-twenty lease, although it is composed  
17 of more than one lease, all of the leases are held in the  
18 exact same percentage.

19 MR. NUTTER: Okay, so Hillin and Hamilton own the  
20 twenty-five percent undivided interest in this three-hundred-  
21 and-twenty acre tract, don't they?

22 A. Right, for all practical purposes you can say that.

23 Q. (Mr. Kellahin continuing.) Now, what effort have  
24 you made to get them to join, Mr. Talley?

25 A. The first contacts were by letters and then I have

**sid morrish reporting service**

General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

1 had several subsequent telephone conversations with Hillin  
2 and Hamilton and their reaction has been that they don't  
3 want to farmout, they don't want to join. Hillin wants to  
4 sell his acreage and the best price I could get from him is  
5 a thousand dollars an acre. Hamilton does not want to sell  
6 his interest because he has other interest in the area, if  
7 he sells one piece he wants to sell it all.

8 Q Now, referring to what has been marked as Exhibit  
9 Number Seven, will you identify that exhibit?

10 A Exhibit Number Seven, I believe, is a well cost  
11 estimate for an eleven thousand, three hundred foot Morrow  
12 test to be drilled at the location indicated on the plat,  
13 Exhibit Number One.

14 Q What is your total cost estimate for the Morrow  
15 well?

16 A The total cost of a completed well I estimate to  
17 be a little over four hundred and fifty thousand dollars.

18 Q That is somewhat lower than other operators' costs,  
19 is it not?

20 A Well, if you refer to operators, you mean like  
21 major companies?

22 Q Yes, sir.

23 A Well, we naturally can drill wells cheaper than  
24 major companies can.

25 Q Have you had experience that would support your

1 four hundred and fifty thousand, seven hundred and eighty-two  
2 dollar cost?

3 A. Oh, yes, I've drilled one, two, three -- at least  
4 a half a dozen of the wells that are represented on Exhibit One.

5 Q. And in your opinion that cost is a reasonable cost?

6 A. Oh, yes.

7 Q. Now, is there any risk in drilling this particular  
8 location?

9 A. There is considerable risk. I think everyone who  
10 is very close to the Morrow in Eddy County realizes that there  
11 is an ultimate risk from location to location.

12 Q. Would you refer to Exhibit Number Eight and discuss  
13 that exhibit, please?

14 A. Exhibit Number Eight is a two-well cross section  
15 which involves the well in the south half of Section 33, 19,  
16 28, colored in orange that was drilled by Penroc and the other  
17 well on the right-hand side of the cross section is one  
18 drilled by Dorchester in the west half of 34.

19 What we have shown here is, starting at the top,  
20 the correlations of certain geologic formations such as the  
21 Strawn which is in blue and the Atoka which is in orange and  
22 down closer to the bottom the Morrow shale which is in green.  
23 The colors in the gamma ray portion of the log simply indicate  
24 correlative points between the two wells in the curve.

25 Now, if you look down at the Morrow, to give you an

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

**sid morrison reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

1 idea of the risk we run out here when we drill one of these  
2 Morrow wells, the Dorchester well in the west half of 34, you  
3 will see a nice, fat sand there below ten, nine hundred which  
4 has limits of upper and lower indicated by red lines and you  
5 will note the perforation in the wellbore, then you come across  
6 to the Penroc well and see that sand was lost completely.

7 Q Now, is the Penroc well, the proposed well, approxi-  
8 mately the same distance from the Dorchester well as your  
9 Atoka well?

10 A About the same distance, slightly over a half-a-mile  
11 yes, sir.

12 Q So in the half-a-mile the sand just completely  
13 disappeared?

14 A Yes, sir.

15 Q Is there a possibility that that could happen in  
16 your proposed location?

17 A Very much so.

18 Q What risk factor would you propose for this well?

19 A Well, I propose a maximum risk factor which I think  
20 is somewhere in the neighborhood of two hundred percent.

21 Q You do have an offset Morrow production, is that a  
22 good well, the Dorchester well?

23 A It is a good well as far as performance is concerned  
24 on a daily basis, its rate is one and a quarter million cubic  
25 feet of gas twelve to fourteen barrels of condensate per day



1 and it has been producing that for about two years solid, it  
2 doesn't vary.

3 Q Now, you could get a well not so good if you do  
4 encounter the Morrow sand?

5 A Well, that gets readily pointed out when you look  
6 at the well in the east half of Section 34 which encountered  
7 this same lower-upper Morrow sand. It's a very poor well.

8 Q So the quality of the sand is another risk you are  
9 assuming?

10 A Right, yes, sir.

11 Q Now, do you think a two hundred percent risk factor  
12 is a reasonable risk factor for your proposed well?

13 A I do.

14 Q What are your charges for supervision?

15 A During the drilling of the well, five hundred  
16 dollars a month.

17 Q Now, for a producing well what would you normally  
18 consider?

19 A We normally get two hundred dollars per single  
20 completion well for overhead.

21 Q And would you propose that for the charges for  
22 this well?

23 A Yes.

24 Q Were Exhibits One through Eight prepared by you or  
25 under your supervision?

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

1 A. They were prepared by me.

2 MR. KELLAHIN: We offer into evidence Exhibits One  
3 through Eight.

4 MR. NUTTER: Applicant's Exhibits One through Eight  
5 will be admitted into evidence.

6 (THEREUPON, Applicant's Exhibits One through  
7 Eight were admitted into evidence.)

8 MR. KELLAHIN: That's all we have, Mr. Nutter.

9  
10 CROSS EXAMINATION

11 BY MR. NUTTER:

12 Q Now, Mr. Talley, referring to these letters, Exhibits  
13 Two, Three, Four and Five, Exhibit Number Two is from Cities  
14 Service and they have agreed to farmout by their letter, is  
15 that correct?

16 A. Yes.

17 Q So Penroc by the farmout route has the Cities  
18 Service interest in the lease?

19 A. Yes.

20 Q Ferguson Oil Company, they also own a twenty-five  
21 percent interest in this lease?

22 A. Yes, sir.

23 Q And are they sharing in the well or are they farming  
24 out?

25 A. They are farming out.

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

1 Q So you've got their farmout?

2 A Yes, sir.

3 Q And Dorchester, by the note written on the corner of  
4 Exhibit Number Four has agreed to farmout?

5 A Yes, sir.

6 Q So you've got that twenty-five percent, so in effect  
7 you've got by farmout route, seventy-five percent total  
8 working interest?

9 A That is correct.

10 Q And Hillin and Hamilton are holding out and they  
11 would be twenty-five percent owners also?

12 A Right. And if you don't have a note to the effect,  
13 in that twenty-five percent that they own, Hillin owns three-  
14 fourths of that and Hamilton one-fourth.

15 Q I see.

16 A As to their proportionate share of the twenty-five  
17 percent.

18 Q That is their division of their twenty-five percent?

19 A Yes. Or if you look at it another way, they own  
20 three-sixteenths and one-sixteenth of the whole lease.

21 Q Okay. When would you propose drilling this well,  
22 is it programmed to be drilled in the near future?

23 A I wanted to start it next month, yes.

24 Q Now, the one offsetting well made a good well in the  
25 Atoka and the other offsetting well made a good well in the

**sid morrison reporting service**

General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

1 Morrow?

2 A. Yes.

3 Q. But neither well had the other sand that the other  
4 one had?

5 A. That's right.

6 Q. But you are proposing to go to the Morrow with your  
7 well but you will look at the Atoka on the way down?

8 A. Yes. The primary objective in this well, I might  
9 point out, Mr. Nutter, is the Morrow. That Atoka zone in there,  
10 well, it's a queer thing because it does not occur in any other  
11 wells that you see on this map. Now, the only other Atoka  
12 well is to the southeast in Section 3 that Cities Service  
13 drilled and completed. It's in a six-foot sand even below  
14 where you note on this log that the Penroc well is completed  
15 in.

16 Q. I see.

17 A. So as far as I'm concerned they are both limited  
18 reservoir wells and the production from that well is indicating  
19 that.

20 Q. And you are seeking an order pooling all interests  
21 in the Pennsylvanian formations so the Atoka would be covered?

22 A. Yes.

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

25 (THEREUPON, the witness was excused.)

1 MR. NUTTER: Do you have anything further,  
2 Mr. Kellahin?

3 MR. KELLAHIN: That's all, Mr. Nutter, thank you.

4 MR. NUTTER: Does anyone have anything they wish  
5 to offer in Case Number 5729? We will take the case under  
6 advisement.

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23


24

25

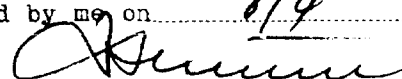
**sid morrish reporting service**  
General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212

REPORTER'S CERTIFICATE

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

  
Sidney F. Morrish, C.S.R.

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 5729,  
heard by me on 8/4, 19 76.

, Examiner  
New Mexico Oil Conservation Commission.

**sid morrish reporting service**

General Court Reporting Service  
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501  
Phone (505) 982-9212



BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE NO. 5729  
Order No. R-5256

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

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 4, 1976, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 11th day of August, 1976, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Penroc Oil Corporation, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the N/2 of Section 33, Township 19 South, Range 28 East, NMPM, Winchester Field, Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at an orthodox location on said 320-acre unit.

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner 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.

(11) That \$500.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling said well, and \$200.00 should be fixed as a reasonable charge for supervision while producing; that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 1, 1976, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the N/2 of Section 33, Township 19 South, Range 28 East, NMPM, Winchester Field, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an orthodox location in Unit B of said Section 33 to test the Morrow formation.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of November, 1976, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of November, 1976, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Commission 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 Commission and show cause why Order (1) of this order should not be rescinded.

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

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

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

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

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 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 \$500.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling said well, and \$200.00 per month is hereby fixed as a reasonable charge for supervision while producing; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

-5-

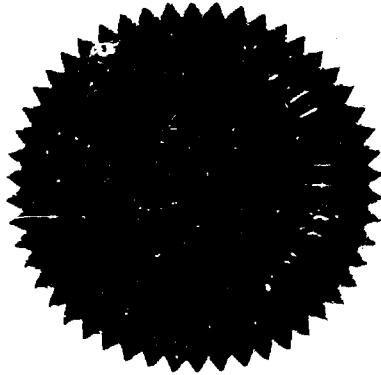
Case No. 5729

Order No. R-5256

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



*Phil R. Lucero*  
PHIL R. LUCERO, Chairman

*Emery C. Arnold*  
EMERY C. ARNOLD, Member

*Joe D. Ramet*  
JOE D. RAMET, Member & Secretary

S E A L

dr/

Dockets Nos. 23-76 and 24-76 are tentatively set for hearing on August 18 and September 1, 1976. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 4, 1976

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

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

- CASE 5726: Application of Cities Service Oil Company for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle production from the North Burton Flats-Wolfcamp Gas Pool and an undesignated Canyon pool in the wellbore of its State CT Well No. 1, located in Unit I of Section 16, Township 20 South, Range 28 East, Eddy County, New Mexico.
- CASE 5727: Application of Big "6" Drilling Corporation for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Bone Springs formation through the perforated interval from 10,062 feet to 10,119 feet in its Ora Jackson "A" Well No. 1 located in Unit M of Section 5, Township 19 South, Range 35 East, Scharb-Bone Springs Pool, Lea County, New Mexico.
- CASE 5728: Application of Pennzoil Company for an exception to Order No. R-3221, Lea County, New Mexico. Applicant, in the above-styled cause, seeks, as an exception to the provisions of Commission Order No. R-3221, permission to dispose of, in an unlined pit, produced salt water from its Mescalero Ridge Unit Well No. 1, located in Unit M of Section 20, Township 19 South, Range 34 East, Quail Ridge-Morrow Pool, Lea County, New Mexico.
- CASE 5729: Application of Penroc Oil Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the N/2 of Section 33, Township 19 South, Range 28 East, Eddy County, New Mexico, to be dedicated to applicant's Angell Ranch Well No. 1 to be drilled at an orthodox location in Unit B of said Section 33 to test the Morrow formation. 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 5730: Southeastern New Mexico nomenclature case calling for the creation and extension of certain pools in Eddy, Chaves, and Lea Counties, New Mexico:
- a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Mid Beil Lake-Morrow Gas Pool. The discovery well is the Continental Oil Company Bradley "A" Well No. 1 located in Unit F of Section 19, Township 23 South, Range 34 East, NMPM. Said pool would comprise:
- TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM  
Section 19: W/2
- b) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Morrow production and designated as the East Burton Flat-Morrow Gas Pool. The discovery well is the Texas Oil and Gas Corporation Superior Federal Well No. 1 located in Unit G of Section 8, Township 20 South, Range 29 East, NMPM. Said pool would comprise:
- TOWNSHIP 20 SOUTH, RANGE 29 EAST, NMPM  
Section 4: W/2  
Section 8: All  
Section 9: All  
Section 16: All  
Section 17: All  
Section 18: All
- c) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Strawn production and designated as the East Burton Flat-Strawn Gas Pool. The discovery well is the Texas Oil and Gas Corporation Yates Federal Well No. 1 located in Unit N of Section 8, Township 20 South, Range 29 East, NMPM. Said pool would comprise:

TOWNSHIP 20 SOUTH, RANGE 29 EAST, NMPM  
Section 8: S/2

CITIES SERVICE OIL COMPANY



Box 1919  
Midland, Texas 79701  
Telephone (915) 684-7131

May 19, 1976

Penroc Oil Corporation  
P. O. Drawer 831  
Midland, Texas 79701

Attention: Mr. Sterling J. Talley

Re: Request for Farmout  
N/2 Section 33, T-19-S, R-28-E  
Eddy County, New Mexico

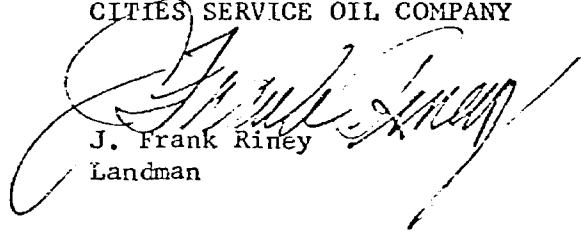
Gentlemen:

Please refer to your letter of May 6, 1976. We have Management approval to farm out as requested in your letter. Please fill out the Check List and return it to this office at your convenience.

Let us know if any of the other Working Interest Owners wish to be included in our farmout agreement.

Yours very truly,

CITIES SERVICE OIL COMPANY

  
J. Frank Riney  
Landman

JFR:ch

Attachment

|                           |
|---------------------------|
| BEFORE EXAMINER NUTTER    |
| OIL CONVEYANCE COMMISSION |
| Penroc OIL NO. <u>2</u>   |
| CASE NO. <u>5729</u>      |



FERGUSON OIL COMPANY, INC.

2700 Liberty Tower 100 Broadway Oklahoma City, Okla. 73102

Phone Area Code 405 -- 239-7921

June 1, 1976



Re: N/2 Section 33-19S-28E  
Eddy County, New Mexico  
West Winchester Prospect

Penroc Oil Corporation  
P. O. Drawer 831  
Midland, Texas 79701

Attention: Mr. Sterling J. Talley

Gentlemen:

In reply to your letter of May 7, 1976, wherein you request a farmout of our interest in the subject 320 acres in Eddy County, New Mexico, subject to your drilling an 11,400' <sup>Marrow</sup> Atoka test, please be advised that Ferguson is willing to farmout their interest on the basis as set out in your letter of May 7th.

Please advise when you have made a trade with the other parties in this 320 acres and we will prepare our Farmout Agreement for your consideration and acceptance.

Yours very truly,

FERGUSON OIL COMPANY, INC.

*J. H. Welin*  
J. H. Welin

JHW:mm

cc: Mr. Robert K. Hillin  
618 Vaughn Building  
Midland, Texas 79701

Mr. Dwayne Hamilton  
Midland National Bank Building 9th Floor  
Midland, Texas 79701

Cities Service Oil Company  
Midland National Bank Building 10th Floor  
Midland, Texas 79701

Dorchester Exploration, Inc.  
1204 Vaughn Building  
Midland, Texas 79701

|                             |                      |
|-----------------------------|----------------------|
| BEFORE EXAMINER NUTTER      |                      |
| OIL CONSERVATION COMMISSION |                      |
| <i>Penroc</i>               | EXHIBIT NO. <u>3</u> |
| CASE NO. <u>5729</u>        |                      |

DORCHESTER EXPLORATION, INC.

1100 MIDLAND NATIONAL BANK TOWER

MIDLAND, TEXAS 79701

May 24, 1976

AREA CODE 915 683-1866

Mr. Sterling J. Talley  
Penroc Oil Corporation  
P. O. Drawer 831  
Midland, Texas 79701

|                             |                      |
|-----------------------------|----------------------|
| BEFORE EXAMINER NUTTER      |                      |
| OIL CONSERVATION COMMISSION |                      |
| <u>Penroc</u>               | EXHIBIT NO. <u>4</u> |
| CASE NO. <u>6729</u>        |                      |

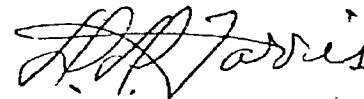
Re: West Winchester Prospect  
Eddy County, New Mexico

Dear Mr. Talley:

Reference is made to your letter of May 7, 1976, by which you requested a farmout of Dorchester's interest in the N/2 Section 33, T-19-S, R-28-E, Eddy County, New Mexico.

While we appreciate your offer to take a farmout on our interest in the subject acreage, we have decided that we are not at present interested in subleasing any of our interest in this tract.

Yours very truly,



D. D. Farris  
Division Land Manager

DDF:lh

- xc: Ferguson Oil Company, Inc.  
2700 Liberty Tower  
100 Broadway  
Oklahoma City, Okla. 73102
- xc: Mr. Robert K. Hillin  
618 Vaughn Building  
Midland, Texas 79701
- xc: Mr. Dwayne Hamilton  
9th Floor  
Midland National Bank Building  
Midland, Texas 79701
- xc: Cities Service Company  
10th Floor  
Midland National Bank Bldg.  
Midland, Texas 79701

*Decided to reverse this  
decision and file. Called  
by Bill Aikman on Tues.  
June 22nd. Dorchester to  
prepare agreement letter  
DDF  
June 25th  
Decided to go on  
C.S. Agreement  
DDF*



ROBERT K. HILLIN

BUS. PH (915) 682-2202  
RFS. PH (915) 663-3258

POST OFFICE BOX 1552  
MIDLAND, TEXAS 79701

May 21, 1976

Penroc Oil Corporation  
P.O. Drawer 831  
Midland, Texas 79701

Re: Request for Farmout  
N/2 Sec 33-19-28,  
Eddy County, N.M.

Attention: Mr. Sterling J. Talley  
President

Dear Mr. Talley:

Per your letter of May 7, 1976 and telephone conversation with Mr. Hillin of this date regarding a farmout request on leasehold rights to a depth of approximately 11,400 feet covering the N/2 Section 33, T-19-S, R-28-E, Eddy County, New Mexico, the interest owners, Mr. Hillin and Mr. Hamilton do not wish to farmout the above leasehold rights.

We appreciate your interest in this property and look forward to hearing from you again.

Yours very truly,

*Wayne Hulsouser*  
Wayne Hulsouser  
Manager of Operations

WH/lb

|                             |                      |
|-----------------------------|----------------------|
| BEFORE EXAMINER NUTTER      |                      |
| OIL CONSERVATION COMMISSION |                      |
| <i>Penroc</i>               | EXHIBIT NO. <u>5</u> |
| CASE NO.                    | <u>5729</u>          |

July 7, 1976

Mr. Robert K. Hillin  
Midland National Bank Tower  
Midland, Texas 79701

Mr. Dwayne Hamilton  
Midland National Bank Tower  
Midland, Texas 79701

Gentlemen:

Enclosed is a copy of an application for compulsory pooling which has been filed with the New Mexico Oil Conservation Commission on behalf of Penroc Oil Corporation.

Hearing on this application will be before the Commission's examiner on August 4, 1976, at 9:00 A.M.

Yours very truly,

Jason W. Kellahin

JWK:kjf

Enclosure

*Certified Mail*



SENDER: Be sure to follow instructions on other side

PLEASE FURNISH SERVICE(S) INDICATED BY CHECKED BLOCK(S)  
(Additional charges required for these services)

☐ Show to whom, date and address where delivered ☐ Deliver ONLY to addressee

RECEIPT

Received the numbered article described below

|                           |  |
|---------------------------|--|
| REGISTERED NO.            | SIGNATURE OR NAME OF ADDRESSEE (Must always be filled in)        |
| CERTIFIED NO.<br>970988   | 1 <i>R. K. Hillin</i>  |
| INSURED NO.               | 2 <i>J. Bennett</i>  |
| DATE DELIVERED<br>7/27/76 | 3 SHOW WHERE DELIVERED (Only if requested, and include ZIP Code) |

SENDER: Be sure to follow instructions on other side

PLEASE FURNISH SERVICE(S) INDICATED BY CHECKED BLOCK(S)  
(Additional charges required for these services)

☐ Show to whom, date and address where delivered ☐ Deliver ONLY to addressee

RECEIPT

Received the numbered article described below

|                          |  |
|--------------------------|--|
| REGISTERED NO.           | SIGNATURE OR NAME OF ADDRESSEE (Must always be filled in)        |
| CERTIFIED NO.<br>970989  | 1 <i>Donna Becker</i>  |
| INSURED NO.              | 2  |
| DATE DELIVERED<br>7/9/76 | 3 SHOW WHERE DELIVERED (Only if requested, and include ZIP Code) |

RECEIPT FOR CERTIFIED MAIL—30¢ (plus postage)

|   |                                       |
|---|---------------------------------------|
| SENT TO<br><i>Mr. Dwayne Hamilton</i>                   | POSTMARK<br>OR DATE<br><i>7/27/76</i> |
| STREET AND NO.<br><i>Midland Natl Bank Tower</i>        |                                       |
| P.O., STATE AND ZIP CODE<br><i>Midland, Texas 79701</i> |                                       |
| OPTIONAL SERVICES FOR ADDITIONAL FEES                   |                                       |
| RETURN 1. Shows to whom and date delivered 15¢          |                                       |
| RECEIPT 2. Shows to whom, date and where delivered 35¢  |                                       |
| SERVICES 3. Shows to whom, date and where delivered 35¢ |                                       |
| DELIVER TO ADDRESSEE ONLY 85¢                           |                                       |
| SPECIAL DELIVERY (extra fee required) 50¢               |                                       |

PS Form 3800 Apr. 1971 NO INSURANCE COVERAGE PROVIDED—NOT FOR INTERNATIONAL MAIL (See other side)

No. 970989

RECEIPT FOR CERTIFIED MAIL—30¢ (plus postage)

|   |                                       |
|---|---------------------------------------|
| SENT TO<br><i>Mr. Robert K. Hillin</i>                  | POSTMARK<br>OR DATE<br><i>7/27/76</i> |
| STREET AND NO.<br><i>Midland Natl Bank Tower</i>        |                                       |
| P.O., STATE AND ZIP CODE<br><i>Midland, Texas 79701</i> |                                       |
| OPTIONAL SERVICES FOR ADDITIONAL FEES                   |                                       |
| RETURN 1. Shows to whom and date delivered 15¢          |                                       |
| RECEIPT 2. Shows to whom, date and where delivered 35¢  |                                       |
| SERVICES 3. Shows to whom, date and where delivered 35¢ |                                       |
| DELIVER TO ADDRESSEE ONLY 85¢                           |                                       |
| SPECIAL DELIVERY (extra fee required) 50¢               |                                       |

PS Form 3800 Apr. 1971 NO INSURANCE COVERAGE PROVIDED—NOT FOR INTERNATIONAL MAIL (See other side)

No. 970988

U.S. POSTAL SERVICE  
OFFICIAL BUSINESS



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

PS Form 3811 Nov. 1970

PS Form 3811 Nov. 1970

Postmark of Delivering Office

SENDER INSTRUCTIONS

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

RETURN  
TO

9261  
KELLAHIN and FOX  
500 Don Gaspar  
Post Office Box 1769  
Santa Fe, New Mexico 87501

JWK

U.S. POSTAL SERVICE  
OFFICIAL BUSINESS



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

PS Form 3811 Nov. 1970

PS Form 3811 Nov. 1970

Postmark of Delivering Office

SENDER INSTRUCTIONS

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

RETURN  
TO

KELLAHIN and FOX  
500 Don Gaspar  
Post Office Box 1769  
Santa Fe, New Mexico 87501

JWK

STICK POSTAGE STAMPS TO ARTICLE TO COVER POSTAGE (first class or airmail),  
CERTIFIED MAIL FEE, AND CHARGES FOR ANY SELECTED OPTIONAL SERVICES. (see front)

1. If you want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, leaving the receipt attached, and present the article at a post office service window or hand it to your rural carrier. (no extra charge)
2. If you do not want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, date, detach and retain the receipt, and mail the article.
3. If you want a return receipt, write the certified-mail number and your name and address on a return receipt card, Form 3811, and attach it to the back of the article by means of the gummed ends. Endorse front of article RETURN RECEIPT REQUESTED.
4. If you want the article delivered only to the addressee, endorse it on the front DELIVER TO ADDRESSEE ONLY. Place the same endorsement in line 2 of the return receipt card if that service is requested.
5. Save this receipt and present it if you make inquiry.

STICK POSTAGE STAMPS TO ARTICLE TO COVER POSTAGE (first class or airmail),  
CERTIFIED MAIL FEE, AND CHARGES FOR ANY SELECTED OPTIONAL SERVICES. (see front)

1. If you want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, leaving the receipt attached, and present the article at a post office service window or hand it to your rural carrier. (no extra charge)
2. If you do not want this receipt postmarked, stick the gummed stub on the left portion of the address side of the article, date, detach and retain the receipt, and mail the article.
3. If you want a return receipt, write the certified-mail number and your name and address on a return receipt card, Form 3811, and attach it to the back of the article by means of the gummed ends. Endorse front of article RETURN RECEIPT REQUESTED.
4. If you want the article delivered only to the addressee, endorse it on the front DELIVER TO ADDRESSEE ONLY. Place the same endorsement in line 2 of the return receipt card if that service is requested.
5. Save this receipt and present it if you make inquiry.

**PENROC Oil Corporation**

P. O. DRAWER 831 • MIDLAND, TEXAS • 79701

**BEFORE EXAMINER NUTTER**

Telephone (915) 683-1861

OIL CONSERVATION COMMISSION

Penroc EXHIBIT NO. 7 WELL COST ESTIMATECASE NO. 5729STATE New Mexico COUNTY Eddy FIELD Undesignated - MorrowLEASE Angell Ranch WELL NO. 1SEC. 33 BLK. OR TWP. 19 S RGE. OR SURV. 28 EPROPOSED DEPTH 11,300' HORIZON MorrowNO. ACRES 320 PROPOSED SPUD DATE 9-10-76DRILLING CONTRACTOR MorancoESTIMATED LEASEHOLD COST

|   |        |
|---|--------|
| Lease Bonus and/or Brokerage                                |        |
| Legal Fees (Title Opinion, Abstracts, Recording Fees, etc.) | \$ 600 |
| Other (Travel Expense, Telephone, etc.)                     | 500    |

TOTAL Estimated Lease Acquisition Cost . . . . . \$ 1,100

ESTIMATED DRY HOLE COSTIntangible Well Costs

|  |         |
|--|---------|
| Surveying Location   | 225     |
| Surface Damages  | 700     |
| Location and Road  | 8,500   |
| Drilling <u>11,300</u> ft. at \$ <u>11.50</u> /ft.           | 129,950 |
| Day Work <u>6</u> days at \$ <u>2800.00</u> /day             | 16,800  |
| <del>XXXXXXXXXX</del> Gas Separation Equipment               | 2,500   |
| Mud and Admixtures   | 25,000  |
| <del>XXXXXX</del> Water                                      | 25,000  |
| Cement and Cementing Services                                | 9,000   |
| Drill Stem Tests ( <u>5</u> )                                | 8,500   |
| <del>XXXXXXXXXX</del> Pit Lining, Yellow Jacket,             | 3,200   |
| Logging: Electric Pit Level & Flow line Monitor              | 9,000   |
| Hydrocarbon (mud)  | 4,400   |
| Trucking   | 1,200   |
| Misc. Consumable Equipment (Shoes, centralizers, bits, etc.) | 2,000   |
| Overhead and Supervision                                     | 3,500   |
| Plugging   | 5,000   |

Well Equipment Costs

|   |          |
|---|----------|
| Casing: Delivered & includes 4% Tax   |          |
| Surface <u>400</u> ft. of <u>13 3/8"</u> @ \$ <u>15.00</u> /ft.             | \$ 6,500 |
| Intermediate <u>2500</u> ft. of <u>8 5/8"</u> @ \$ <u>7.20</u> /ft.         | 18,000   |
| <del>XXXXXXXXXX</del> <u>400</u> ft. of <u>8 5/8"</u> @ \$ <u>9.20</u> /ft. | 3,680    |

TOTAL Estimated Dry Hole Costs . . . . . \$283,755

Less Contributions . . . . .

NET Estimated Dry Hole Cost . . . . .

Estimated Interest of Dry Hole . . . . .

ESTIMATED COMPLETION COSTS

|  |                                       |           |
|--|---------------------------------------|-----------|
| <u>Intangible Well Costs</u>                                   |                                       |           |
| Unit Time  | 7 day at \$ 800.00 /day               | \$ 5,600  |
| Perforating  |                                       | 6,500     |
| Treating (acidizing and fracturing, etc.)                      |                                       | 25,000    |
| Cement and Cementing Services                                  |                                       | 7,500     |
| Trucking   |                                       | 1,350     |
| Equipment Rental   |                                       | 1,500     |
| Installation Cost of Lease Equipment                           |                                       | 3,000     |
| Overhead and Supervision                                       |                                       | 3,000     |
| * 9600' @ \$4.52 = 43,392; 1700' @ \$5.30 = 9010               |                                       |           |
| <u>Well Equipment Costs</u> Includes 4% tax & delivered        |                                       |           |
| Casing *   | 11,300' ft. of 4 1/2" at \$ /ft.      | 52,402    |
| Tubing   | 11,300' ft. of 2 3/8" at \$ 2.75 /ft. | 31,075    |
| Well Head Equipment  |                                       | 9,500     |
| Tanks  |                                       | 2,600     |
| Separation and/or Treating Equipment                           |                                       | 15,000    |
| Metering Equipment   |                                       | ---       |
| Flow Lines   |                                       | 1,500     |
| Pumping Unit and Engine or Motor                               |                                       | ---       |
| Rods, Pump, Polish Rod, Packers, <del>etc</del> Fittings, etc. |                                       | 1,500     |
| Other  |                                       | 5,000     |
| TOTAL Estimated Additional Cost for Producer . . . . .         |                                       | \$172,027 |
| TOTAL COST OF COMPLETED WELL . . . . .                         |                                       | \$450,782 |

Estimated \_\_\_\_\_ Interest of Producing Well . . . . .

COMPANY: PENROC OIL CORPORATION

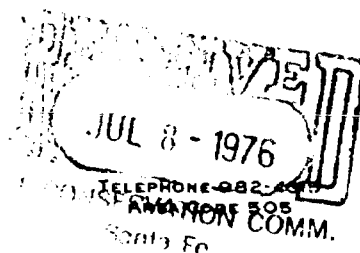
APPROVED BY: S. J. Talley

DATE: 7/26/76

JASON W. KELLAHIN  
ROBERT E. FOX  
W. THOMAS KELLAHIN

KELLAHIN AND FOX  
ATTORNEYS AT LAW  
800 DON GASPAR AVENUE  
POST OFFICE BOX 1769  
SANTA FE, NEW MEXICO 87501

July 7, 1976



Mr. Joe Ramey, Secretary-Director  
New Mexico Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Dear Joe:

Enclosed please find the original and two copies  
of the application of Penroc Oil Corporation for  
compulsory pooling.

We would appreciate this being set for hearing  
on August 4, 1976.

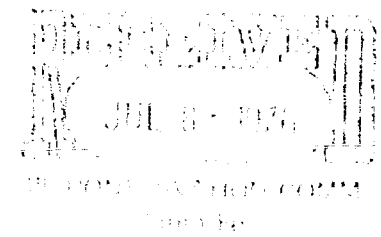
Yours very truly,

*Jason W. Kellahin*  
Jason W. Kellahin

CC: Mr. Sterling Talley

JWK:kjf

Enclosure



BEFORE THE  
OIL CONSERVATION COMMISSION OF NEW MEXICO

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

A P P L I C A T I O N

Comes now Penroc Oil Corporation and applies to the Oil Conservation Commission of New Mexico for an order pooling all of the interests underlying the North half of Section 33, Township 19 South, Range 28 East, N.M.P.M., Eddy County, New Mexico for production from the Pennsylvanian formation, and in support thereof would show the Commission:

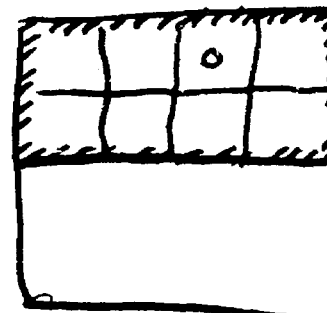
1. Applicant proposes to drill its Angell Ranch No. 1 well at an erthodox location, 660 feet from the North line, and 1980 feet from the East line of the section as a Morrow test.
2. Applicant is the owner of the right to drill and develop the North half of the section, owning an undivided 75% of the mineral interest, by virtue of farm-outs from the interest owners.
3. The remaining undivided 25% mineral interest is owned as follows:

Robert K. (Bobby) Hillin  
Midland National Bank Tower  
Midland, Texas 79701

3/16ths

Dwayne Hamilton  
Midland National Bank Tower  
Midland, Texas 79701

1/16th





4. Applicant has sought to obtain voluntary agreement to the drilling of the proposed well, and has been unable to obtain a voluntary agreement from the owners of the 25% undivided mineral interest.

5. In order to permit applicant to obtain its just and fair share of the oil and gas minerals underlying the subject lands, the mineral interest should be pooled, and applicant should be designated as the operator of the well to be drilled.

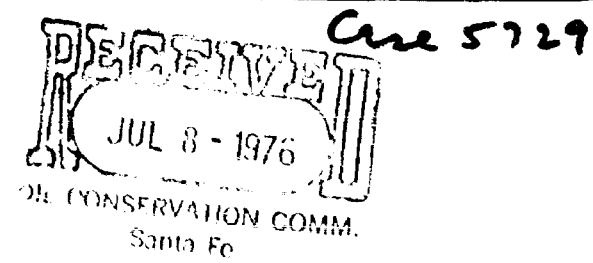
WHEREFORE applicant prays that this application be set for hearing before the Commission or the Commission's duly appointed examiner, and that after notice and hearing as required by law the Commission enter its order pooling the lands, together with a provision for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and a risk factor for the risk assumed by applicant in drilling, completing and equipping the well, and such other and further provision as may be proper in the premises.

Respectfully submitted,

PENROC OIL CORPORATION

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

ATTORNEYS FOR APPLICANT



BEFORE THE  
OIL CONSERVATION COMMISSION OF NEW MEXICO

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

A P P L I C A T I O N

Comes now Penroc Oil Corporation and applies to the Oil Conservation Commission of New Mexico for an order pooling all of the interests underlying the North half of Section 33, Township 19 South, Range 28 East, N.M.P.M., Eddy County, New Mexico for production from the Pennsylvanian formation, and in support thereof would show the Commission:

1. Applicant proposes to drill its Angell Ranch No. 1 well at an orthodox location, 660 feet from the North line, and 1980 feet from the East line of the section as a Morrow test.
2. Applicant is the owner of the right to drill and develop the North half of the section, owning an undivided 75% of the mineral interest, by virtue of farm-outs from the interest owners.
3. The remaining undivided 25% mineral interest is owned as follows:

Robert K. (Bobby) Hillin  
Midland National Bank Tower  
Midland, Texas 79701

3/16ths

Dwayne Hamilton  
Midland National Bank Tower  
Midland, Texas 79701

1/16th

4. Applicant has sought to obtain voluntary agreement to the drilling of the proposed well, and has been unable to obtain a voluntary agreement from the owners of the 25% undivided mineral interest.

5. In order to permit applicant to obtain its just and fair share of the oil and gas minerals underlying the subject lands, the mineral interest should be pooled, and applicant should be designated as the operator of the well to be drilled.

WHEREFORE applicant prays that this application be set for hearing before the Commission or the Commission's duly appointed examiner, and that after notice and hearing as required by law the Commission enter its order pooling the lands, together with a provision for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and a risk factor for the risk assumed by applicant in drilling, completing and equipping the well, and such other and further provision as may be proper in the premises.

Respectfully submitted,

PENROC OIL CORPORATION

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

ATTORNEYS FOR APPLICANT

dr/

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE NO. 5729

Order No. R- 5256

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

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 4, 1976  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this        day of August, 1976, the Commission,  
a quorum being present, having considered the testimony, the record,  
and the recommendations of the Examiner, and being fully advised  
in the premises,

FINDS:

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

(2) That the applicant, Penroc Oil Corporation,  
seeks an order pooling all mineral interests in the  
Pennsylvanian formation underlying the N/2  
of Section 33, Township 19 South, Range 28 East,  
NMPM, Winchester Field, Eddy County, New  
Mexico.

(3) That the applicant has the right to drill and proposes to drill a well \_\_\_\_\_ at an orthodox location on said 320-acre unit.

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner 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 said well, and \$200.00 should  
be fixed as a reasonable charge  
for supervision while producing;*

(11) That \$500.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 1, 1976, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(i) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the N/2 of Section 33, Township 19 South, Range 28 East, NMPM, Winchester Field, Eddy County, New Mexico, are hereby pooled to form a standard 320- acre gas spacing and proration unit to be dedicated to a well to be drilled at an orthodox location in Unit B of said Section 33 to test the Morrow formation,

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of November, 1976, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of November, 1976, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Commission 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 Commission and show cause why Order (1) of this order should not be rescinded.

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

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

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

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

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 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 \$500.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) <sup>while drilling said well, and \$200.00 per month is hereby fixed as a reasonable charge for supervision while producing</sup> 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 No.  
Order No. R-

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

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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