

512 Welshire
Carlsbad, NM 88220
August 8, 1977

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

Commission:

I appreciate Mr. R.M. Richardson's letter to C & K Petroleum dated July 30, 1977, and copies sent to you and me. I had already sent C & K a check in response to your Order #R-5451 (received 7/28/77), prior to Mr. Richardson's letter (Aug. 4, 1977, copy enclosed). C & K responded by phoning previous daily progress reports to my wife on Aug. 4 and mailing daily reports since. I appreciate this consideration.

I would like to clear a little camouflage smoke from Mr. Richardson's statements.

Mr. Richardson emphasizes a private "contract" between C & K and Bill Taylor. Although Mr. Richardson would like to place such value upon an agreement as to what C & K and Bill Taylor would request of the NMOCC, a re-reading of the hearing (Case #5807) will substantiate the fact Mr. Hooper & Mr. Kellihan representing C & K, and Bill Taylor regarded the agreement as a guideline of areas of agreement for the NMOCC to consider. If it had been intended as a contract, there would have been no hearing. Although I am in disagreement with the emphasis now placed upon a 30 day provision and the necessity of entering further agreements, etc. I believe a letter from another C & K attorney, Tom C. McCall, dated Mar. 16, 1977, in response to my letter to C & K, Feb. 26, 1977, will further strengthen the fact C & K felt bound by the OCC order (paragraph 3 of Tom McCall letter---copies of both letters enclosed).

Taylor's intention was to participate if successful in raising the money and consistently so stated, even into the hearing record. Potential investors were under consideration (whose names are only available to the Commission if they request).

The agreement was confirmed by Taylor's Carlsbad attorney in phone conversation with Mr. Kellihan on Nov. 9, 1976. It was to be ready for Taylor upon his arrival in Santa Fe, containing the following items: (1) C & K was to not seek over 120% penalty factor at the hearing; (2) C & K was to not seek forced pooling of any formation above the Wolfcamp; and (3) Taylor was to be eligible to receive his share of the gas in kind after payment or payout. (Mr. Kellihan thought Taylor had this right already). Taylor was to not seek a postponement of the hearing to allow time to obtain legal and geological representation.

The agreement was not ready upon arrival. Taylor insisted upon it. Mr. Kellihan and Mr. Hooper conferred, whereupon Mr. Kellihan drew up a rough draft, adding a provision of receipt of an AFE and 30 day payment period. The additions were explained to be identical to the order of the NMOCC and would allow C & K to begin drilling within the 30 days. The final, typed agreement was to show a correlation between the 30 days allowed Taylor and C & K's drilling in that time period--for tax purposes.

Returning after an hour as requested, Taylor found the final draft did not contain the explanation; Mr. Hooper had signed, left, and was unavailable; but Mr. Kellihan assured the verbal explanation was adequate. Time to seek an extension of the hearing from the NMOCC that day had expired, so Taylor accepted the draft as was, given assurance of the verbal explanation (agreement copy enclosed).

Next morning, prior to the hearing, Taylor again sought assurance from Mr. Hooper and Mr. Kellihan of the verbal explanation of the 30 day period and was given it. Also C & K's legal and accounting departments were to contact Taylor as to timing and method of paying his share of well costs. Mr. Hooper was not aware of the exact process, Mr. Kellihan placed this responsibility upon C & K.

(Mr. Hooper's office was contacted Nov. 12, 1976. His secretary seemed undecided as to whether Mr. Hooper was available or not. I left word to tell Mr. Hooper that Bill Taylor called to discuss participating, the 120% penalty, and the other items to be carried out as discussed in Santa Fe. Mr. Hooper could contact me when he desired. No contact came from him so I wrote C & K prior to the well's completion, Feb. 26, 1976. (This is the second reference to enclosed letter).

I don't recall meeting Mr. Richardson in Santa Fe (or elsewhere). Although I made several phone calls to C & K, I was unable to even learn of Mr. Hooper until Nov. 8, 1976, two days prior the hearing. I was able to contact him by phone that day at Midland, Texas, after 4:30 p.m. I then phoned Mr. Kellihan in Santa Fe; Mr. Kellihan phoned Mr. Hooper, then myself after this time. Perhaps this is what Mr. Richardson means by "working into the night".

I believe C & K could stand straight without leaning backwards if they would shoulder the truth. I cannot understand Mr. Hooper's actions unless he has been so busy he let items slip his mind. As things presently stand, I am dissatisfied with C & K's fulfillment of commitments.

In connection with Mr. Richardson's comments on C & K's Carlsbad "7", W $\frac{1}{2}$ 7, T-22S, R-27E, NMPM, Eddy County, New Mexico. I again state that although C & K have previously sent me mail and know my address, and have made phone calls to me, they did not use these means or personally contact me on this well. Possibly they contacted some of my kinfolks---dad, uncle, or cousin---but none are named Bill Taylor and all live elsewhere in the area. C & K did not contact me on this well!

The principle involved is more important than the money. If the NMOCC is given the responsibility, then they are the equalizer between the Davids and Goliaths. In the case of the W $\frac{1}{2}$ 7-22S-27E well, it seems the Davids who cannot raise their share of well costs, or are unaware of the well, were stomped. 200% for this pool well effectively robs the poor to give to the rich. The people owning this property are mostly low income, many on welfare, hard pressed people. Someone failed. C & K will benefit.

I had not intended to contact the NMOCC further on this. I received Mr. Richardson's letter, and valuing truth more than wealth, have written. My statements are open to inspection.

Sincerely,

Bill Taylor



Enclosures
Xerox Copies: C & K

Enc. 1



512 Welshire
Carlsbad, NM 88220
August 1, 1977

C & K Petroleum, Inc.
G. C. Tompson
Manager of Products
P.O. Drawer 3546
Midland, TX 79702

Dear Mr. Tompson:

I have received New Mexico Oil Conservation Commission order #R-5451 designating C & K Petroleum, Inc. as operator of a proposed well on the W 1/2 of Sec. 7, Township 22 South, Range 27 East, NMPM, Eddy County (which you designate as Carlsbad "7" # 1 well).

Enclosed is a check for \$408.23, the amount your AFE #00160 establishes as my share of estimated well costs. This complies with the forced pooling provision of the N.M.O.C.C. order #R-5451.

As the N.M.O.C.C. order is interpreted to me, I am obligated for payment upon your presentation of an AFE to myself and the N.M.O.C.C. within 30 days of your beginning drilling operations. Your AFE #00160 for which the check is payment is dated July 14, 1977. My payment of your AFE obligates you to begin drilling operations by August 14, 1977.

Sincerely,

Bill Taylor

Enclosure

132

BILL G. OR WANDA J. TAYLOR
512 WELSHIRE PI. 887-2570
CARLSBAD, NEW MEXICO 88220

PAY TO THE ORDER OF C+K Petroleum Corp. Aug 14 1977 $\frac{95.108}{1122}$
Four hundred, eight, and 23/100 408.23
DOLLARS

COMMERCIAL BANK AND TRUST
Estimate Will Cost Share
N.M.O.C.C. Order R-5451
C&K AFE 00160 at 7/14/77
64 575 300

Bill Taylor

Enc. 2

REC'D

RANDOLPH M. RICHARDSON

OIL AND GAS LAND AND UNIT CONSULTANT

FEDERAL STATE - FEE

P. O. BOX 819

ROSWELL, NEW MEXICO 88201

July 30, 1977

AUG 1 1977

C & K Petroleum, Inc.

Received 8/1/77
Bill Taylor

OFFICE 505 622-8801
HOME 505 622-7988

In Re: C & K Petroleum, Inc.
Carlsbad "13"-1 and "7"-1
Wells, Eddy County, N. M.

Mrs. Danie Lebow
Land Department
C & K Petroleum, Inc.
600 C & K Building
Midland, Texas 79701

Dear Mrs. Lebow,

I have received a copy of letter dated July 19th, 1977, addressed to Mr. Thompson from Bill Taylor in connection with your Carlsbad "13"-1 well, N $\frac{1}{2}$ Sec. 13, T-22-S, R-26-E, NMPM, and your Carlsbad "7"-1 well, W $\frac{1}{2}$ Sec. 7, T-22-S, R-27-E, NMPM, Eddy County, N. M. Since I have done some of the title work in connection with these proration units, you have requested my opinion, from a practical standpoint, as to how to deal with Mr. Taylor.

From 27 years experience in land work, primarily in connection with unitization, joint operations and formation of proration units, I can only advise you to quit wasting your time, efforts and legal expenses in attempting to satisfy Mr. Taylor.

I was in Santa Fe at the time of the forced pooling hearing on the N $\frac{1}{2}$ Sec. 13, and if I remember correctly, Jason Kellahin and your Mr. Hooper worked into the night reaching an agreement with Mr. Taylor to the effect that if he were not force pooled with the maximum penalty, he would agree to your recovering his share of costs out of production plus only 120%. I believe that a written agreement to this effect was signed by Mr. Taylor. Consequently he was not force pooled and the O.C.C. should not even be bothered with Mr. Taylor. The O.C.C. is not an arbitration board as between citizens with a private contract.

Consequently, unless your Agreement with Mr. Taylor specifically provides that he be furnished with all well information, production figures, and drilling and operating cost amounts, I would not send him any information. In other words, if you comply with your end of your Agreement with Mr. Taylor, your hands are clean and I would simply forget the matter.

In connection with the Carlsbad "7"-1 well, I understand that Mr. Taylor did verbally agree to pay his share of well costs, and again avoided being force pooled. If such is the case, and he was not legally force pooled, with

the maximum penalty, then simply forget him. After you have recovered his share of well and operating costs out of production, you can start paying him his share of production, less operating costs, which of course includes reworking, new tubing, etc.

Since you have no agreement with Mr. Taylor as to this "7"-1 well, he is entitled to no information, well, expenses, production or whatever. He also cannot expect any information and won't be entitled to any until such time as he is "paid out". If he executes a Joint Operating Contract, then he will be entitled to all information, but will either pay his share of well costs when billed, or go "non-consent" and take the penalty provided for in the Operating Agreement, which I assume is a minimum of 300%.

I know that the entire C & K staff, and lawyers, have "leaned over backward" to "get along" with Mr. Taylor and as a result he has simply become a problem which I would ignore.

Since Mr. Taylor forwarded a copy of his letter to the O.C.C., I am doing the same with the specific intention of apologizing for any extra work that may have been caused by the copy of his letter being forwarded. If I am correct, Mr. Taylor managed to avoid being force pooled in both cases, consequently he is not covered by the O. C. C. orders, and the entire problem is between you and Mr. Taylor, and I should hope that the O. C. C., if they take any action at all, would simply advise Mr. Taylor that the problem is not within the jurisdiction of the O. C. C.

I would also suggest to Mr. Taylor that he engage a good Oil & Gas Lawyer, and I can recommend Don McCormick, Les Dow, or Jay Forbes there in Carlsbad, the Hinkle or Atwood firms in Roswell, or Jerry Losee in Artesia.

As mentioned above, I would pay no attention to Mr. Taylor's letter, quit spending your time and money in worrying with it, and if and when Mr. Taylor should bring some sort of suit for whatever he wants, then you can let your attorney handle the matter.

I should point out that my fees, your attorney fees, wages for brokers who have contacted Mr. Taylor, and other expenses incurred by you in trying to "get along" with Mr. Taylor are chargeable against the properties as operating expenses, and as a result, the longer you continue to spend money on Mr. Taylor, the longer will be the "payout".

I hope that this has answered your question, and I again apologize to the O. C. C. for Mr. Taylor attempting to involve them in matters over which they have no concern.

Yours very truly,

R. M. Richardson

Xerox Copy: N.M.O.C.C.
Bill Taylor



512 Welshire
Carlsbad, NM 88220
February 26, 1977

Mr. Ed. Hooper
C & K Petroleum, Inc.
P.O. Drawer 3546
Midland, Tx 79701

Dear Mr. Hooper:

When they are available, I would like to have a copy of the logs for the well discussed in NMOCC Case No. 5807 concerning the N/2 Sec. 13-22S-26E, NMPM, Eddy County, NM, if the costs are economical and feasible.

I attempted to contact you by phone November 12, 1976, to discuss various items. You were unavailable and I stated to your secretary my main reason was to follow up our discussions in Santa Fe and to ask if C & K had a preference between the 120% penalty and our paying our share of the well costs.

The other items of discussion would have been legal documents concerning our rights to gas in kind; forced pooling of only the Wolfcamp through the Pennsylvanian formations; and methods and timing of drilling costs payments. These were discussed with you and Mr. Jason Kellahan and you desired your legal division to carry through on further necessary legal steps.

I have not been contacted by your legal division so I am assuming the NMOCC Order No. R-5332 along with the statement into the Commission record at the hearing Nov. 10, 1976, of our right to gas in kind is adequate to C & K. I understand your desire that we each be bound by the NMOCC ruling was the reason you and Mr. Kellahan continued the hearing before the NMOCC rather than cancel it last Nov. 10 (1976).

If C & K needs further legal documents on any points we have discussed, please contact me. If no answer from C & K is received in the immediate future, I shall assume the statement into record of our rights to gas in kind and order No. R-5332 are all that are needed by each of us to legally bind us to our respective positions.

Sincerely,



Bill Taylor

RAYMOND A. LYNCH (1915-1976)
CLOWIS G. CHAPPELL
MARTIN L. ALLDAY
CHARLES C. ALDRIDGE
RANDALL LUNDY
KENNETH W. NORDEMAN
GARY G. WISENER
JAMES M. ALSUP
ROBERT A. SPEARS
WALTER M. HALL
DAVID W. CHILDRESS
TOM C. MCCALL
RONALD G. TEFTELLER
GEORGE D. GILLES

LYNCH, CHAPPELL, ALLDAY & ALDRIDGE
ATTORNEYS
201 WALL TOWERS EAST
MIDLAND, TEXAS 79701

March 16, 1977

AREA CODE 915
683-3351

Enc. 4
Rec'd 3/19/77

Mr. Bill Taylor
512 Welshire
Carlsbad, New Mexico 88220

RE: NMOCC Order No. R-5332

Dear Mr. Taylor:

We are in receipt of your letter dated February 26, 1977, inquiring as to New Mexico Oil Conservation Commission Order No. R-5332.

As you will recall, on November 9, 1976, an agreement was entered into between yourself, Individually and for William A. Page, with C & K Petroleum, Inc., wherein C & K Petroleum, Inc., agreed that in presenting case No. 5807 to the New Mexico Oil Conservation Commission, that they would not seek a risk factor in excess of 120% for any well drilled. It was acknowledged by yourself at the time that you had received an A.F.E. representing estimated well costs and it was agreed that you would have thirty (30) days from November 9, 1976, in which to pay your proportionate share of any estimated well costs and thereby avoid payment of the 120% risk factor.

In view of the fact that your share of the estimated well costs were not paid within the thirty (30) day period, C & K Petroleum, Inc., is of the opinion that it is now bound by New Mexico Oil Conservation Commission Order No. R-5332 and the agreement entered into between yourself and C & K Petroleum, Inc., on November 9, 1976.

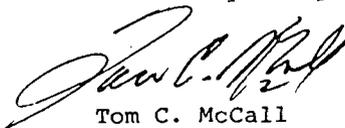
At such time as C & K Petroleum, Inc., has recouped its costs of drilling the well, plus the 120% penalty provision, plus supervision allowances as set out in said Order No. R-5332, you will be entitled to participate in production as a working interest owner and will have the right to take your gas in kind.

Mr. Bill Taylor
March 16, 1977
Page 2

At such time as this occurs, it will be necessary for C & K Petroleum, Inc., to enter into an appropriate operating agreement and gas balancing agreement with you in order to set forth the respective rights of the parties.

Should you need additional information, please contact me.

Yours very truly,



Tom C. McCall

TCM:lw

cc: Ms. Danie Lebow
C & K Petroleum, Inc.
600 C & K Petroleum Bldg.
Midland, Texas 79701

A G R E E M E N T

C & K Petroleum, Inc., is the applicant for compulsory pooling and a non-standard gas proration unit in Case No. 5807 before the New Mexico Oil Conservation Commission, Wednesday, November 10, 1976. Bill Taylor and William A. Page are owners of interests in the minerals underlying the proposed non-standard unit that would be affected by a pooling order.

Bill Taylor represents that he has the right to bind William A. Page, and E. W. Hooper, Exploration Manager for C & K Petroleum, Inc., represents that he has the right to enter into this agreement on behalf of C & K Petroleum, Inc.

C & K Petroleum, Inc., agrees that at the presentation of this case it will not seek a risk factor in excess of 120%, that is it will seek the right to recover its reasonable costs of drilling, completing and equipping the subject well, plus 120% of that amount as a risk factor for drilling the well, as provided by New Mexico statutes, and the rules and regulations of the Commission.

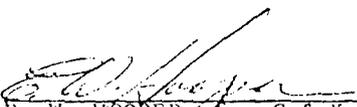
Bill Taylor acknowledges receipt of estimated well costs in the form of an A.F.E., given to him this date, and C & K Petroleum Inc., agrees that Bill Taylor shall have thirty days from this date in which to pay his share of estimated well costs in lieu of paying such share out of production, and thereby avoid payment of the 120% risk factor.

Bill Taylor shall have the right to take his gas in kind, after payout of the well, provided that he shall make connection at his own expense.

It is agreed that C & K Petroleum, Inc., does not seek compulsory pooling in this case of any formations other than Wolfcamp and Pennsylvanian formations, and does not seek pooling of any formations above the Wolfcamp.



BILL TAYLOR, for himself, and
for William A. Page



E. W. HOOPER, for C & K
Petroleum, Inc.

Dated: November 9, 1976