

CASE 7016: HARVEY E. YATES COMPANY FOR
COMPULSORY POOLING, CHAVES COUNTY, NEW
MEXICO

CASE NO.

7016

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

7016

7025



BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

September 12, 1980

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-3434

Mr. Robert H. Strand, Attorney
Harvey E. Yates Company
P. O. Box 1933
Roswell, New Mexico 88201

Re: CASE NO. 7816
ORDER NO. R-6473

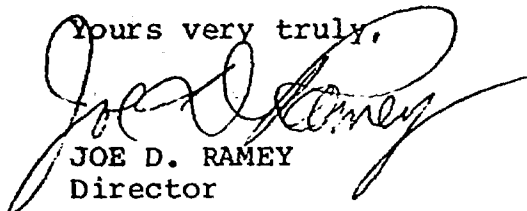
Applicant:

Harvey E. Yates 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 x
Artesia OCD x
Aztec OCD

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7016
Order No. R-6473

APPLICATION OF HARVEY E. YATES
COMPANY FOR COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on September 3, 1980, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 11th day of September, 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, Harvey E. Yates Company, seeks an order pooling all mineral interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 18, Township 15 South, Range 27 East, NMPM, Buffalo Lake Unit Area, Chaves County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.
- (4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.
- (5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas

-2-

Case No. 7016
Order No. R-6473

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

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

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

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

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

-3-

Case No. 7016

Order No. R-6473

(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 December 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 Wolfcamp through Mississippian formations underlying the E/2 of Section 18, Township 15 South, Range 27 East, NMPM, Buffalo Lake Unit Area, Chaves County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

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

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of December, 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 Harvey E. Yates 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

-4-

Case No. 7016
Order No. R-6473

such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

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

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

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

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

-5-

Case No. 7016
Order No. R-6473

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

(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.

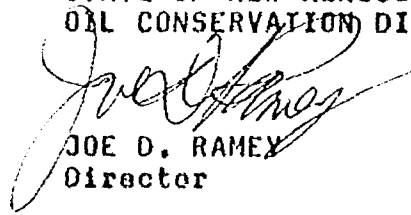
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.


(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Chaves 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director


S E A L
fd/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 September 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Com-
pany for compulsory pooling, Chaves
County, New Mexico.

CASE
7016

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:

Robert H. Strand, Esq.
Harvey E. Yates Company
Roswell, New Mexico 87201

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

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

I N D E X

GEORGE M. YATES

Direct Examination by Mr. Strand 3

RANDOLPH C. SMITH

Direct Examination by Mr. Strand 11

Cross Examination by Mr. Nutter 14

E X H I B I T S

Applicant Exhibit One, Plat 4

Applicant Exhibit Two, Letter 5

Applicant Exhibit Three, Letter 6

Applicant Exhibit Four, Letter 6

Applicant Exhibit Five, Letter 7

Applicant Exhibit Six, AFE 10

Applicant Exhibit Seven, Contour Map 12

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 MR. NUTTER: Call next Case Number 7016.

2 MR. PADILLA: Application of Harvey E.
3 Yates Company for compulsory pooling, Chaves County, New
4 Mexico.

5 MR. STRAND: Mr. Examiner, Robert Strand,
6 Attorney from Roswell, appearing for the applicant.

7 We have two witnesses.

8
9 (Witnesses sworn.)

10
11 GEORGE M. YATES
12 being called as a witness and having been duly sworn upon his
13 oath, testified as follows, to-wit:

14
15 DIRECT EXAMINATION

16 BY MR. STRAND:

17 Q State your full name for the record.

18 A George M. Yates.

19 Q Mr. Yates, what is your position with the
20 applicant, Harvey E. Yates Company?

21 A Vice President.

22 Q And what are your duties in that capa-
23 city?

24 A Supervising all land and exploration
25 operations.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Q Mr. Yates, are you familiar with the
2 application in Case Number 7016?

3 A Yes, I am.

4 Q Will you please state the purpose of that
5 application?

6 A We seek an order pooling all interests
7 from the Wolfcamp through the Mississippian formations under
8 the east half of Section 18, Township 15 South, Range 27 East,
9 in Chaves County.

10 Q Mr. Yates, I refer you to Exhibit Number
11 One. Would you please describe that exhibit?

12 A Yes. Exhibit Number One is a plat of
13 the proposed Buffalo Lake Unit, which is a proposed Federal
14 exploratory unit.

15 The plat shows the east half of Section
16 18 and the leasehold interests within the unit and the loca-
17 tion of the proposed well.

18 Q Would you state for the record the loca-
19 tion?

20 A 1980 from the north line and 660 feet
21 from the east line in Section 18.

22 Q What are the objective formations sought
23 to be tested with the well proposed at the location you've
24 testified to?

25 A The well itself will be drilled into the

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 top of the Mississippian formation. The primary objective is
2 the Atoka and Morrow formation, with other objectives in the
3 Upper Penn.

4 Q What do you anticipate will be the total
5 depth of the well?

6 A We estimate total depth will be 7600
7 feet.

8 Q Mr. Yates, would you describe for the re-
9 cord the interest owned underneath the east half of Section
10 18 by the applicant, Harvey E. Yates Company?

11 A Yes. The northeast quarter of Section
12 18 is fee leasehold interest owned by HEYCO.

13 The south half of the southeast is acreage
14 which has been farmed out by Superior Oil to HEYCO under the
15 unit.

16 Q Mr. Yates, who owns the remaining lease-
17 hold interest under the north half of the southeast quarter
18 of --

19 A The north half of the southeast quarter
20 of Section 18 is owned by Gulf Oil Corporation.

21 Q And do they own that leasehold interest
22 100 percent?

23 A Yes, they do.

24 Q Mr. Yates, I refer you to Exhibit Number
25 Two. Will you please describe that exhibit?

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

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

1 A Exhibit Number Two is a letter on HEYCO
2 letterhead, written to Gulf Oil Corporation, dated June 16th,
3 1980, requesting that Gulf Oil Company join the proposed
4 Buffalo Lake Unit and either participate with their share of
5 the cost, or alternatively, farm out their interest to HEYCO
6 under the same terms as other farmouts have been obtained.

7 Q Now that letter was a request for Gulf to
8 ratify and join the unit.

9 A That's correct.

10 Q Is that correct?

11 A That's correct.

12 Q I refer you to Exhibit Number Three.

13 Would you please describe that exhibit?

14 A Exhibit Number Three is a letter from
15 HEYCO to Gulf, dated July 3rd, 1980, in which we sent an at-
16 tached draft of the proposed unit operating agreement.

17 Q And Exhibit Number Four?

18 A Exhibit Number Four, another letter on
19 HEYCO's stationery, dated August 13th, 1980, to Gulf, setting
20 out the interests under the proposed unit and requesting
21 ratification of the unit agreement and operating agreement.

22 MR. NUTTER: Now this doesn't say it was
23 addressed to Gulf, but it's addressed to --

24 A To working interest owners.

25 MR. NUTTER: -- all working interest

1 owners in the --

2 A Right.

3 MR. NUTTER: -- unit.

4 A That's correct. I'm sorry.

5 Q Now, Mr. Yates, a copy of that letter
6 was sent to Gulf.

7 A A copy was sent to Gulf. It was proposed --
8 it was sent to all working interest owners under the proposed
9 unit.

10 Q Would you please describe Exhibit Number
11 Five?

12 A Exhibit Number Five is a letter HEYCO
13 received from Gulf. The letter is dated August the 20th, in
14 which Gulf sets out the options under which they would consi-
15 der joining the proposed unit.

16 Q Would you please read into the record
17 the options that Gulf suggested in that letter?

18 A Gulf agreed to, in the second paragraph,
19 they state, Gulf agrees to join or farm out to the proration
20 unit referenced above, or join and farm out to a 2-section
21 drilling block involving Section 17 and 18.

22 They then go on to recite terms for a
23 2-section farmout, or one proration farmout, which are con-
24 siderably tougher than terms agreed to by the other farmout
25 parties.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Within -- by setting out the terms that
2 they would participate with, they refuse to join the proposed
3 4-section unit, and participate as -- as we requested or
4 farm out under the 4-section unit.

5 Q Mr. Yates, have we had oral communication
6 with Gulf since that letter dated August 20th, and if so,
7 what was their final decision as to whether or not they
8 would participate or join in drilling the well?

9 A We've had many communications with Gulf,
10 including a trip to Midland for the purpose of sitting down
11 with Gulf and attempting to persuade them that it would be
12 in the best interests of all parties to drill the initial
13 test well under a 4-section unit.

14 We proposed several alternatives to Gulf,
15 including their participation under a 2-section unit with
16 our handling the various interests so that interest would be
17 adjusted under the 4-section unit, and they could participate
18 under a 2-section unit, or any other smaller unit down to a
19 proration unit, if they wished, and we would adjust the cal-
20 culations.

21 However, we informed them that it was
22 uneconomic for us to farm out their acreage under those --
23 under their terms under a 2-section or smaller unit, so if
24 they believe their acreage is more valuable than the acreage
25 that we were putting in the unit, that they could participate

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 by paying their way, but it was not economic for us to farm
2 their interest out.

3 Q Mr. Yates, has Gulf specifically refused
4 to join in drilling the well on the east half of Section 18 --

5 A Yes, they have.

6 Q -- participating in the proration unit?

7 A That's right. They've refused to join.
8 They refused to participate in the well cost. They refused
9 to join in the unit, as well.

10 Q And the farm out terms that they proposed
11 are unacceptable to Harvey E. Yates Company.

12 A That's correct. The farm out terms are
13 considerably less economic than the farm out terms which have
14 been agreed to by -- by other parties within the unit, in-
15 cluding major independent companies.

16 Q Mr. Yates, if the requested compulsory
17 pooling order is entered in this case, does HEYCO, as appli-
18 cant, request that it be designated as operator of the pooled
19 lands?

20 A Yes, we do.

21 Q Has an estimate of the costs of drilling
22 and completing the proposed well been prepared by Harvey E.
23 Yates Company?

24 A Yes, it has.

25 Q I refer you to Exhibit Number Six. Will

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 you please describe it?

2 A Exhibit Six is a HEYCO AFE, which is based
3 on a 7600-foot Atoka Morrow well. The dry hole cost is esti-
4 mated to be \$267,300. The completed well cost, the producing
5 well cost, is estimated to be \$396,600.

6 Q In your experience, Mr. Yates, is this
7 total well cost comparable to the cost of other similar type
8 wells in the area?

9 A Yes, this is a very reasonable estimate
10 of costs based on other wells in the area.

11 Q Mr. Yates, in regard to supervision costs,
12 what would Harvey E. Yates Company as operator of this pro-
13 posed well propose as a reasonable charge for such a super-
14 vision?

15 A \$3000 drilling cost per month; \$300 a
16 month producing rate.

17 Q Again, in your experience in these matters,
18 is this comparable to drilling and producing rates charged
19 for similar wells?

20 A Yes, it is.

21 Q In southeast New Mexico?

22 A Yes, it is.

23 Q And is this further the costs that have
24 been inserted in the COPAS form attached to the proposed
25 Buffalo Lake Operating Agreement?

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 A Yes, it is. These are the same costs
2 that -- that participants in the unit will be paying HEYCO
3 as operator.

4 Q Mr. Yates, were Exhibits One through Six
5 prepared by you or under your supervision or do they represent
6 materials from Harvey E. Yates Company's files and records?

7 A Yes, they do.

8 MR. STRAND: Mr. Examiner, that's all the
9 questions I have of this witness,

10 MR. NUTTER: Mr. Strand, your other wit-
11 ness will testify to structure and risk, is that it?

12 MR. STRAND: Yes.

13 MR. NUTTER: Are there any questions of
14 Mr. Yates? He may be excused.

15

16 RANDOLPH C. SMITH
17 being called as a witness and having been duly sworn upon his
18 oath, testified as follows, to-wit:

19

20 DIRECT EXAMINATION

21 BY MR. STRAND:

22 Q State your full name for the record.

23 A Randolph C. Smith.

24 Q Mr. Smith, what is your occupation?

25 A I'm an exploration geologist in Midland

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 for Harvey E. Yates Company.

2 Q Have you testified before the Division
3 in the past and are your qualifications as a professional
4 geologist a matter of record?

5 A Yes, I have, and Yes, they are.

6 MR. STRAND: Mr. Examiner, is Mr. Smith
7 considered qualified?

8 MR. NUTTER: Yes, he is.

9 Q Mr. Smith, are you familiar with the ap-
10 plication in Case Number 7016?

11 A Yes, I am.

12 Q I refer you to Exhibit Number Seven. Will
13 you please describe that exhibit?

14 A Yes. Exhibit Number Seven is an integrated
15 subsurface control/seismic control structure map on top of
16 the Atoka formation with contour intervals of 50 feet, showing
17 the location of the proposed well in Section 18, 15 South,
18 27 East, 1980 from the north, 660 from the east.

19 This map shows the structural closure on
20 the Atoka and the unit outline, the 4-section unit outline,
21 Section 7, Section 8, 17, and 18.

22 Q Mr. Smith, are you familiar with the
23 type of well proposed to be drilled on the east half of
24 Section 18?

25 A Yes, I am.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7499

1 Q Are you also familiar with the risk as-
2 sociated with drilling such a well?

3 A Yes, sir.

4 Q In respect to this particular well, would
5 you characterize this as a high risk well?

6 A Yes, sir, I do.

7 Q Mr. Smith, considering that the Division
8 may set a maximum penalty for risk to be assessed to non-
9 consenting working interest owners equal to 200 percent of the
10 cost of drilling and completing and operating the well, what
11 would you consider to be an appropriate risk factor if a
12 compulsory pooling order is entered in this case?

13 A I would consider 200 percent.

14 Q Mr. Smith, in your opinion will granting
15 of the order requested in this case promote conservation,
16 protect correlative rights, and otherwise prevent waste?

17 A Yes, sir, it will.

18 Q Was Exhibit Number Seven prepared by you?

19 A Yes, sir.

20 MR. STRAND: Mr. Examiner, I move the
21 admission of Exhibits One through Seven.

22 MR. NUTTER: Applicant's Exhibits One
23 through Seven will be admitted in evidence.

24 MR. STRAND: I have no further questions
25 of this witness.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Smith, where is the nearest production to this proposed location; that is, production in the Atoka or Morrow formations?

A The nearest production is three miles to the northeast in the Buffalo Valley Field. That is Atoka-Morrow production.

And three miles to the south there is Strawn production, Strawn sand production.

Q The wells down here in Section 31 would be Strawn?

A Yes, sir, that's correct.

Q And I believe Mr. Yates stated the primary objectives here were Atoka and Morrow. Will the -- is the Mississippian any kind of a prospect at all?

A Generally in this area no, sir. We use this as, primarily, as a correlative marker for a good top in the area.

Q I see.

A That's why we penetrate that horizon.

Q But you're going for the Morrow when you go that deep, really.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 435-7409

1 A. Yes. Yes, sir, it's very near that hori-
2 zon.

3 Q And up here in Buffalo Valley it's Morrow
4 and what?

5 A Atoka and Morrow sand production.

6 Q And Atoka.

7 MR. NUTTER: Are there any further ques-
8 tions of Mr. Smith? He may be excused.

9 Mr. Yates, I have one question to ask you
10 I forgot.

11 Recently didn't the Division approve this
12 Buffalo Lake Unit Area? Or have a hearing on it?

13 MR. YATES: Yes, we did.

14 MR. NUTTER: And I suppose -- I see in
15 the unit outline on one of your exhibits here, that there are
16 a number of Culf tracts, so I guess they would remain as non-
17 committed windows in that unit area, is that correct?

18 MR. YATES: That's -- that's correct,
19 Gulf has a total of 200 acres within a 20 -- within a 4-sec-
20 tion unit under 2556.8 total acres within the --

21 MR. NUTTER: Two 80's and one 40, is
22 that it?

23 MR. YATES: That's correct.

24 MR. NUTTER: How about the remainder of
25 the working interest in that unit, how much of the working

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 interest has been committed?

2 MR. YATES: The -- the working interest
3 that's been committed represents the total -- total interest,
4 less 200 acres of Gulf's, and Phillips Petroleum with 39 acres.

5 MR. NUTTER: I see. So 240 acres, you
6 might say, is not committed and the rest is..

7 MR. YATES: Yes, and let me further say
8 that we expect, we have every indication to think that the
9 balance of the unit will be committed. There is a 65-acre
10 interest of Southland Royalty which has not been committed
11 definitely. We have every indication it will be committed.

12 MR. NUTTER: I see. Nothing further, Mr.
13 Yates, thank you.

14 Does anyone -- do you have anything fur-
15 ther, Mr. Strand?

16 MR. STRAND: No, Mr. Examiner.

17 MR. NUTTER: Does anyone have anything
18 they wish to offer in Case Number 7016?

19 We'll take the case under advisement.

20
21 (Hearing concluded.)
22
23
24
25

C E R T I F I C A T E

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

Sally W. Boyd C.S.R.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 7016
heard by me on 9/3 1980.

[Signature], Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 September 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Com-
pany for compulsory pooling, Chaves
County, New Mexico.

CASE
7016

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:

Robert H. Strand, Esq.
Harvey E. Yates Company
Roswell, New Mexico 87201

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 433-7409

I N D E X

GEORGE M. YATES

Direct Examination by Mr. Strand 3

RANDOLPH C. SMITH

Direct Examination by Mr. Strand 11

Cross Examination by Mr. Nutter 14

E X H I B I T S

Applicant Exhibit One, Plat 4

Applicant Exhibit Two, Letter 5

Applicant Exhibit Three, Letter 6

Applicant Exhibit Four, Letter 6

Applicant Exhibit Five, Letter 7

Applicant Exhibit Six, AFE 10

Applicant Exhibit Seven, Contour Map 12

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 MR. NUTTER: Call next Case Number 7016.

2 MR. PADILLA: Application of Harvey E.
3 Yates Company for compulsory pooling, Chaves County, New
4 Mexico.

5 MR. STRAND: Mr. Examiner, Robert Strand,
6 Attorney from Roswell, appearing for the applicant.

7 We have two witnesses.

8
9 (Witnesses sworn.)

10
11 GEORGE M. YATES
12 being called as a witness and having been duly sworn upon his
13 oath, testified as follows, to-wit:

14
15 DIRECT EXAMINATION

16 BY MR. STRAND:

17 Q State your full name for the record.

18 A George M. Yates.

19 Q Mr. Yates, what is your position with the
20 applicant, Harvey E. Yates Company?

21 A Vice President.

22 Q And what are your duties in that capa-
23 city?

24 A Supervising all land and exploration
25 operations.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Q Mr. Yates, are you familiar with the
2 application in Case Number 7016?

3 A Yes, I am.

4 Q Will you please state the purpose of that
5 application?

6 A We seek an order pooling all interests
7 from the Wolfcamp through the Mississippian formations under
8 the east half of Section 18, Township 15 South, Range 27 East,
9 in Chaves County.

10 Q Mr. Yates, I refer you to Exhibit Number
11 One. Would you please describe that exhibit?

12 A Yes. Exhibit Number One is a plat of
13 the proposed Buffalo Lake Unit, which is a proposed Federal
14 exploratory unit.

15 The plat shows the east half of Section
16 18 and the leasehold interests within the unit and the loca-
17 tion of the proposed well.

18 Q Would you state for the record the loca-
19 tion?

20 A 1980 from the north line and 660 feet
21 from the east line in Section 18.

22 Q What are the objective formations sought
23 to be tested with the well proposed at the location you've
24 testified to?

25 A The well itself will be drilled into the

1 top of the Mississippian formation. The primary objective is
2 the Atoka and Morrow formation, with other objectives in the
3 Upper Penn.

4 Q What do you anticipate will be the total
5 depth of the well?

6 A We estimate total depth will be 7600
7 feet.

8 Q Mr. Yates, would you describe for the re-
9 cord the interest owned underneath the east half of Section
10 18 by the applicant, Harvey E. Yates Company?

11 A Yes. The northeast quarter of Section
12 18 is fee leasehold interest owned by HEYCO.

13 The south half of the southeast is acreage
14 which has been farmed out by Superior Oil to HEYCO under the
15 unit.

16 Q Mr. Yates, who owns the remaining lease-
17 hold interest under the north half of the southeast quarter
18 of --

19 A The north half of the southeast quarter
20 of Section 18 is owned by Gulf Oil Corporation.

21 Q And do they own that leasehold interest
22 100 percent?

23 A Yes, they do.

24 Q Mr. Yates, I refer you to Exhibit Number
25 Two. Will you please describe that exhibit?

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 A Exhibit Number Two is a letter on HEYCO
2 letterhead, written to Gulf Oil Corporation, dated June 16th,
3 1980, requesting that Gulf Oil Company join the proposed
4 Buffalo Lake Unit and either participate with their share of
5 the cost, or alternatively, farm out their interest to HEYCO
6 under the same terms as other farmouts have been obtained.

7 Q Now that letter was a request for Gulf to
8 ratify and join the unit.

9 A That's correct.

10 Q Is that correct?

11 A That's correct.

12 Q I refer you to Exhibit Number Three.
13 Would you please describe that exhibit?

14 A Exhibit Number Three is a letter from
15 HEYCO to Gulf, dated July 3rd, 1980, in which we sent an at-
16 tached draft of the proposed unit operating agreement.

17 Q And Exhibit Number Four?

18 A Exhibit Number Four, another letter on
19 HEYCO's stationery, dated August 13th, 1980, to Gulf, setting
20 out the interests under the proposed unit and requesting
21 ratification of the unit agreement and operating agreement.

22 MR. NUTTER: Now this doesn't say it was
23 addressed to Gulf, but it's addressed to --

24 A To working interest owners.

25 MR. NUTTER: -- all working interest

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

Page 7

1 owners in the --

2 A Right.

3 MR. NUTTER: -- unit.

4 A That's correct. I'm sorry.

5 Q Now, Mr. Yates, a copy of that letter
6 was sent to Gulf.

7 A A copy was sent to Gulf. It was proposed --
8 it was sent to all working interest owners under the proposed
9 unit.

10 Q Would you please describe Exhibit Number
11 Five?

12 A Exhibit Number Five is a letter HEYCO
13 received from Gulf. The letter is dated August the 20th, in
14 which Gulf sets out the options under which they would consi-
15 der joining the proposed unit.

16 Q Would you please read into the record
17 the options that Gulf suggested in that letter?

18 A Gulf agreed to, in the second paragraph,
19 they state, Gulf agrees to join or farm out to the proration
20 unit referenced above, or join and farm out to a 2-section
21 drilling block involving Section 17 and 18.

22 They then go on to recite terms for a
23 2-section farmout, or one proration farmout, which are con-
24 siderably tougher than terms agreed to by the other farmout
25 parties.

1 Within -- by setting out the terms that
2 they would participate with, they refuse to join the proposed
3 4-section unit, and participate as -- as we requested or
4 farm out under the 4-section unit.

5 Q Mr. Yates, have we had oral communication
6 with Gulf since that letter dated August 20th, and if so,
7 what was their final decision as to whether or not they
8 would participate or join in drilling the well?

9 A We've had many communications with Gulf,
10 including a trip to Midland for the purpose of sitting down
11 with Gulf and attempting to persuade them that it would be
12 in the best interests of all parties to drill the initial
13 test well under a 4-section unit.

14 We proposed several alternatives to Gulf,
15 including their participation under a 2-section unit with
16 our handling the various interests so that interest would be
17 adjusted under the 4-section unit, and they could participate
18 under a 2-section unit, or any other smaller unit down to a
19 proration unit, if they wished, and we would adjust the cal-
20 culations.

21 However, we informed them that it was
22 uneconomic for us to farm out their acreage under those --
23 under their terms under a 2-section or smaller unit, so if
24 they believe their acreage is more valuable than the acreage
25 that we were putting in the unit, that they could participate

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 by paying their way, but it was not economic for us to farm
2 their interest out.

3 Q Mr. Yates, has Gulf specifically refused
4 to join in drilling the well on the east half of Section 18 --

5 A Yes, they have.

6 Q -- participating in the proration unit?

7 A That's right. They've refused to join.
8 They refused to participate in the well cost. They refused
9 to join in the unit, as well.

10 Q And the farm out terms that they proposed
11 are unacceptable to Harvey E. Yates Company.

12 A That's correct. The farm out terms are
13 considerably less economic than the farm out terms which have
14 been agreed to by -- by other parties within the unit, in-
15 cluding major independent companies.

16 Q Mr. Yates, if the requested compulsory
17 pooling order is entered in this case, does HEYCO, as appli-
18 cant, request that it be designated as operator of the pooled
19 lands?

20 A Yes, we do.

21 Q Has an estimate of the costs of drilling
22 and completing the proposed well been prepared by Harvey E.
23 Yates Company?

24 A Yes, it has.

25 Q I refer you to Exhibit Number Six. Will

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 you please describe it?

2 A Exhibit Six is a HEYCO AFE, which is based
3 on a 7600-foot Atoka Morrow well. The dry hole cost is esti-
4 mated to be \$267,300. The completed well cost, the producing
5 well cost, is estimated to be \$396,600.

6 Q In your experience, Mr. Yates, is this
7 total well cost comparable to the cost of other similar type
8 wells in the area?

9 A Yes, this is a very reasonable estimate
10 of costs based on other wells in the area.

11 Q Mr. Yates, in regard to supervision costs,
12 what would Harvey E. Yates Company as operator of this pro-
13 posed well propose as a reasonable charge for such a super-
14 vision?

15 A \$3000 drilling cost per month; \$300 a
16 month producing rate.

17 Q Again, in your experience in these matters,
18 is this comparable to drilling and producing rates charged
19 for similar wells?

20 A Yes, it is.

21 Q In southeast New Mexico?

22 A Yes, it is.

23 Q And is this further the costs that have
24 been inserted in the COPAS form attached to the proposed
25 Buffalo Lake Operating Agreement?

1 A Yes, it is. These are the same costs
2 that -- that participants in the unit will be paying HEYCO
3 as operator.

4 Q Mr. Yates, were Exhibits One through Six
5 prepared by you or under your supervision or do they represent
6 materials from Harvey E. Yates Company's files and records?

7 A Yes, they do.
8 MR. STRAND: Mr. Examiner, that's all the
9 questions I have of this witness.

10 MR. NUTTER: Mr. Strand, your other wit-
11 ness will testify to structure and risk, is that it?

12 MR. STRAND: Yes.

13 MR. NUTTER: Are there any questions of
14 Mr. Yates? He may be excused.

15
16 RANDOLPH C. SMITH
17 being called as a witness and having been duly sworn upon his
18 oath, testified as follows, to-wit:

19
20 DIRECT EXAMINATION

21 BY MR. STRAND:

22 Q State your full name for the record.

23 A Randolph C. Smith.

24 Q Mr. Smith, what is your occupation?

25 A I'm an exploration geologist in Midland

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 for Harvey E. Yates Company.

2 Q Have you testified before the Division
3 in the past and are your qualifications as a professional
4 geologist a matter of record?

5 A Yes, I have, and Yes, they are.

6 MR. STRAND: Mr. Examiner, is Mr. Smith
7 considered qualified?

8 MR. NUTTER: Yes, he is.

9 Q Mr. Smith, are you familiar with the ap-
10 plication in Case Number 7016?

11 A Yes, I am.

12 Q I refer you to Exhibit Number Seven. Will
13 you please describe that exhibit?

14 A Yes. Exhibit Number Seven is an integrated
15 subsurface control/seismic control structure map on top of
16 the Atoka formation with contour intervals of 50 feet, showing
17 the location of the proposed well in Section 18, 15 South,
18 27 East, 1980 from the north, 660 from the east.

19 This map shows the structural closure on
20 the Atoka and the unit outline, the 4-section unit outline,
21 Section 7, Section 8, 17, and 18.

22 Q Mr. Smith, are you familiar with the
23 type of well proposed to be drilled on the east half of
24 Section 18?

25 A Yes, I am.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 Q Are you also familiar with the risk as-
2 sociated with drilling such a well?

3 A Yes, sir.

4 Q In respect to this particular well, would
5 you characterize this as a high risk well?

6 A Yes, sir, I do.

7 Q Mr. Smith, considering that the Division
8 may set a maximum penalty for risk to be assessed to non-
9 consenting working interest owners equal to 200 percent of the
10 cost of drilling and completing and operating the well, what
11 would you consider to be an appropriate risk factor if a
12 compulsory pooling order is entered in this case?

13 A I would consider 200 percent.

14 Q Mr. Smith, in your opinion will granting
15 of the order requested in this case promote conservation,
16 protect correlative rights, and otherwise prevent waste?

17 A Yes, sir, it will.

18 Q Was Exhibit Number Seven prepared by you?

19 A Yes, sir.

20 MR. STRAND: Mr. Examiner, I move the
21 admission of Exhibits One through Seven.

22 MR. NUTTER: Applicant's Exhibits One
23 through Seven will be admitted in evidence.

24 MR. STRAND: I have no further questions
25 of this witness.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Smith, where is the nearest production to this proposed location; that is, production in the Atoka or Morrow formations?

A The nearest production is three miles to the northeast in the Buffalo Valley Field. That is Atoka-Morrow production.

And three miles to the south there is Strawn production, Strawn sand production.

Q The wells down here in Section 31 would be Strawn?

A Yes, sir, that's correct.

Q And I believe Mr. Yates stated the primary objectives here were Atoka and Morrow. Will the --- is the Mississippian any kind of a prospect at all?

A Generally in this area no, sir. We use this as, primarily, as a correlative marker for a good top in the area.

Q I see.

A That's why we penetrate that horizon.

Q But you're going for the Morrow when you go that deep, really.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 A. Yes. Yes, sir, it's very near that hori-
2 zon.

3 Q And up here in Buffalo Valley it's Morrow
4 and what?

5 A. Atoka and Morrow sand production.

6 Q And Atoka.

7 MR. NUTTER: Are there any further ques-
8 tions of Mr. Smith? He may be excused.

9 Mr. Yates, I have one question to ask you
10 I forgot.

11 Recently didn't the Division approve this
12 Buffalo Lake Unit Area? Or have a hearing on it?

13 MR. YATES: Yes, we did.

14 MR. NUTTER: And I suppose -- I see in
15 the unit outline on one of your exhibits here, that there are
16 a number of Gulf tracts, so I guess they would remain as non-
17 committed windows in that unit area, is that correct?

18 MR. YATES: That's -- that's correct.
19 Gulf has a total of 200 acres within a 20 -- within a 4-sec-
20 tion unit under 2556.8 total acres within the --

21 MR. NUTTER: Two 80's and one 40, is
22 that it?

23 MR. YATES: That's correct.

24 MR. NUTTER: How about the remainder of
25 the working interest in that unit, how much of the working

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

1 interest has been committed?

2 MR. YATES: The -- the working interest
3 that's been committed represents the total -- total interest,
4 less 200 acres of Gulf's, and Phillips Petroleum with 39 acres.

5 MR. NUTTER: I see. So 240 acres, you
6 might say, is not committed and the rest is.

7 MR. YATES: Yes, and let me further say
8 that we expect, we have every indication to think that the
9 balance of the unit will be committed. There is a 65-acre
10 interest of Southland Royalty which has not been committed
11 definitely. We have every indication it will be committed.

12 MR. NUTTER: I see. Nothing further, Mr.
13 Yates, thank you.

14 Does anyone -- do you have anything fur-
15 ther, Mr. Strand?

16 MR. STRAND: No, Mr. Examiner.

17 MR. NUTTER: Does anyone have anything
18 they wish to offer in Case Number 7016?

19 We'll take the case under advisement.

20
21 (Hearing concluded.)
22
23
24
25


C E R T I F I C A T E

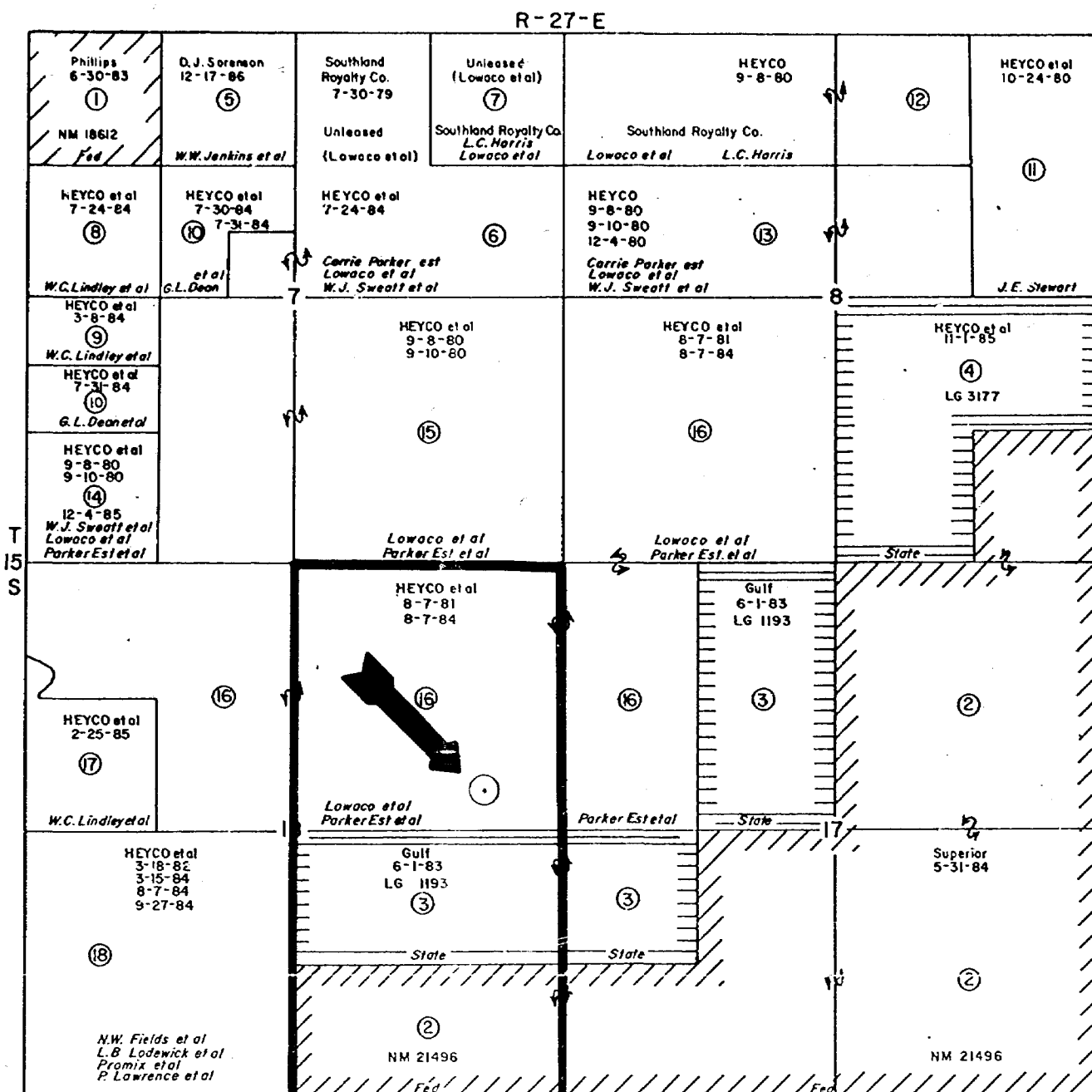
I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that
the foregoing Transcript of Hearing before the Oil Conserva-
tion Division was reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 7016
heard by me on 9/3 1980.

 Examiner
Oil Conservation Division



LEGEND

- ⑫ - TRACT NUMBER as listed on Exhibit "B"
- PUBLIC LANDS
599.07 acs., 23.43 % of Unit Area
- STATE of NEW MEXICO LANDS
320.0 acs., 12.52 % of Unit Area
- PATENTED (Fee) LANDS
1637.73 acs., 64.05 % of Unit Area

*and to top
of mine
primary
Archaic
formation
got TD
to 7600'*

EXHIBIT "A"
BUFFALO LAKE UNIT AREA

T-15-S, R-27-E NMPM
HAVES COUNTY, NEW MEXICO

BEFORE EXAMINER	9-3-80
OIL CONSERVATION DIVISION	
FILE NO.	1
CASE NO.	7016
SUBMITTED BY	HEYCO
HEARING DATE	8-3-80

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P O BOX 1933

SUITE 100 SECURITY NATIONAL BANK BUILDING

505-623-6601

ROSWELL NEW MEXICO 88201

June 16, 1980

Gulf Oil Corporation
P. O. Drawer 1150
Midland, Texas 79701

Attention: Dick Barlow

Re: Proposed Buffalo Lake Unit
T-15S, R-27E, N.M.P.M.

Section 7: All

8: All

17: All

18: All

Chaves County, New Mexico

Gentlemen:

Harvey E. Yates Company proposes formation of the above referenced Federal exploratory unit for the drilling of a 9,000 foot initial well to test the Morrow formation at a location 1980' FNL & 660' FEL in Section 18. As Operator of this unit, we propose to utilize the Rocky Mountain Unit Operating Agreement Form 1 (Undivided Interest) May 1954 with certain modifications. Attached to this letter is a tabulation showing the working interests under the proposed unit, a copy of the proposed Unit Agreement for your initial review, and a copy of the U. S. Geological Survey Unit designation letter.

We invite you to participate in this unit on the basis of your working interest shown on the attached sheet. Alternatively, we would be willing to farmin your interest on the following basis:

1. You would retain a proportionately reduced 1/16 overriding royalty interest under the initial proration unit convertible at payout to a proportionately reduced 1/3 working interest under the initial well, and
2. A proportionately reduced 1/3 working interest under subsequent wells.

We need your decision on this matter before we can prepare the Unit Operating Agreement in final form. Also, we have a rig deadline of August 7, 1980, for commencing the initial well and will therefore appreciate an early reply.

RHS/cj
Enclosures

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. <u>2</u>
CASE NO. <u>7016</u>
SUBMITTED BY <u>Applicant</u>
HEARING DATE <u>9/3/80</u>

HARVEY E. YATES COMPANY

By: Robert H. Strand
Robert H. Strand, Attorney

BUFFALO LAKE UNIT

<u>WORKING INTEREST OWNER</u>	<u>NET ACRES</u>	<u>PERCENTAGE OF WORKING INTEREST</u>
Phillips Petroleum Corporation	39.07	1.528081%
Superior Oil Company	560.00	21.902378%
Gulf Oil Corporation	200.00	7.822278%
Dave Sorenson	40.00	1.564455%
Chalfant, McGee, & Clifton	65.00	2.542240%
Harvey E. Yates Company	1,308.11	51.161999%
Coronado Exploration Corp.	202.88	7.934919%
Spiral, Inc.	15.08	.589800%
Fred G. Yates, Inc.	15.08	.589800%
Explorers Petroleum Corporation	15.08	.589800%
Unleased:		
L. C. Harris	32.00	1.251565%
LOWACO, etal	64.50	2.522685%
TOTAL:	2,556.80	100.000000%

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505/623 6601

ROSWELL, NEW MEXICO 88201

July 3, 1980

Gulf Oil Corporation
P.O. Drawer 1150
Midland, Texas 79701

Attention: Dick Barlow

Re: Proposed Buffalo Lake Unit
T-15-S, R-27-E
Sec. 7: All
Sec. 8: All
Sec. 17: All
Sec. 18: All
Chaves County, N.M.

Gentlemen:

Pursuant to our letter of June 16, 1980, in which Harvey E. Yates Company invited Gulf to participate in the above referenced federal unit, we now enclose a draft copy of Unit Operating Agreement for your review. Exhibit 6 to the Agreement will be prepared as soon as we receive final commitments from your Company and certain other working interest owners. At such time, we will forward the final Operating Agreement along with ratifications covering both the Unit Agreement and Unit Operating Agreement.

If you have any questions, please advise.

Sincerely yours,

Robert H. Strand
Attorney

RHS/rmf

BEFORE EXAMINER	_____
OIL CONSERVATION DIVISION	_____
EXHIBIT NO.	3
CASE NO.	7016
SUBMITTED BY	Applicant
HEARING DATE	9/3/80

HEYCO

PETROLEUM PRODUCERS

**HARVEY E. YATES COMPANY**

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505/623-6601

ROSWELL, NEW MEXICO 88201

August 13, 1980

WORKING INTEREST OWNERS

Re: Proposed Buffalo Lake
Federal Exploratory Unit
T-15S, R-27E, N.M.P.M.

Section 7: All

8: All

17: All

18: All

Chaves County, New Mexico

Gentlemen:

We have previously forwarded to you for your review the proposed Unit Agreement and Unit Operating Agreement covering the proposed Buffalo Lake Unit. This letter is to update you as to the interests committed to the unit to date.

As proposed to the U. S. Geological Survey, the Unit consisted of 2556.80 acres with the working interest as follows:

<u>WORKING INTEREST OWNER</u>	<u>NET ACRES</u>	<u>PERCENTAGE OF WORKING INTEREST</u>
Phillips Petroleum Corporation	39.07	1.528081%
Superior Oil Company	560.00	21.902378%
Gulf Oil Corporation	200.00	7.822278%
Dave Sorenson	40.00	1.564455%
Southland Royalty Company	97.00	3.793805%
Harvey E. Yates Company	1,308.11	51.161999%
Coronado Exploration Corp.	202.88	7.934919%
Spiral, Inc.	15.08	0.589800%
Fred G. Yates, Inc.	15.08	0.589800%
Explorers Petroleum Corporation	15.08	0.589800%
Unleased:		
LOWACO, etal	64.50	2.522685%
TOTAL:	2,556.80	100.000000%

Phillips Petroleum Corporation has declined to commit and Gulf Oil Corporation has indicated it probably will not commit its interest to the unit as proposed (although Gulf has not made a final decision). If Gulf does commit, the interests will be as follows:

BEFORE EXAMINER	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	4
FILE NO.	7016
SUBMITTED BY	Applicant
HEARING DATE	9/3/80

*to all WI
owners
copy was
sent to
Gulf*

Superior Oil Company	560.00	22.242258%
Gulf Oil Corporation	200.00	7.943664%
Dave Sorenson	40.00	1.588733%
Southland Royalty Company	97.00	3.852677%
Harvey E. Yates Company	1,308.11	51.955929%
Coronado Exploration Corp.	202.88	8.058052%
Spiral, Inc.	15.08	0.598952%
Fred G. Yates, Inc.	15.08	0.598952%
Explorers Petroleum Corporation	15.08	0.598952%
Unleased:		
LOWACO, etal	64.50	2.561831%
TOTAL:	2,517.73	100.000000%

and if they do not commit as follows:

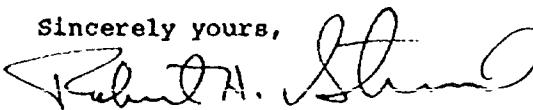
Superior Oil Company	560.00	24.161572%
Dave Sorenson	40.00	1.725827%
Southland Royalty Company	97.00	4.185129%
Harvey E. Yates Company	1,308.11	56.439275%
Coronado Exploration Corp.	202.88	8.753393%
Spiral, Inc.	15.08	0.650636%
Fred G. Yates, Inc.	15.08	0.650636%
Explorers Petroleum Corporation	15.08	0.650636%
Unleased:		
LOWACO, etal	64.50	2.782896%
TOTAL:	2,317.73	100.000000%

The U. S. G. S. has, however, indicated they will approve the unit without the joinder of Phillips and Gulf and we still plan to proceed with the project. I am enclosing ratifications of the Unit Agreement and Unit Operating Agreement for your consideration and execution. I will appreciate your prompt attention to this matter as we must file the Unit Agreement for approval with the U. S. G. S. and the Commissioner of Public Lands by September 1, 1980, due to lease expirations in early September.

At such time as we have received a final decision from Gulf, the exhibits to the Unit Agreement and Unit Operating Agreement will be revised to reflect the interests of all parties to the agreements.

If you have any questions, please let me know.

Sincerely yours,


Robert H. Strand
Attorney

RHS/cj
Enclosures

Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Box 1150
Midland, TX 79701

August 20, 1980

BEFORE EXAMINER _____
OIL CONSERVATION DIVISION
EXHIBIT NO. <u>5</u>
CASE NO. <u>7016</u>
SUBMITTED BY <u>Applicant</u>
HEARING DATE <u>9/3/80</u>

Re: Proposed Federal
Exploratory Unit - Divided,
T-15-S, R-27-E, N.M.P.M.
Sections 17 and 18,
Chaves County, New Mexico
Buffalo Lake Unit

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88201
Attention: Mr. Robert H. Strand

Gentlemen:

Reference is made to your letter of June 16, 1980 wherein you proposed the formation of a Divided Federal Unit for the purpose of drilling a Morrow test in Section 18, T-15-S, R-27-E, Chaves County, New Mexico. Please be advised that we have carefully reviewed your request, and Gulf is willing to join such a unit according to the following terms and conditions:

Gulf agrees to join or farmout to the proration unit referenced above or join or farmout to a two (2) section drilling block involving Sections 17 and 18, T-15-S, R-27-E, N.M.P.M.

Any farmout of Gulf's interest would be subject to a 1/16 override with the option to convert to a 50% back-in after payout. Any joinder would also be contingent upon Gulf's approval of the AFE and the Unit and the Unit Operating Agreements.

If you have any questions regarding the above, please contact Dick Barlow of our Trades and Negotiations Unit at (915) 685-4470.

Yours very truly,


R.E. GRIFFITH



RGB/dal

A DIVISION OF GULF OIL CORPORATION

RECEIVED AUG 25 1980

LEASE BUFFALO LAKE UNITWELL NUMBER 1LOCATION 1980' FNL & 660' FEL, Sec. 18, T-15S, R-27E, Chaves County, New MexicoCOUNTY ChavesDEPTH 7600'PRODUCING FORMATION Atoka

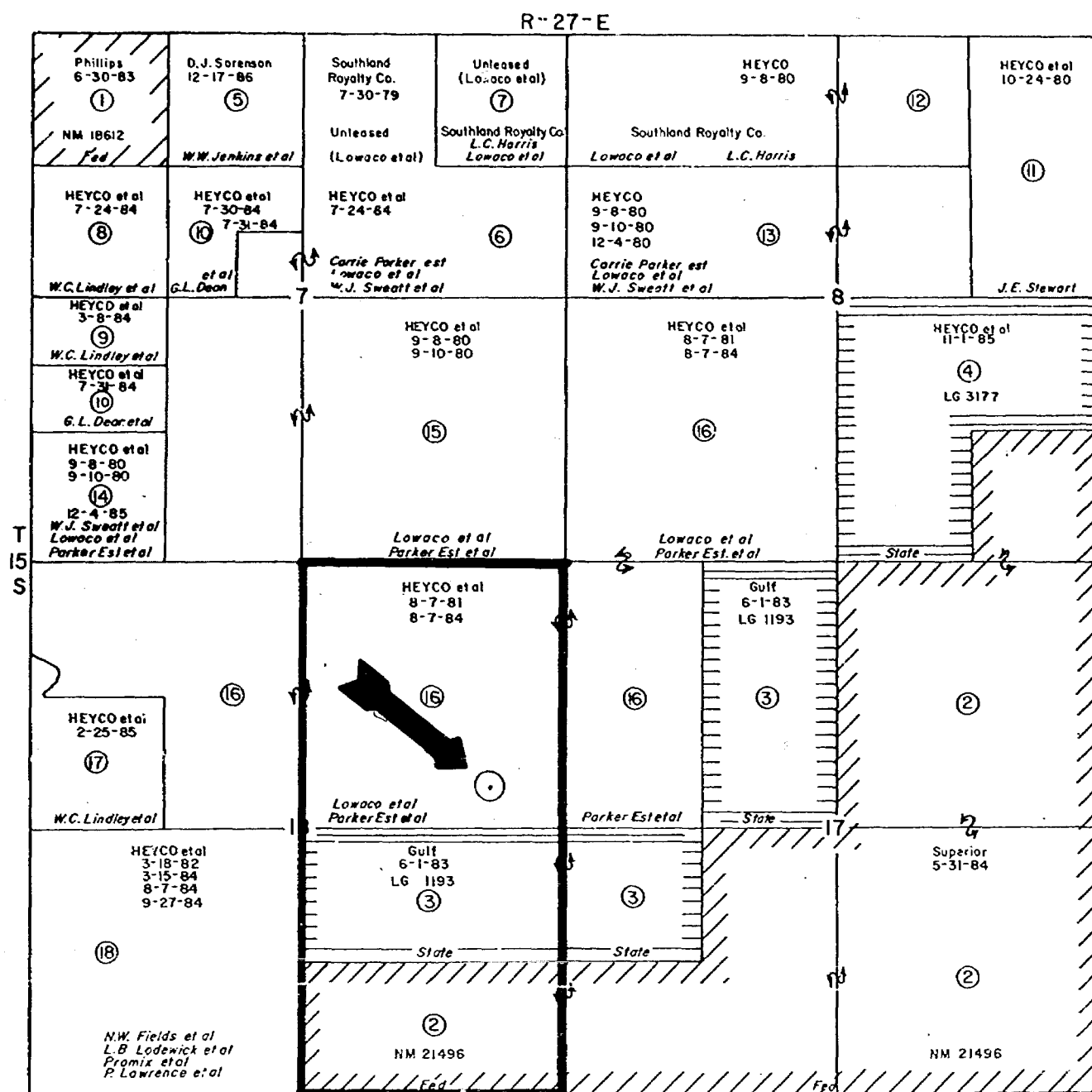
	Producing Well Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Location	\$ 15,000	\$ 15,000
Footage <u>7600'</u> @ <u>\$15.00/ft</u>	114,000	114,000
Daywork <u>6 days</u> @ <u>\$3,800/day</u>	22,800	22,800
Surface casing service	3,000	3,000
Intermediate casing service	5,000	5,000
Mud, water	20,000	20,000
Company supervisor, engineer	5,000	5,000
Rentals, coring service	10,000	10,000
Miscellaneous	5,000	5,000
Total intangible drilling costs	199,800	199,800
Intangible formation evaluation cost		
Logs, <u>CNL-D</u> , <u>DLL-Rxo</u>	20,000	20,000
DST <u>3</u> @ <u>\$2,500/each</u>	7,500	7,500
Geological mud logging service	7,500	7,500
Miscellaneous	2,000	2,000
Total intangible formation evaluation	37,000	37,000
Intangible completion costs		
Unit cost <u>10 days</u> @ <u>\$900/day</u>	9,000	
Production casing service	5,000	
Completion fluid	1,500	
Perforating/production logging	10,000	
Treating	15,000	
Company supervision	2,500	500
Plugging expense		10,000
Miscellaneous	5,000	
Total intangible completion costs	48,000	10,500
Tangible drilling costs and completion costs		
Surface casing		
<u>350'</u> of <u>12 3/4"</u>	3,500	3,500
Intermediate casing		
<u>1500'</u> of <u>8 5/8"</u>	13,500	13,500
Production casing		
<u>7600'</u> of <u>4 1/2" J-55</u>	33,500	
Production tubing		
<u>7500'</u> of <u>2 3/8" J-55</u>	18,800	
Casing head	3,000	
Tubing head	5,000	
Christmas tree	3,000	
Subsurface equipment	1,500	
Total tangible drilling costs and completion costs	81,800	17,000
Lease equipment		
Tanks <u>2</u> , <u>210 BBL</u>	8,000	
Separator	10,000	
Flow lines	3,000	
Meter runs	1,500	
Pumping unit		
Installation costs	3,000	
Total lease equipment	25,500	
Total intangible costs	284,800	247,300
Total tangible costs	81,800	17,000
Total lease equipment	25,500	
Administrative	4,500	3,000
TOTAL COSTS	\$396,600	\$267,300
Prepared by: <u>Fred G. Yates</u> Date: <u>6-2-80</u>		

APPROVED BY:

"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

Company

Date



LEGEND

- ⑫ - TRACT NUMBER as listed on Exhibit "a"
- PUBLIC LANDS
599.07 acs., 23.43 % of Unit Area
- STATE of NEW MEXICO LANDS
320.0 acs., 12.52 % of Unit Area
- PATENTED (Fee) LANDS
1637.73 acs., 64.05 % of Unit Area

EXHIBIT "A"
BUFFALO LAKE UNIT AREA

T-15-S, R-27-E NMPM
CHAVES COUNTY, NEW MEXICO

BEFORE EXAMINER 9-3-80

OIL CONSERVATION DIVISION

EXHIBIT NO. 1

CASE NO. 7016

SUBMITTED BY HEYCO

HEARING DATE 8-3-80

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P O BOX 1933

SUITE 400 SECURITY NATIONAL BANK BUILDING

505/623 6601

ROSWELL NEW MEXICO 88201

June 16, 1980

Gulf Oil Corporation
P. O. Drawer 1150
Midland, Texas 79701

Attention: Dick Barlow

Re: Proposed Buffalo Lake Unit
T-15S, R-27E, N.M.P.M.

Section 7: All
8: All
17: All
18: All

Chaves County, New Mexico

Gentlemen:

Harvey E. Yates Company proposes formation of the above referenced Federal exploratory unit for the drilling of a 9,000 foot initial well to test the Morrow formation at a location 1980' FNL & 660' FEL in Section 18. As Operator of this unit, we propose to utilize the Rocky Mountain Unit Operating Agreement Form 1 (Undivided Interest) May 1954 with certain modifications. Attached to this letter is a tabulation showing the working interests under the proposed unit, a copy of the proposed Unit Agreement for your initial review, and a copy of the U. S. Geological Survey Unit designation letter.

We invite you to participate in this unit on the basis of your working interest shown on the attached sheet. Alternatively, we would be willing to farm your interest on the following basis:

1. You would retain a proportionately reduced 1/16 overriding royalty interest under the initial proration unit convertible at payout to a proportionately reduced 1/3 working interest under the initial well, and
2. A proportionately reduced 1/3 working interest under subsequent wells.

We need your decision on this matter before we can prepare the Unit Operating Agreement in final form. Also, we have a rig deadline of August 7, 1980, for commencing the initial well and will therefore appreciate an early reply.

RHS/cj
Enclosures

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. <u>2</u>
CASE NO. <u>7016</u>
SUBMITTED BY <u>Applicant</u>
HEARING DATE <u>9/3/80</u>

HARVEY E. YATES COMPANY

By: Robert H. Strand
Robert H. Strand, Attorney

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505/625-6601

ROSWELL, NEW MEXICO 88201

July 3, 1980

Gulf Oil Corporation
P.O. Drawer 1150
Midland, Texas 79701

Attention: Dick Barlow

Re: Proposed Buffalo Lake Unit
T-15-S, R-27-E
Sec. 7: All
Sec. 8: All
Sec. 17: All
Sec. 18: All
Chaves County, N.M.

Gentlemen:

Pursuant to our letter of June 16, 1980, in which Harvey E. Yates Company invited Gulf to participate in the above referenced federal unit, we now enclose a draft copy of Unit Operating Agreement for your review. Exhibit 6 to the Agreement will be prepared as soon as we receive final commitments from your Company and certain other working interest owners. At such time, we will forward the final Operating Agreement along with ratifications covering both the Unit Agreement and Unit Operating Agreement.

If you have any questions, please advise.

Sincerely yours,

Robert H. Strand
Attorney

RHS/rmf

BEFORE EXAMINER _____
OIL CONSERVATION DIVISION
EXHIBIT NO. <u>3</u>
CASE NO. <u>7016</u>
SUBMITTED BY <u>Applicant</u>
HEARING DATE <u>9/3/80</u>

HEYCO

PETROLEUM PRODUCERS

**HARVEY E. YATES COMPANY**

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505/623-6601

ROSWELL, NEW MEXICO 88201

August 13, 1980

WORKING INTEREST OWNERS

Re: Proposed Buffalo Lake
Federal Exploratory Unit
T-15S, R-27E, N.M.P.M.

Section 7: All

8: All

17: All

18: All

Chaves County, New Mexico

Gentlemen:

We have previously forwarded to you for your review the proposed Unit Agreement and Unit Operating Agreement covering the proposed Buffalo Lake Unit. This letter is to update you as to the interests committed to the unit to date.

As proposed to the U. S. Geological Survey, the Unit consisted of 2556.80 acres with the working interest as follows:

<u>WORKING INTEREST OWNER</u>	<u>NET ACRES</u>	<u>PERCENTAGE OF WORKING INTEREST</u>
Phillips Petroleum Corporation	39.07	1.528081%
Superior Oil Company	560.00	21.902378%
Gulf Oil Corporation	200.00	7.822278%
Dave Sorenson	40.00	1.564455%
Southland Royalty Company	97.00	3.793805%
Harvey E. Yates Company	1,308.11	51.161999%
Coronado Exploration Corp.	202.88	7.934919%
Spiral, Inc.	15.08	0.589800%
Fred G. Yates, Inc.	15.08	0.589800%
Explorers Petroleum Corporation	15.08	0.589800%
Unleased:		
LOWACO, etal	64.50	2.522685%
TOTAL:	2,556.80	100.000000%

Phillips Petroleum Corporation has declined to commit and Gulf Oil Corporation has indicated it probably will not commit its interest to the unit as proposed (although Gulf has not made a final decision). If Gulf does commit, the interests will be as follows:

BEFORE EXAMINER	_____
OIL CONSERVATION DIVISION	_____
EXHIBIT NO.	4
CASE NO.	7016
COMMITTED BY	Applicant
HEARING DATE	9/3/80

Superior Oil Company	560.00	22.242258%
Gulf Oil Corporation	200.00	7.943664%
Dave Sorenson	40.00	1.588733%
Southland Royalty Company	97.00	3.852677%
Harvey E. Yates Company	1,308.11	51.955929%
Coronado Exploration Corp.	202.88	8.058052%
Spiral, Inc.	15.08	0.598952%
Fred G. Yates, Inc.	15.08	0.598952%
Explorers Petroleum Corporation	15.08	0.598952%
Unleased:	64.50	2.561831%
LOWACO, etal	2,517.73	100.000000%
TOTAL:		

and if they do not commit as follows:

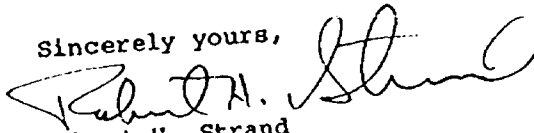
Superior Oil Company	560.00	24.161572%
Dave Sorenson	40.00	1.725827%
Southland Royalty Company	97.00	4.185129%
Harvey E. Yates Company	1,308.11	56.439275%
Coronado Exploration Corp.	202.88	8.753393%
Spiral, Inc.	15.08	0.650636%
Fred G. Yates, Inc.	15.08	0.650636%
Explorers Petroleum Corporation	15.08	0.650636%
Unleased:	64.50	2.782896%
LOWACO, etal	2,317.73	100.000000%
TOTAL:		

The U. S. G. S. has, however, indicated they will approve the unit without the joinder of Phillips and Gulf and we still plan to proceed with the project. I am enclosing ratifications of the Unit Agreement and Unit Operating Agreement for your consideration and execution. I will appreciate your prompt attention to this matter as we must file the Unit Agreement for approval with the U. S. G. S. and the Commissioner of Public Lands by September 1, 1980, due to lease expirations in early September.

At such time as we have received a final decision from Gulf, the exhibits to the Unit Agreement and Unit Operating Agreement will be revised to reflect the interests of all parties to the agreements.

If you have any questions, please let me know.

Sincerely yours,


Robert H. Strand
Attorney

RHS/cj
Enclosures

Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Box 1150
Midland, TX 79701

August 20, 1980

BEFORE EXAMINER _____
OIL CONSERVATION DIVISION
_____ EXHIBIT NO. <u>5</u>
CASE NO. <u>7016</u>
SUBMITTED BY <u>Applicant</u>
HEARING DATE <u>9/3/80</u>

Re: Proposed Federal
Exploratory Unit - Divided,
T-15-S, R-27-E, N.M.P.M.
Sections 17 and 18,
Chaves County, New Mexico
Buffalo Lake Unit

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88201
Attention: Mr. Robert H. Strand

Gentlemen:

Reference is made to your letter of June 16, 1980 wherein you proposed the formation of a Divided Federal Unit for the purpose of drilling a Morrow test in Section 18, T-15-S, R-27-E, Chaves County, New Mexico. Please be advised that we have carefully reviewed your request, and Gulf is willing to join such a unit according to the following terms and conditions:

Gulf agrees to join or farmout to the proration unit referenced above or join or farmout to a two (2) section drilling block involving Sections 17 and 18, T-15-S, R-27-E, N.M.P.M.

Any farmout of Gulf's interest would be subject to a 1/16 override with the option to convert to a 50% back-in after payout. Any joinder would also be contingent upon Gulf's approval of the AFE and the Unit and the Unit Operating Agreements.

If you have any questions regarding the above, please contact Dick Barlow of our Trades and Negotiations Unit at (915) 685-4470.

Yours very truly,


R.E. GRIFFITH



A DIVISION OF GULF OIL CORPORATION

RGB/dal

RECEIVED AUG 25 1980

LEASE BUFFALO LAKE UNITWELL NUMBER 1LOCATION 1980' FNL & 660' FEL, Sec. 18, T-15S, R-27E, Chaves County, New MexicoCOUNTY ChavesDEPTH 7600'PRODUCING FORMATION Atoka

	Producing Well Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Location	\$ 15,000	\$ 15,000
Footage <u>7600'</u> @ <u>\$15.00/ft</u>	<u>114,000</u>	<u>114,000</u>
Daywork <u>6 days</u> @ <u>\$3,800/day</u>	<u>22,800</u>	<u>22,800</u>
Surface casing service	<u>3,000</u>	<u>3,000</u>
Intermediate casing service	<u>5,000</u>	<u>5,000</u>
Mud, water	<u>20,000</u>	<u>20,000</u>
Company supervisor, engineer	<u>5,000</u>	<u>5,000</u>
Rentals, coring service	<u>10,000</u>	<u>10,000</u>
Miscellaneous	<u>5,000</u>	<u>5,000</u>
Total intangible drilling costs	<u>199,800</u>	<u>199,800</u>
Intangible formation evaluation cost		
Logs, <u>CNL-D</u> , <u>DLL-Rxo</u> , _____	<u>20,000</u>	<u>20,000</u>
DST <u>3</u> @ <u>\$2,500/each</u>	<u>7,500</u>	<u>7,500</u>
Geological mud logging service	<u>7,500</u>	<u>7,500</u>
Miscellaneous	<u>2,000</u>	<u>2,000</u>
Total intangible formation evaluation	<u>37,000</u>	<u>37,000</u>
Intangible completion costs		
Unit cost <u>10 days</u> @ <u>\$900/day</u>	<u>9,000</u>	
Production casing service	<u>5,000</u>	
Completion fluid	<u>1,500</u>	
Perforating/production logging	<u>10,000</u>	
Treating	<u>15,000</u>	
Company supervision	<u>2,500</u>	<u>500</u>
Plugging expense		<u>10,000</u>
Miscellaneous	<u>5,000</u>	
Total intangible completion costs	<u>48,000</u>	<u>10,500</u>
Tangible drilling costs and completion costs		
Surface casing		
<u>350'</u> of <u>12 3/4"</u>	<u>3,500</u>	<u>3,500</u>
Intermediate casing		
<u>1500'</u> of <u>8 5/8"</u>	<u>13,500</u>	<u>13,500</u>
Production casing		
<u>7600'</u> of <u>4 1/2" J-55</u>	<u>33,500</u>	
Production tubing		
<u>7500'</u> of <u>2 3/8" J-55</u>	<u>18,800</u>	
Casing head	<u>3,000</u>	
Tubing head	<u>5,000</u>	
Christmas tree	<u>3,000</u>	
Subsurface equipment	<u>1,500</u>	
Total tangible drilling costs and completion costs	<u>81,800</u>	<u>17,000</u>
Lease equipment		
Tanks <u>2</u> , <u>210 BBL</u>	<u>8,000</u>	
Separator	<u>10,000</u>	
Flow lines	<u>3,000</u>	
Meter runs	<u>1,500</u>	
Pumping unit		
Installation costs	<u>3,000</u>	
Total lease equipment	<u>25,500</u>	
Total intangible costs	<u>284,800</u>	<u>247,300</u>
Total tangible costs	<u>81,800</u>	<u>17,000</u>
Total lease equipment	<u>25,500</u>	
Administrative	<u>4,500</u>	<u>3,000</u>
TOTAL COSTS	<u>\$396,600</u>	<u>\$267,300</u>
Prepared by: <u>Fred G. Yates</u> Date: <u>6-2-80</u>		

APPROVED BY:

"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

Company

Date

NE 1/4

Phillips
6-30-83
①

D.J. Sorenson
12-17-86
⑤

Southland
Royalty Co.
7-30-79

Unleased
(Lowaco et al)
⑦

HEYCO
9-8-80

⑫

NM 18612
Fed

W.W. Jenkins et al

Unleased
(Lowaco et al)

Southland Royalty Co.
L.C. Harris
Lowaco et al

Southland Royalty Co.
L.C. Harris

⑪

HEYCO et al
7-24-84
⑧

HEYCO et al
7-30-84
⑫

HEYCO et al
7-24-84

HEYCO
9-8-80
9-10-80
12-4-80
⑬

W.C. Lindley et al

Carrie Parker est
Lowaco et al
W.J. Sweatt et al

Carrie Parker est
Lowaco et al
W.J. Sweatt et al

J.E. Stewart

HEYCO et al
3-8-84
⑨

W.C. Lindley et al

HEYCO et al
7-31-84
⑩

G.L. Dean et al

HEYCO et al
9-8-80
9-10-80
⑭

12-4-85
W.J. Sweatt et al
Lowaco et al
Parker Est et al

HEYCO et al
9-8-80
9-10-80

HEYCO et al
8-7-81
8-7-84

HEYCO et al
11-1-85
④

LG 3177

⑮

⑯

Lowaco et al
Parker Est et al

Lowaco et al
Parker Est et al

State

State

Gulf
6-1-83
LG 1193

③

②

HEYCO et al
2-25-85
⑰

W.C. Lindley et al

HEYCO et al
3-18-82
3-15-84
8-7-84
9-27-84
⑱

Gulf
6-1-83
LG 1193
③

State

State

Superior
5-31-84

②

NW Fields et al
L.B. Lodewick et al
Promix et al
P. Lawrence et al

NM 21496

NM 21496

Fed

Fed

T
15
S

R
27
E

(12) - TRACT NUMBER as listed on Exhibit "B"

PUBLIC LANDS
599.07 acs., 23.43% of Unit Area

STATE of NEW MEXICO LANDS
320.0 acs., 12.52 % of Unit Area

PATENTED (Fee) LANDS
1637.73 acs., 64.05 % of Unit Area

BUFFALO LAKE UNIT AREA

T-15-S, R-27-E NMPM
CHAVES COUNTY, NEW MEXICO

BEFORE EXAMINER 9-3-80
OIL CONSERVATION DIVISION
EXHIBIT NO. 1
CASE NO. 7016
SUBMITTED BY HEYCO
HEARING DATE 8-3-80

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P O BOX 1933

SUITE 300 SECURITY NATIONAL BANK BUILDING

505-621-6601

ROSWELL NEW MEXICO 88201

June 16, 1980

Gulf Oil Corporation
P. O. Drawer 1150
Midland, Texas 79701

Attention: Dick Barlow

Re: Proposed Buffalo Lake Unit
T-15S, R-27E, N.M.P.M.

Section 7: All
8: All
17: All
18: All

Chaves County, New Mexico

Gentlemen:

Harvey E. Yates Company proposes formation of the above referenced Federal exploratory unit for the drilling of a 9,000 foot initial well to test the Morrow formation at a location 1980' FNL & 660' FEL in Section 18. As Operator of this unit, we propose to utilize the Rocky Mountain Unit Operating Agreement Form 1 (Undivided Interest) May 1954 with certain modifications. Attached to this letter is a tabulation showing the working interests under the proposed unit, a copy of the proposed Unit Agreement for your initial review, and a copy of the U. S. Geological Survey Unit designation letter.

We invite you to participate in this unit on the basis of your working interest shown on the attached sheet. Alternatively, we would be willing to farm your interest on the following basis:

1. You would retain a proportionately reduced 1/16 overriding royalty interest under the initial proration unit convertible at payout to a proportionately reduced 1/3 working interest under the initial well, and
2. A proportionately reduced 1/3 working interest under subsequent wells.

We need your decision on this matter before we can prepare the Unit Operating Agreement in final form. Also, we have a rig deadline of August 7, 1980, for commencing the initial well and will therefore appreciate an early reply.

RHS/cj
Enclosures

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. <u>2</u>
CASE NO. <u>2016</u>
SUBMITTED BY <u>Applicant</u>
HEARING DATE <u>9/3/80</u>

HARVEY E. YATES COMPANY

By: Robert H. Strand
Robert H. Strand, Attorney

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505/623 6601

ROSWELL, NEW MEXICO 88201

July 3, 1980

Gulf Oil Corporation
P.O. Drawer 1150
Midland, Texas 79701

Attention: Dick Barlow

Re: Proposed Buffalo Lake Unit
T-15-S, R-27-E
Sec. 7: All
Sec. 8: All
Sec. 17: All
Sec. 18: All
Chaves County, N.M.

Gentlemen:

Pursuant to our letter of June 16, 1980, in which Harvey E. Yates Company invited Gulf to participate in the above referenced federal unit, we now enclose a draft copy of Unit Operating Agreement for your review. Exhibit 6 to the Agreement will be prepared as soon as we receive final commitments from your Company and certain other working interest owners. At such time, we will forward the final Operating Agreement along with ratifications covering both the Unit Agreement and Unit Operating Agreement.

If you have any questions, please advise.

Sincerely yours,

Robert H. Strand
Attorney

RHS/rmf

BEFORE EXAMINER	_____
OIL CONSERVATION DIVISION	_____
EXHIBIT NO.	3
CASE NO.	7016
SUBMITTED BY	Applicant
HEARING DATE	9/3/80

HEYCO

PETROLEUM PRODUCERS

**HARVEY E. YATES COMPANY**

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505-823-6601

ROSWELL, NEW MEXICO 88201

August 13, 1980

WORKING INTEREST OWNERS

Re: Proposed Buffalo Lake
Federal Exploratory Unit
T-15S, R-27E, N.M.P.M.

Section 7: All
8: All
17: All
18: All
Chaves County, New Mexico

Gentlemen:

We have previously forwarded to you for your review the proposed Unit Agreement and Unit Operating Agreement covering the proposed Buffalo Lake Unit. This letter is to update you as to the interests committed to the unit to date.

As proposed to the U. S. Geological Survey, the Unit consisted of 2556.80 acres with the working interest as follows:

<u>WORKING INTEREST OWNER</u>	<u>NET ACRES</u>	<u>PERCENTAGE OF WORKING INTEREST</u>
Phillips Petroleum Corporation	39.07	1.528081%
Superior Oil Company	560.00	21.902378%
Gulf Oil Corporation	200.00	7.822278%
Dave Sorenson	40.00	1.564455%
Southland Royalty Company	97.00	3.793805%
Harvey E. Yates Company	1,308.11	51.161999%
Coronado Exploration Corp.	202.88	7.934919%
Spiral, Inc.	15.08	0.589800%
Fred G. Yates, Inc.	15.08	0.589800%
Explorers Petroleum Corporation	15.08	0.589800%
Unleased:	64.50	2.522685%
LOWACO, etal	2,556.80	100.000000%
TOTAL:		

Phillips Petroleum Corporation has declined to commit and Gulf Oil Corporation has indicated it probably will not commit its interest to the unit as proposed (although Gulf has not made a final decision). If Gulf does commit, the interests will be as follows:

BEFORE EXAMINER	_____
OIL CONSERVATION DIVISION	_____
EXHIBIT NO.	4
CASE NO.	7016
SUBMITTED BY	Applicant
HEARING DATE	9/3/80

Superior Oil Company	560.00	22.242258%
Gulf Oil Corporation	200.00	7.943664%
Dave Sorenson	40.00	1.588733%
Southland Royalty Company	97.00	3.852677%
Harvey E. Yates Company	1,308.11	51.955929%
Coronado Exploration Corp.	202.88	8.058052%
Spiral, Inc.	15.08	0.598952%
Fred G. Yates, Inc.	15.08	0.598952%
Explorers Petroleum Corporation	15.08	0.598952%
Unleased:		
LOWACO, etal	64.50	2.561831%
TOTAL:	2,517.73	100.000000%

and if they do not commit as follows:

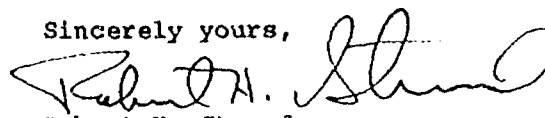
Superior Oil Company	560.00	24.161572%
Dave Sorenson	40.00	1.725827%
Southland Royalty Company	97.00	4.185129%
Harvey E. Yates Company	1,308.11	56.439275%
Coronado Exploration Corp.	202.88	8.753393%
Spiral, Inc.	15.08	0.650636%
Fred G. Yates, Inc.	15.08	0.650636%
Explorers Petroleum Corporation	15.08	0.650636%
Unleased:		
LOWACO, etal	64.50	2.782896%
TOTAL:	2,317.73	100.000000%

The U. S. G. S. has, however, indicated they will approve the unit without the joinder of Phillips and Gulf and we still plan to proceed with the project. I am enclosing ratifications of the Unit Agreement and Unit Operating Agreement for your consideration and execution. I will appreciate your prompt attention to this matter as we must file the Unit Agreement for approval with the U. S. G. S. and the Commissioner of Public Lands by September 1, 1980, due to lease expirations in early September.

At such time as we have received a final decision from Gulf, the exhibits to the Unit Agreement and Unit Operating Agreement will be revised to reflect the interests of all parties to the agreements.

If you have any questions, please let me know.

Sincerely yours,


Robert H. Strand
Attorney

RHS/cj
Enclosures

Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Box 1150
Midland, TX 79701

BEFORE EXAMINER	_____
OIL CONSERVATION DIVISION	_____
EXHIBIT NO.	<u>5</u>
CASE NO.	<u>7016</u>
SUBMITTED BY	<u>Applicant</u>
HEARING DATE	<u>9/3/80</u>

August 20, 1980

Re: Proposed Federal
Exploratory Unit - Divided,
T-15-S, R-27-E, N.M.P.M.
Sections 17 and 18,
Chaves County, New Mexico
Buffalo Lake Unit

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 88201
Attention: Mr. Robert H. Strand

Gentlemen:

Reference is made to your letter of June 16, 1980 wherein you proposed the formation of a Divided Federal Unit for the purpose of drilling a Morrow test in Section 18, T-15-S, R-27-E, Chaves County, New Mexico. Please be advised that we have carefully reviewed your request, and Gulf is willing to join such a unit according to the following terms and conditions:

Gulf agrees to join or farmout to the proration unit referenced above or join or farmout to a two (2) section drilling block involving Sections 17 and 18, T-15-S, R-27-E, N.M.P.M.

Any farmout of Gulf's interest would be subject to a 1/16 override with the option to convert to a 50% back-in after payout. Any joinder would also be contingent upon Gulf's approval of the AFE and the Unit and the Unit Operating Agreements.

If you have any questions regarding the above, please contact Dick Barlow of our Trades and Negotiations Unit at (915) 685-4470.

Yours very truly,


R.E. GRIFFITH



RGB/dal

A DIVISION OF GULF OIL CORPORATION

RECEIVED AUG 25 1980

LEASE BUFFALO LAKE UNITWELL NUMBER 1LOCATION 1980' FNL & 660' FEL, Sec. 18, T-15S, R-27E, Chaves County, New MexicoCOUNTY Chaves DEPTH 7600'PRODUCING FORMATION Atoka

Drilling and completion costs

Intangible drilling costs

Location

Footage 7600' @ \$15.00/ftDaywork 6 days @ \$3,800/day

Surface casing service

Intermediate casing service

Mud, water

Company supervisor, engineer

Rentals, coring service

Miscellaneous

Total intangible drilling costs

Intangible formation evaluation cost

Logs, CNL-D, DLL-RxoDST 3 @ \$2,500/each

Geological mud logging service

Miscellaneous

Total intangible formation evaluation

Intangible completion costs

Unit cost 10 days @ \$900/day

Production casing service

Completion fluid

Perforating/production logging

Treating

Company supervision

Plugging expense

Miscellaneous

Total intangible completion costs

Tangible drilling costs and completion costs

Surface casing

350' of 12 3/4"

Intermediate casing

1500' of 8 5/8"

Production casing

7600' of 4 1/2" J-55

Production tubing

7500' of 2 3/8" J-55

Casing head

Tubing head

Christmas tree

Subsurface equipment

Total tangible drilling costs and completion costs

Lease equipment

Tanks 2, 210 BBL

Separator

Flow lines

Meter runs

Pumping unit

Installation costs

Total lease equipment

Total intangible costs

Total tangible costs

Total lease equipment

Administrative

TOTAL COSTS

Prepared by: Fred G. Yates Date: 6-2-80

"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

Producing
Well CostDry Hole
Cost

\$ 15,000

\$ 15,000

114,000

114,000

22,800

22,800

3,000

3,000

5,000

5,000

20,000

20,000

5,000

5,000

10,000

10,000

5,000

5,000

199,800

199,800

20,000

20,000

7,500

7,500

7,500

7,500

2,000

2,000

37,000

37,000

9,000

5,000

1,500

10,000

15,000

2,500

5,000

48,000

3,500

13,500

33,500

18,800

3,000

5,000

3,000

1,500

81,800

8,000

10,000

3,000

1,500

3,000

25,500

284,800

81,800

25,500

4,500

\$396,600

APPROVED BY:

Company

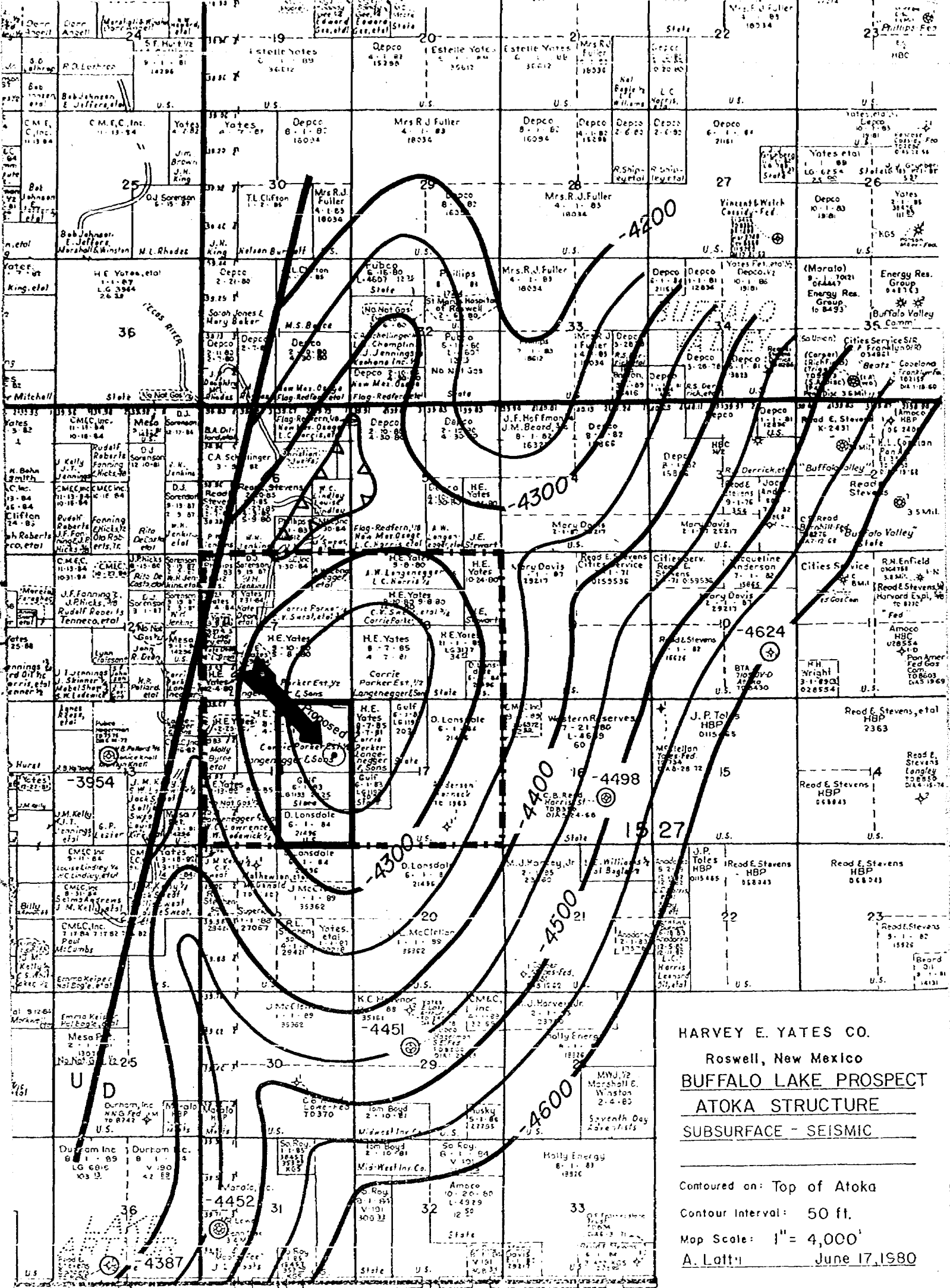
Date

247,300

17,000

3,000

\$267,300



HARVEY E. YATES CO.
Roswell, New Mexico
BUFFALO LAKE PROSPECT
ATOKA STRUCTURE
SUBSURFACE - SEISMIC

Contoured on: Top of Atoka
Contour Interval: 50 ft.
Map Scale: 1" = 4,000'
A. Latt June 17, 1980

BEFORE DRAWING 9-3-80
OIL WELL 7016
HEYCO
DRAWING DATE 9-3-80

Called in by Bob Strand
August 15, 1980

Harvey E. Yates Company

Compulsory Pooling

Wolfcamp thru ^{Mississippian} ~~Pennsylvanian~~

E12 18-T155-R27E

Chaves County

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505/623-6601

ROSWELL, NEW MEXICO 86201

August 15, 1980

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

Case 7016

Attention: Mr. Joe Ramey

Re: Application for
Compulsory Pooling
Section 18,
T-15S, R-27E, N.M.P.M.
Chaves County, New Mexico

Gentlemen:

Enclosed for filing is an original and two copies of an Application for Compulsory Pooling. Please set this matter for examiner hearing on September 3, 1980 and provide us with a Docket of the same. Thank you.

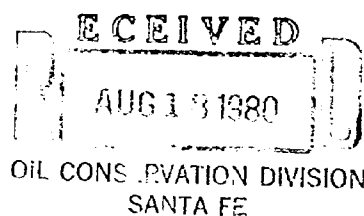
Sincerely,

for *Robert H. Strand*

Robert H. Strand
Attorney

RHS/lhc
OCD #36

Enclosures



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

RECEIVED
AUG 16 1980
OIL CONSERVATION DIVISION
SANTA FE

IN THE MATTER OF THE APPLICATION :
OF HARVEY E. YATES COMPANY :
FOR COMPULSORY POOLING, :
CHAVES COUNTY, NEW MEXICO :

Case No. 7016

APPLICATION

COMES NOW HARVEY E. YATES COMPANY by its attorney and respectfully states:

1. Applicant proposes to drill a well situated 1980 FNL and 660 FEL, Section 18, Township 15 South, Range 27 East, N.M.P.M., Chaves County, New Mexico, to the Morrow formation and dedicate the E/2 of Section 18 to said well.

2. Applicant is the owner of, and/or holds the contractual right, to drill and develop the Wolfcamp through Mississippian formations underlying the following described lands situated within the E/2 of Section 18:

<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
NE/4	100%	Working Interest	160.00
S/2 SE/4	100%	Working Interest	80.00

3. Applicant has obtained voluntary consent to pooling of interests in the Wolfcamp through Mississippian formations underlying the E/2 of said Section 18, with the exception of the parties named below, whose addresses, and interests owned, according to Applicant's information and belief, are as follows:

<u>Owner</u>	<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
Gulf Oil Corporation Midland, Texas 79701	SE N/2 NE/4	100%	Working Interest	80.00

4. Applicant has been unable to obtain voluntary agreement for pooling of the interests described in paragraph 3 immediately above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, all interests in the Wolfcamp through Mississippian formations underlying the E/2 of said Section 18 should be pooled pursuant to the provisions of §70-2-17 N.M.S.A., 1978 (formerly §65-3-14 N.M.S.A., 1953).

5. Applicant should be designated operator of said pooled lands.

6. The risk and expense of drilling and completing the proposed well is great, and if the owners of the interests described in paragraph 3 above, or any other unknown owners of interests in the proposed proration unit, do not choose to pay their share of the costs of drilling and completing said proposed well, then Applicant should be allowed a reasonable charge for supervision of said well, and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing said well.

WHEREFORE, Applicant Prays:


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

B. That upon such hearing the Division enter its pooling all interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 18, Township 15 South, Range 27 East, N.M.P.M., Chaves County, New Mexico, designating applicant as Operator of said pooled lands, making provision for applicant to recover its costs from production, including an appropriate risk factor, and provisions for payment of operating costs and costs of supervision from production, to be allocated among the interest owners as their interests may be determined.

C. For such further relief as the Division deems just
and proper.

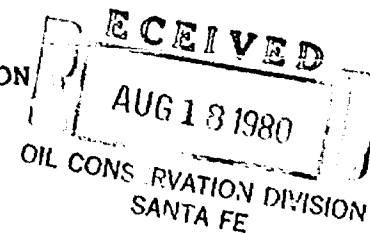
DATED this 15th day of August, 1980.

HARVEY E. YATES COMPANY

BY: 
Robert H. Strand
Attorney for Applicant
P. O. Box 1933
Roswell, New Mexico 88201

RHS/lh
OCD-1 #35

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



IN THE MATTER OF THE APPLICATION :
OF HARVEY E. YATES COMPANY :
FOR COMPULSORY POOLING, :
CHAVES COUNTY, NEW MEXICO :

Case No. 7016

APPLICATION

COMES NOW HARVEY E. YATES COMPANY by its attorney and respectfully states:

1. Applicant proposes to drill a well situated 1980 FNL and 660 FEL, Section 18, Township 15 South, Range 27 East, N.M.P.M., Chaves County, New Mexico, to the Morrow formation and dedicate the E/2 of Section 18 to said well.

2. Applicant is the owner of, and/or holds the contractual right, to drill and develop the Wolfcamp through Mississippian formations underlying the following described lands situated within the E/2 of Section 18:

<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
NE/4	100%	Working Interest	160.00
S/2 SE/4	100%	Working Interest	80.00

3. Applicant has obtained voluntary consent to pooling of interests in the Wolfcamp through Mississippian formations underlying the E/2 of said Section 18, with the exception of the parties named below, whose addresses, and interests owned, according to Applicant's information and belief, are as follows:

<u>Owner</u>	<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
Gulf Oil Corporation Midland, Texas 79701	^{SE} N/2 NE/4	100%	Working Interest	80.00

4. Applicant has been unable to obtain voluntary agreement for pooling of the interests described in paragraph 3 immediately above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, all interests in the Wolfcamp through Mississippian formations underlying the E/2 of said Section 18 should be pooled pursuant to the provisions of §70-2-17 N.M.S.A., 1978 (formerly §65-3-14 N.M.S.A, 1953).

5. Applicant should be designated operator of said pooled lands.

6. The risk and expense of drilling and completing the proposed well is great, and if the owners of the interests described in paragraph 3 above, or any other unknown owners of interests in the proposed proration unit, do not choose to pay their share of the costs of drilling and completing said proposed well, then Applicant should be allowed a reasonable charge for supervision of said well, and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing said well.

WHEREFORE, Applicant Prays:

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

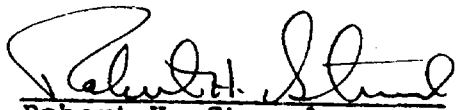
B. That upon such hearing the Division enter its pooling all interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 18, Township 15 South, Range 27 East, N.M.P.M., Chaves County, New Mexico, designating applicant as Operator of said pooled lands, making provision for applicant to recover its costs from production, including an appropriate risk factor, and provisions for payment of operating costs and costs of supervision from production, to be allocated among the interest owners as their interests may be determined.

C. For such further relief as the Division deems just and proper.

DATED this 15th day of August, 1980.

HARVEY E. YATES COMPANY

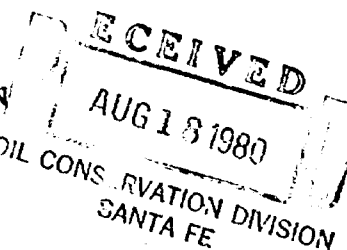
BY:



Robert H. Strand
Attorney for Applicant
P. O. Box 1933
Roswell, New Mexico 88201

RHS/lh
OCD-1 #35

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



IN THE MATTER OF THE APPLICATION :
OF HARVEY E. YATES COMPANY : Case No. 7016
FOR COMPULSORY POOLING, :
CHAVES COUNTY, NEW MEXICO :

APPLICATION

COMES NOW HARVEY E. YATES COMPANY by its attorney and respectfully states:

1. Applicant proposes to drill a well situated 1980 FNL and 660 FEL, Section 18, Township 15 South, Range 27 East, N.M.P.M., Chaves County, New Mexico, to the Morrow formation and dedicate the E/2 of Section 18 to said well.

2. Applicant is the owner of, and/or holds the contractual right, to drill and develop the Wolfcamp through Mississippian formations underlying the following described lands situated within the E/2 of Section 18:

<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
NE/4	100%	Working Interest	160.00
S/2 SE/4	100%	Working Interest	80.00

3. Applicant has obtained voluntary consent to pooling of interests in the Wolfcamp through Mississippian formations underlying the E/2 of said Section 18, with the exception of the parties named below, whose addresses, and interests owned, according to Applicant's information and belief, are as follows:

<u>Owner</u>	<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
Gulf Oil Corporation Midland, Texas 79701	N/2 NE/4	100%	Working Interest	80.00

4. Applicant has been unable to obtain voluntary agreement for pooling of the interests described in paragraph 3 immediately above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, all interests in the Wolfcamp through Mississippian formations underlying the E/2 of said Section 18 should be pooled pursuant to the provisions of §70-2-17 N.M.S.A., 1978 (formerly §65-3-14 N.M.S.A., 1953).

5. Applicant should be designated operator of said pooled lands.

6. The risk and expense of drilling and completing the proposed well is great, and if the owners of the interests described in paragraph 3 above, or any other unknown owners of interests in the proposed proration unit, do not choose to pay their share of the costs of drilling and completing said proposed well, then Applicant should be allowed a reasonable charge for supervision of said well, and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing said well.

WHEREFORE, Applicant Prays:

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

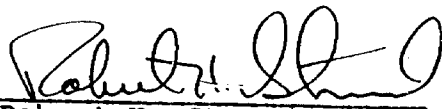
B. That upon such hearing the Division enter its pooling all interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 18, Township 15 South, Range 27 East, N.M.P.M., Chaves County, New Mexico, designating applicant as Operator of said pooled lands, making provision for applicant to recover its costs from production, including an appropriate risk factor, and provisions for payment of operating costs and costs of supervision from production, to be allocated among the interest owners as their interests may be determined.

C. For such further relief as the Division deems just and proper.

DATED this 15th day of August, 1980.

HARVEY E. YATES COMPANY

BY:



Robert H. Strand
Attorney for Applicant
P. O. Box 1933
Roswell, New Mexico 88201

RHS/lh
OCD-1 #35

DRAFT

dr/

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. 7016

Order No. R- 6473

APPLICATION OF HARVEY E. YATES
COMPANY FOR COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on September 3,
1980, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this day of September, 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, Harvey E. Yates Company,
seeks an order pooling all mineral interests in the Wolfcamp through
Mississippian formations underlying the E/2
of Section 18, Township 15 South, Range 27 East,
NMPM, Buffalo Lake Unit Area, Chaves County, New
Mexico.

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

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

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$ 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 December 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, ^{Mississippian} in the Wolfcamp through/_____ formations underlying the E/2 of Section 18, Township 15 South, Range 27 East, NMPM, Buffalo Lake Unit Area, Chaves County, New Mexico, are hereby pooled to form a standard _____ acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of December, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to ^{top} ~~test~~ the Mississippian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of December, 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 Harvey E. Yates 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 who has paid his share of estimated costs in advance as provided

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

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

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

-6-
Case
Order No.

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

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Chaves 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.