

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

15 March 1989

EXAMINER HEARING

IN THE MATTER OF:

In the matter of cases called on this
date and continued or dismissed with-
out testimony presented.

CASES
9610
9619
9624
9626
9627
9628
9629
9630
9631

*Transcript in
Case 9610*

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Robert G. Stovall
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

April 13, 1989

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Mr. Ernest L. Padilla
Padilla & Snyder
Attorneys at Law
P. O. BOX 2523
Santa Fe, New Mexico 37504-2523

Re: CASE NO. 9619
ORDER NO. R-8913

Applicant:
Santa Fe Exploration Company

Dear Sir:

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

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD X
Artesia OCD X
Aztec OCD

Other Thomas Kellahin

KELLAHIN, KELLAHIN and AUBREY

Attorneys at Law

W. Thomas Kellahin
Karen Aubrey

El Patio - 117 North Guadalupe
Post Office Box 2265

Telephone 982-4285
Area Code 505

Jason Kellahin
Of Counsel

Santa Fé, New Mexico 87504-2265

April 5, 1989

HAND-DELIVERED

Mr. David Catanach
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Application of Santa Fe Exploration
for Compulsory Pooling, Unorthodox
Location and Dual Competition
NMOCD Case No. 9619

Dear Mr. Catanach:

Our firm represents Marathon Oil Company and entered our appearance at the hearing on March 29, 1989 in the referenced case.

On April 3, 1989 I received a copy of a proposed order submitted to you on March 30, 1989 by Mr. Padilla, attorney for Santa Fe Exploration Company.

You may remember that Mr. Padilla's client and mine had reached an agreement concerning the penalty to be imposed upon the Santa Fe Exploration Company well location.

Enclosed is a copy of the settlement letter which was also introduced by Mr. Padilla at the hearing. You will note that the letter requires the penalty to apply against any producing well rate.

In review Mr. Padilla's proposed order, I note that the language he suggests will not implement the intent of the settlement. Mr. Padilla's order shows the penalty against the top allowable and not the actual producing well rate.

We request that the language of the order include the following:

1. Said well is hereby assigned a Production Limitation Factor of 0.40 for the gas production.
2. The well's production each day of the first year's production shall be limited to 40% of the CAOF established by test as required by Rule 401 of the General Rules and Regulations or 40% of its prorated allowable, whichever is less.

KELLAHIN, KELLAHIN and AUBREY

Mr. David Catanach
Oil Conservation Division
April 5, 1989
Page 2

3. Before October 1 each year following the well's completion the shut-in pressure shall be measured and reported as required by General Rule 402, and a new CAOF shall be calculated based on the revised shut-in pressure so as to establish a revised maximum flow rate as described in Ordering Paragraph No. 2 above. The revised penalized flow rate or the penalized prorated allowable, whichever is less, shall become effective November 1. In the event of failure to establish a satisfactory slope on the 4-point test required in Ordering Paragraph 2 above, a slope of 0.730 shall be used in calculating CAOF.

4. Production during any month at a rate less than the limitation described above shall not be carried forward as underproduction into succeeding months, but overproduction of such limitation during any month shall be made up in the next succeeding month or months by shut-in or reduced rates as required by the District Supervisor of the Division.

5. Unless modified by further order, after notice and hearing, the limitation imposed on Morrow production by ordering paragraphs (1) and (2) shall also apply to gas production from any other formation in which the well may be completed.

Very truly yours,



W. Thomas Kellahin

WTK/rs
Encl.

cc: Mr. Steve Daniels - Marathon Oil Co./Midland
Mr. Larry Garcia - Marathon Oil Co./Houston
Earnest L. Padilla, Esq.

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 212

P.O. BOX 2523

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ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

March 30, 1989

HAND-DELIVERED

Mr. David R. Catanach
Hearing Examiner
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case 9619 - Santa Fe Exploration

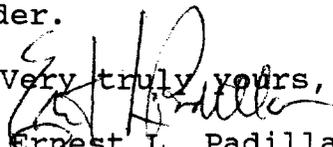
Dear Mr. Catanach:

Pursuant to your request during the hearing on the above-referenced case, enclosed please find a copy of a title opinion prepared by the Hinkle Law Firm for Santa Fe Exploration Company. This opinion sets forth the oil and gas ownership of Section 8, Township 21 South, Range 23 East, NMPM, Eddy County.

In addition, we have prepared a proposed order for your consideration. At your suggestion following the hearing, we met briefly with Mr. Lyon to discuss issuance of an expeditious order inasmuch as Santa Fe Exploration faces a lease deadline of April 30. Mr. Lyon concurred in our suggestion that our submittal of a proposed order would expedite an order.

Under compulsory pooling orders issued by the Division, non-consenting parties are normally given 30 days after an order is furnished to such non-consenting owner within which to participate. Given the current time constraints, Santa Fe Exploration will undoubtedly have to commence its well before its lease expiration.

Accordingly, in order to reduce Santa Fe Exploration's risk in being "ridden down", we, again, renew our request for an expeditious order.

Very truly yours,

Ernest L. Padilla

ELP:crk
Enclosures as stated
cc: Santa Fe Exploration

HINKLE, COX, EATON, COFFIELD & HENSLEY

ATTORNEYS AT LAW

700 UNITED BANK PLAZA

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March 20, 1989

LEWIS COOK
PAUL W. EATON
CONRAD E. COFFIELD
HAROLD J. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
DAEN W. LOPEZ
DOUGLAS L. LUNSFORD
T. CALDER EZZELL, JR.
WILLIAM B. BURFORD
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THOMAS D. HAINES, JR.
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ANDREW J. CLOUTIER

OF COUNSEL
O. M. CALHOUN
WACK EASLEY
JOE W. WOOD
STEPHEN L. ELLIOT

CLARENCE E. HINKLE (1901-1985)
W. E. BONDURANT, JR. (1913-1973)
ROY C. SNOODGRASS, JR. (1915-1987)

*NOT LICENSED IN NEW MEXICO

IN RE: DRILLING OPINION OF TITLE TO:)

The following Oil and Gas Leases insofar)
as they cover portions of Section 8,)
Township 21 South, Range 23 East, N.M.P.M.,)
Eddy County, New Mexico, collectively)
covering the entire section, containing 640)
acres, more or less.)

Tract 1:)

United States of America Oil and Gas)
Lease LC-066037, insofar as it covers the)
E $\frac{1}{2}$ SW $\frac{1}{4}$ Section 8;)

Tract 2:)

United States of America Oil and Gas)
Lease NM-58511, insofar as it covers the)
NW $\frac{1}{4}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 8;)

Tract 3:)

United States of America Oil and Gas)
Lease NM-59375, insofar as it covers the)
NE $\frac{1}{4}$, E $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$)
Section 8; and)

Tract 4:)

State of New Mexico Oil and Gas Lease)
E-10170 insofar as it covers the SW $\frac{1}{4}$ NW $\frac{1}{4}$)
Section 8.)

Your No. _____)

No. 26,737

Santa Fe Exploration Company
P. O. Box 1136
Roswell, New Mexico 88202

Attention: Mr. Bill McAlpine

Gentlemen:

In connection with the title to the captioned leases and lands, we have examined the following:

(a) Federal Abstract Company abstract No. 42912 and Mineral Abstract Service, Inc. abstract No. 419 which collectively purport to reflect all entries appearing in the plat book

records, historical index records, serial records and case file in the Bureau of Land Management State Office in Santa Fe, New Mexico, affecting title to United States Oil and Gas Lease LC-066037 insofar as it covers Tract 1 for the time period from inception down to January 26, 1989 at 9:00 A.M. and United States Leases NM-58511 and NM-59375 insofar as they cover Tracts 2 and 3 respectively, for the time period from inception of records down to January 26, 1989 at 9:00 A.M.

(b) Federal Abstract Company abstract No. 42913, 18018, and 17042, Schutz Abstract Company abstract No. 1192, and abstract No. 5320 compiled by Mary Coleman Griffin, which collectively purport to cover the records filed in the Office of the Commissioner of Public Lands for the State of New Mexico in Santa Fe, New Mexico, affecting State of New Mexico Oil and Gas Lease E-10170 insofar as it covers Tract 4 for the time period from inception down to January 26, 1989 at 8:00 A.M.

(c) Currier Abstract Company abstract No. 89,058; 76,327; 76,388; 76,365; 16,739; 15,444; 14,805; 10,196, which collectively purport to reflect all instruments filed of record in Eddy County, New Mexico, as to the mineral estate only of the exact captioned land:

- Tract 1: From inception.
- Tract 2: From May 22, 1958 at 7:00 A.M.
- Tract 3: From October 18, 1963 at 8:00 A.M.
- Tract 4: From inception

all down to February 23, 1989 at 8:00 A.M.

From our examination of the foregoing, we report the status of title, for drilling purposes, to the captioned leases and lands as of the closing dates of the abstract certificates as follows:

I. TITLE TO OIL AND GAS, SUBJECT TO LEASE AS INDICATED:

Tract 1 (LC-066037):

United States of America ----- All*

*This lease provides for a 12.5% royalty.

Tract 2 (NM-58511):

United States of America ----- All*

*This lease provides for a sliding scale royalty and we refer you to Section V, paragraph 1 below.

Tract 3 (NM-59375):

United States of America ----- All*

*This lease provides for a sliding scale royalty and we refer you to Section V, paragraph 1 below.

Tract 4 (E-10170):

State of New Mexico ----- All*

*This lease provides for a 1/8 royalty.

II. RECORD TITLE TO THE CAPTIONED LEASES:

Lease LC-066037 (Tract 1):

Sun Operating Limited Partnership ----- All

Lease NM-58511 (Tract 2):

Armstrong Energy Corporation ----- All

Lease NM-59375 (Tract 3)

Santa Fe Exploration Company ----- All

Lease E-10170 (Tract 4):

BHP Petroleum Company, Inc. ----- All

III. TITLE TO OPERATING RIGHTS IN AND TO THE CAPTIONED LEASES AND LANDS AND TO OVERRIDING ROYALTY INTERESTS AND PRODUCTION PAYMENTS BURDENING THE SAME:

Tract 1 (LC-066037):

For all depths from the surface down to 7,630 feet subsurface:

Operating Rights*:

Sun Operating Limited Partnership -----	.36813345	WI
Oxy USA, Inc. -----	.18750000	WI
Odessa Natural Corporation -----	.25000000	WI
J. Hiram Moore, whose wife is Betty Moore -----	.09375000	WI
Tom L. Ingram, whose wife is Joan L. Ingram -----	.09146959	WI
The Heirs and/or Devisees of, Joe A. Warren, deceased -----	.00457348	WI
Emma Jean Warren, a widow -----	.00457348	WI
Total -----	1.00000000	

Overriding Royalty Interests:

Chevron USA, Inc. -----	1/2 x 12.5%	ORI**
Tracy P. Clark -----	3/32 x 1%	ORI
Robert E. Boling, as his separate property -----	3/64 x 1%	ORI
Mary L. Boling, as her separate property -----	3/64 x 1%	ORI

Production payment covering Tract 1 and other lands in the amount of \$500.00 per acre payable out of 3% of production from such lands:

George P. Riggs -----	3% x 5/12	PP
Wills Royalty, Inc. -----	3% x 5/12	PP
Sue M. Winston -----	3% x 2/12	PP

*All working interests are subject to the production payment. However, the Chevron (1/2 x 12.5%) override is borne by the following working interest owners in the percentages stated:
Sun 46.23873872%; Oxy 25%; Moore 12.5%; Ingram 12.19594595%; Heirs of Joe Warren 2.032657658% and Emma Jean Warren 2.032657658% and the Clark and Boling (3/16 x 1%) override is borne by Oxy.

**This ORI bears the production payment and see Section V, paragraph 2(b) for discussion of this interest.

For all depths below 7,630 feet subsurface:

Operating Rights*:

Sun Operating Limited Partnership -----	.49084460	WI
Oxy USA, Inc. -----	.25000000	WI
J. Hiram Moore, whose wife is Betty Moore -----	.12500000	WI
Tom L. Ingram, whose wife is Joan L. Ingram -----	.12195946	WI
The Heirs and/or Devisees of Joe A. Warren, deceased -----	.00609797	WI
Emma Jean Warren -----	.00609797	WI
Total -----	1.00000000	

Overriding Royalty Interests:

Chevron USA, Inc. -----	12.5% ORI**
Tracy P. Clark -----	1/8 x 1% ORI
Robert E. Boling, as his separate property -----	1/16 x 1% ORI
Mary L. Boling, as her separate property -----	1/16 x 1% ORI

Production payment covering Tract 1 and other lands in the amount of \$500.00 per acre payable out of 3% of production from such lands:

George P. Riggs -----	3% x 5/12 PP
Wills Royalty, Inc. -----	3% x 5/12 PP
Sue M. Winston -----	3% x 2/12 PP

*All working interests are subject to the production payment and the Chevron (12.5%) override. The Clark and Boling (1/4 x 1%) override is borne by Oxy.

**This ORI bears the production payment and see Section V, paragraph 2(b) for discussion of this interest.

Tract 2 (NM-58511):

Armstrong Energy Corporation -----	1.00000000	WI
------------------------------------	------------	----

Tract 3 (NM-59375):

Santa Fe Exploration Company -----	1.00000000	WI
------------------------------------	------------	----

Tract 4 (E-10170):

For all depths from the surface down to 9,000 feet subsurface:

Operating Rights:

BHP Petroleum Company, Inc. -----	.50000000	WI
Sun Operating Limited Partnership -----	.19054054	WI
Oxy USA, Inc. -----	.12500000	WI*
J. Hiram Moore, whose wife is Betty Moore -----	.06250000	WI
Tom L. Ingram, whose wife is Joan L. Ingram -----	.06097973	WI
Eugene H. Nearburg, as his separate property -----	.06097973	WI
Total -----	1.00000000	

Overriding Royalty Interests:

Tracy P. Clark -----	1/16 x 1% ORI
Robert E. Boling, as his separate property -----	1/32 x 1% ORI

Mary L. Boling, as her
separate property ----- 1/32 x 1% ORI

*The interest of Oxy is burdened by the
Clark and Boling overrides.

For all depths below 9,000 feet subsurface:

BHP Petroleum Company, Inc. ----- 1.00000000 WI

IV. OIL AND GAS LEASES - RENTALS - ROYALTY - ASSIGNMENTS -
OVERRIDING ROYALTY INTEREST - PRODUCTION PAYMENTS - PRODUCTION:

1. Oil and Gas Leases - Rentals - Royalty: The principal
features of the captioned leases are as follows:

LC-066037 (Tract 1):

Form: 4-213 (December 1949)

Date: November 1, 1951

Term: Primary term of ten years and so long thereafter as oil or gas is produced in paying quantities.

Recording Data: Unrecorded and there is no necessity to record the lease.

Lessor: United States of America

Lessee: Sue M. Winston

Lands Covered: Township 21 South, Range 23 East, N.M.P.M.
Section 8: E $\frac{1}{2}$ SW $\frac{1}{4}$
Section 17: N $\frac{1}{2}$, SE $\frac{1}{4}$

containing 560 acres, more or less.

Extensions: Extended to October 31, 1961 and by Partial Assignment, extended to September 30, 1963. Further extended by drilling operations within the lands covered by the Unit Agreement or under the Communitization Agreement. All rentals appear to have been paid through the 12th lease year or until September 30, 1963.

Other Features: See schedule attached.

NM-58511 (Tract 2):

Form: 3120-7 (February 1977)

Date: May 1, 1984

Term: Primary term of five years and so long thereafter as oil or gas is produced in paying quantities.

Recording Data: Unrecorded and there is no necessity to do so.

Lessor: United States of America

Lessee: Armstrong Energy Corporation

Lands Covered: Exact Tract 2, containing 120 acres, more or less.

Royalty: This lease provides for a sliding scale royalty based upon average production per well per day and ranges from 12.5% to 25% on oil and from 12.5% to 16 2/3% on gas. See the attached schedule for the royalty rates as well as other features of this lease.

Rentals: \$2.00 per acre, or fraction thereof, and the abstract reflects that all rentals have been timely and properly paid through the fifth lease year.

In addition to the above noted provisions, Lease NM-58511 contains the following special stipulations:

(a) Surface Disturbance Stipulation: Surface disturbing operations conducted by lessee on the lease shall be subject, as set forth in the stipulation to approval of such operations by the Area Oil and Gas Supervisor in consultation with the appropriate surface management agencies.

(b) Endangered Species, Cultural and Paleontological Resources Stipulations: This stipulation provides for the examination of the property prior to surface disturbing activities and if the findings of this examination determine that the operation may detrimentally affect an endangered or threatened species, some restriction to the operator's plans or even disallowance of use may result. In addition, the cultural and paleontological resources shall be inventoried prior to surface disturbing activities and requires the operator/lessee to bring to the attention of the BLM and the authorized officer of the surface management agency, any cultural resources, paleontological and other objects of scientific interest discovered as a result of surface operations on the lease and shall leave such discoveries intact until directed to proceed by the surface management agency.

(c) Special Stipulations Concerning Steep Slopes, Water Shed Damage, Painting and Live Water: No surface disturbance will be allowed on slopes in excess of 30% without written permission of the BLM. The BLM and the surface management agency may prohibit activities during muddy and/or wet periods, but this limitation shall not apply to maintenance and operation of producing wells. The BLM or the surface management agency may require painting or camouflage of all semi-permanent and permanent facilities. Drilling or storage facilities may be prohibited within 300 feet of any live water, reservoir, river or major drainage channel and any operation within flood plains will be strictly controlled to prevent contamination.

(d) Cave Stipulation: This stipulation provides that no drilling operations will be conducted within 300 feet of any known cave entrance, passage or significant karst feature or aspect. No pits will be located within 600 feet of any known cave entrance or underground passage way or in locations where spills from pits will drain into such subsurface features, including sink holes, and all pits must be lined. Facilities and roads must be constructed so as not to increase or decrease the natural flow of water into a cave or karst area.

Lease NM-59375 (Tract 3):

Form: 3100-11 (March 1984)

Date: November 1, 1984

Term: Primary term of five years and so long thereafter as oil or gas is produced in paying quantities.

Recording Data: Recorded in Eddy County Miscellaneous Records Book 241, page 943.

Lessor: United States of America

Lessee: Santa Fe Exploration Company

Lands Covered: Exact Tract 3 lands containing 400 acres, more or less.

Royalty: This lease provides for a sliding scale royalty based upon average production per well per day and ranges from 12.5% to 25% on oil and from 12.5% to 16 2/3% on gas. See the attached schedule for the royalty rates as well as other features of this lease.

Rentals: \$2.00 per acre, or fraction thereof, and the abstract reflects that all rentals have been timely and properly paid through the fifth lease year.

In addition to the above noted provisions, Lease NM-59375 contains the Cave Stipulation which we have analyzed with respect to Lease NM-58511.

Lease E-10170 (Tract 4):

Form: 45

Date: June 19, 1956

Recording Data: This lease is not recorded and there is no necessity to do so.

Lessor: State of New Mexico through its Commissioner of Public Lands.

Lessee: L. C. Harris

Lands Covered: Tract 4 and other lands collectively containing 920 acres, more or less.

Term: Two fixed terms of five years each or a total fixed term of ten years, and so long thereafter or oil or gas is produced in paying quantities.

Royalty: 1/8 on oil and gas, but see lease for details as to gas royalty.

Rental: 25¢ per acre during the initial five year term, increasing to 50¢ per acre during the second five year term. Rentals are due annually on the anniversary date of the lease even though the lease is on production and even though

royalty is paid to the state.
Rentals have been paid to June 19,
1989 at which time rentals in the
amount of \$460.00 will be due.

Other Features: See lease.

REQUIREMENT A: Drilling operations must be commenced before April 30, 1989 and must continue through midnight on Tract 2 or lands communitized therewith to prevent Lease NM-58511 from expiring of its own terms at the end of its primary term. Your drilling operations must be conducted with a bona fide effort of one attempting to discover oil or gas. If Tract 2 (Lease NM-58511) is communitized with other lands and leases, the current regulations require the communitization agreement to be executed by the parties and filed with the authorized officer of the Bureau of Land Management prior to the expiration of the lease. 53 Fed. Reg. 17355 (1988).

2. Assignments - Overriding Royalty Interest - Production Payment Interest: No assignments have been filed or recorded with respect to Leases NM-58511 and NM-59375. However, the materials reflect numerous assignments affecting Leases LC-066037 and E-10170. Unless requested to do so, we will not enumerate and analyze each assignment affecting these leases. We set forth below those assignments containing reassignment obligations, reservations of production payments or overriding royalty interests, those that contain some defect.

(a) Winston - Standard Oil: By Assignment of Oil and Gas Lease dated January 18, 1956, from Sue M. Winston, a single woman, to Standard Oil Company of Texas, covering Tract 1 and N $\frac{1}{2}$, SE $\frac{1}{4}$ Section 17 of the captioned township and range, assignors conveyed all of their right, title and interest in Lease LC-066037 to assignee. Assignor reserved an obligation payable out of production equal to \$500.00 per acre for the number of acres delivered pursuant to this agreement (560 acres), the same to be paid out of 3% of the market value at the wells as produced of all the oil and gas which may be produced, saved and marketed from the lands under the terms of said lease or any extension or renewal thereof. This assignment contains a 15 day reassignment clause. This assignment has been filed with the Bureau of Land Management and is recorded in Eddy County Oil and Gas Records Book 151, page 128. The materials examined do not reflect whether this production payment (\$280,000.00) has been paid in full.

(b) California Oil Co. - Odessa: By Agreement dated July 2, 1962, approved by the BLM, unrecorded, between California Oil Co. as "lessee" and Odessa Natural Gasoline as "operator," covering Lease LC-066037 insofar as it covers Tract 1 wherein the lessee assigned an undivided 1/2 interest in and to the operating rights in said lease and lands down to and including 7,630 feet subsurface, without warranty of title. This agreement provides that the operator is to reimburse the lessee for 1/2 of all rentals and minimum royalties accruing to the United States attributable to said lands and paid by the lessee. This agreement contains a provision in paragraph 10 requiring the operator to promptly give notice to the lessee concerning any desire operator has to sell or otherwise dispose of all or any part of its interest in the operating rights, relative to gas in, to or under such lease, together with the name and address of the prospective purchaser, who must be ready, willing and able to purchase, the purchase price and other terms of the offer. The lessee shall then have an optional prior right for a period of 15 days from receipt of notice to acquire such rights on the same terms and conditions under which the operator proposes to dispose of. In the event you intend to acquire the interest of Odessa Natural Corporation, successor to Odessa Natural Gasoline Company, you must be aware that the other owners of the operating

rights in said lease, as successors in interest to California Oil Company, may assert their preferential right to purchase. This is advisory.

REQUIREMENT B: A certified copy of this instrument must be filed of record in Eddy County, New Mexico.

(c) California Oil Co. - Enfield: Page 23 of Federal abstract No. 42912 reflects an Assignment Affecting Record Title to Oil and Gas Lease dated March 2, 1964, approved by the BLM effective April 1, 1964, recorded in Oil and Gas Records Book 142, page 142, from California Oil Co. to Robert N. Enfield, assigning all of assignor's right, title and interest in and to Lease LC-066037 covering Tract 1 and other lands. Assignor reserve an overriding royalty interest equal to "12.5% subject to proportionate reduction as to each zone of production based on percent of operating rights in each zone of production hereby assigned and less pro rata part of prior reservation." This assignment is also subject to the production payment previously reserved as noted in subparagraph (a) above. This assignment is also subject to Operating Agreement with Odessa Gasoline Company dated March 26, 1962 and July 2, 1962. We have not been submitted nor have we examined these Operating agreements.

REQUIREMENT C: Determine if the Operating Agreement dated March 26, 1962, is still in force and if it is, submit a copy for our examination and we reserve possible further requirement.

(d) Enfield - Carper: Page 29 of Federal abstract No. 42912 reflects a Conveyance of Operating Rights dated April 7, 1964, approved by the BLM and recorded in Oil and Gas Records Book 143, page 442, from Robert N. Enfield and wife, Mona L. Enfield, to Carper Drilling Company, Inc. (25%) and Nearburg & Ingram (24.3918919%) wherein assignor assigned the following interest in the operating rights in and to Lease LC-066037 insofar as it covers Tract 1 to the grantees in the proportions stated: For all depths from the surface down to 7,630 feet, 50% of the operating rights; and for all depths below 7,630 feet, 100% of the operating rights. This assignment also contains a reassignment provision and is subject to the West Indian Basin Unit Agreement, Unit Operating Agreement and Drilling Block Agreement. This assignment was made without warranty.

(e) Carper - Boling & Clark (ORI): Page 39 of Federal abstract No. 42912 reflects an Assignment of Overriding Royalty dated August 21, 1964, filed with the BLM and recorded in Oil and Gas Records Book 146, page 399, from Carper Drilling Company, Inc. to Robert E. Boling and Tracy P. Clark, assigning an overriding royalty interest in Lease LC-066037 insofar as it covers Tract 1 as follows: 3/16 of 1% of all oil, gas and other hydrocarbons produced, saved and marketed from Tract 1 as to all depths from the surface down to 7,630 feet subsurface; and 1/4 of 1% of all oil, gas and other hydrocarbons produced, saved and marketed from Tract 1 for all depths below 7,630 feet subsurface. This overriding royalty interest shall attach to all extensions and renewals of the lease and was made without warranty of title. In addition, by Assignment of Overriding Royalty Interest dated August 21, 1964, recorded in Oil and Gas Records Book 146, page 398, Carper Drilling Company, Inc. conveyed to Robert E. Boling and Tracy P. Clark, an overriding royalty interest of 1/8 of 1% in and to Lease E-10170 insofar as it covers Tract 4 and noncaptioned land. The parties entered into a Declaration of Interest and Conveyance dated June 24, 1965, recorded in Oil and Gas Records Book 157, page 267, wherein they reflect that the override was to remain constant before and after payout despite the fact that Carper's interest may vary.

Thereafter, Robert E. Boling and wife, Mary Louise Boling, were divorced with each spouse acquiring as his or her separate

property an undivided 1/2 interest in and to the overriding royalty interest previously in the name of Robert E. Boling.

(f) Enfield - Moore: Page 42 of Federal abstract 42912 reflects a Conveyance of Operating Rights dated August 3, 1964, approved by the BLM and recorded in Oil and Gas Records Book 146, page 192, from Robert N. Enfield and wife, Mona L. Enfield, to J. Hiram Moore, conveying an undivided 12.5% of the following interests in operating rights in Lease LC-066037 insofar as it covers Tract 1: For all depths from the surface down to 7,630 feet subsurface, 50%; and for all depths below 7,630 feet subsurface, 100%. This conveyance contains a reassignment provision and is subject to the West Indian Basin Unit Agreement, Unit Operating Agreement and Agreement forming the drilling block with the West Indian Basin Unit Area. This assignment was made without warranty of title.

(g) Nearburg - Sun: Page 116 of Federal abstract 42912 reflects a Transfer of Operating Rights (Sublease) and Lease for Oil and Gas or Geothermal Resources dated July 8, 1988, effective May 1, 1988, approved by the BLM, from Eugene E. Nearburg to Sun Operating Limited Partnership. Assignor assigned all of his interest in Lease LC-066037 insofar as it covers Tract 1 and other lands to assignee, representing such interests to be 7.5279476375% of the operating rights for all depths from the surface down to 7,630 feet and 10.03726352% interest in the operating rights for all depths below 7,630 feet. At the time of this conveyance, assignor owned of record 6.6132513% of the operating rights for all depths down to 7,630 feet and 8.8176682% of the operating rights for all depths below 7,630 feet. It appears that Eugene E. Nearburg may have acquired the interest of Joe A. Warren because when we add the interest we credit to Mr. Nearburg with the interest we credit to Mr. Warren the sum is equal to that purportedly assigned in this assignment. There are no assignments of record from Warren to Nearburg and we refer you to Exception to Title No. 1 below. The counterpart of the above transfer filed in the county records, is an Assignment and Bill of Sale dated January 14, 1988, effective May 1, 1988, recorded in Eddy County Records Book 27, page 743, wherein assignor conveys all of his right, title and interest in Lease LC-066037 insofar as it covers Tract 1 to assignee, with warranty covenants. This conveyance is subject to all terms and conditions of an unrecorded Purchase and Sale Agreement between the parties dated June 17, 1988, which we have not examined, the Unit Agreement, Joint Operating Agreement, Agreement Forming a Drilling Block and certain Gas Purchase Agreements.

REQUIREMENT D: If the interest of Sun becomes important to you, we should be submitted a copy of the Purchase and Sale Agreement dated June 17, 1988 and we reserve further requirement.

(h) Copass - Sun: Page 118 of Federal abstract 42912 reflects a Transfer of Operating Rights (Sublease) and a Lease for Oil and Gas or Geothermal Resources dated July 8, 1988, effective May 1, 1988, approved by the BLM, from Cynthia Copass Woolley, Attorney in Fact for Ben A. Copass, Jr. to Sun Operating Limited Partnership conveying all of assignor's right, title and interest in and to Lease LC-066037 insofar as it covers Tract 1. The counterpart of this Transfer, filed in the county records is an Assignment and Bill of Sale dated July 8, 1988, recorded in Eddy County Records Book 27, page 728, from Ben A. Copass, Jr. and wife, Dorothy K. Copass, by their Attorney in Fact, Cynthia Copass Woolley, to Sun Operating Limited Partnership, conveying all of their right, title and interest in said lease and land. This assignment is made subject to certain Gas Contracts, the Agreement Forming the Drilling Block in the West Indian Basin Unit Area, the West Indian Basin Unit Agreement, a Joint Operating Agreement dated October 1, 1964, between Robert N. Enfield and Marathon.

(i) Winston - Wills - Light - Wills Royalty (Production Payment): As noted in Paragraph (a) above, Sue M. Winston reserved a production payment equal to \$500.00 per acre payable out of .3% of the market value at the wells as produced of all the oil and gas which is produced, saved and marketed from the 560 acres subject to said assignment. Thereafter, Sue M. Winston assigned an undivided 5/12 interest in the production payment to Neil H. Wills and an undivided 5/12 interest in the production payment to George D. Riggs. These assignments may be defective in that they refer to the production payment as having been reserved under an Option Agreement to L. B. Hodges, which L. B. Hodges, in turn assigned to Standard Oil Company of Texas. However, Wills treats the production payment as if it is a valid interest as reflected by the following assignments. Page 370 of the county abstract reflects a Conveyance and Assignment dated March 12, 1976, recorded in Miscellaneous Records Book 135, page 212, from Neil H. Wills, a married man dealing in his separate property, joined by his wife, Maxine R. Wills, pro forma, to Robert S. Light and Joanna W. Light, d/b/a The Light Company; Elizabeth W. Mendez, J. Ray Hobbs; Donald L. Killgore; and the Carlsbad National Bank, Trustee for Bradley T. Light, Robert M. Light, Stanley W. Light, Neil T. Christensen, and Thayer P. Christensen. This assignment purports to convey an undivided 5/12 interest in a production payment of \$280,000.00 (less that paid under the same lease in Section 17), payable out of 3% of production under United States Lease LC-066037 insofar as it covers the exact Tract 1 land. Thereafter, page 422 of the same abstract reflects a Conveyance and Assignment dated March 24, 1986, recorded in Miscellaneous Records Book 263, page 962, from Robert S. Light and wife, Joanna W. Light, Elizabeth W. Mendez, J. Ray Hobbs, Donald L. Killgore, Bradley T. Light, Robert M. Light, Stanley W. Light, Neil T. Christensen and Thayer P. Christensen, to Wills Royalty, Inc., purporting to convey an undivided 5/12 interest in said production payment insofar as it covers the exact Tract 1 land. See Exceptino to Title No. 6 below.

3. Production: The materials examined reflect that Lease LC-066037 has been extended beyond its primary term by production and that the Mineral Management Service's Delinquent Lease Accounts Memo dated September 26, 1988 for production as of August 31, 1988, indicates that this lease does not appear on the Delinquent Accounts Report. A Memorandum dated October 20, 1965, reflects that the lease was extended by commitment to a producing unit and a Decision dated June 27, 1969, reflects that the lease remained in the West Indian Basin Unit. The last evidence by the BLM reflecting that this lease is held by production is a Memorandum dated September 2, 1987, which reflects that Lease LC-066037 is a nonproducing lease within a producing unit, i.e., there is no well on the tract but it is held by allocated production. Likewise, State of New Mexico Lease E-10170 covering Tract 4 is also apparently held by production. Correspondence from the Commissioner of Public Lands reflects that Lease E-10170 was held by production as late as February 6, 1986, although the Commissioner notes that the royalty to the State on the Lowe State Com Well is very low and such production may not be production in paying quantities. On September 15, 1986, the Commissioner noted the Lessee's 60 day additional drilling provision to perpetuate the lease and it appears in a letter from BHP Petroleum, Inc. to the Commissioner of Public Lands dated October 13, 1986, that it intended to spud the Lowe State No. 2 Well on or before October 29, 1986. Thereafter, BHP submitted a check in the amount of \$160.00 for shut-in royalty payments for the period June 19, 1987 to June 19, 1988 on the Lowe State No. 2 Well, as it was awaiting a pipeline connection. The abstract does not reflect further information with respect to the producing status of a well on this lease or lands communitized or unitized therewith.

On September 23, 1963, recorded in Oil and Gas Records Book 137, page 361, Robert N. Enfield, as operator, entered into a Unit Agreement with Monsanto Chemical Company, et al, for the creation of the West Indian Basin Unit Agreement and further entered into a Unit Operating Agreement. The Unit Agreement covered All of Sections 5, 8, 17 and 20 in the captioned township and range.

The materials under examination further reflect that Tract 4 of the captioned land was eliminated from the West Indian Basin Unit Agreement on January 2, 1969. We do not find any indication in the materials examined by us that elimination by the unit in any way terminated the rights of Enfield, predecessor to Sun.

As noted hereinabove, a Memorandum from the BLM dated September 2, 1987, reflects that Lease LC-066037 is a nonproducing lease within a producing unit of the West Indian Basin Unit Agreement. On January 2, 1969, the West Indian Basin Unit Agreement was partially terminated and Lease LC-066037 included lands remaining within the unit and lands eliminated from the unit area. The portion eliminated from the unit area appears to be Tract 1 and its term would be coterminous with the lands remaining within the unit. However, the land eliminated would retain their rental status absent production from the eliminated portion. The materials examined do not reflect whether rentals have been paid on the eliminated land.

REQUIREMENT E: Inquire of Sun Operating Limited Partnership and its predecessor in title Robert N. Enfield, whether all rentals have been paid on Lease LC-066037 insofar as it covers the lands eliminated from the unit from the date of elimination to a current date, absent production from such lands, and we reserve possible further requirement.

COMMENT: It is our opinion that failure to pay rentals on the eliminated portion of the land will not result in automatic termination of the lease, absent notice, but such rentals are due and owing to the United States and should be timely and properly paid.

REQUIREMENT F: Satisfy yourself that Lease LC-066037 has been continuously held by production from said lease or lands communitized therewith or by some other term in said lease since the expiration of its extension, expiring September 30, 1963, to the present.

REQUIREMENT G: Satisfy yourself that Lease E-10170 has been continuously held by production from the lands covered by said lease or from lands pooled or unitized therewith. In addition, satisfy yourself that the Lowe State No. 2 well was spudded on or before October 28, 1986, and that actual production from the well commenced on or before June 19, 1988, and has produced continuously thereafter or that the lease is held by other production.

VI. EXCEPTIONS TO TITLE AND REMARKS:

1. Overconveyance: As noted hereinabove, the Transfer of Operating Rights analyzed in Section V, paragraph 2(g) above, from Eugene E. Nearburg, to Sun Operating Limited Partnership purports to convey a greater interest than that credited to the assignor herein. It appears that prior to this conveyance, that Eugene E. Nearburg may have acquired the interest of Joe A. Warren and wife, Emma Jean Warren, due to the fact that when you add the interest of the Warrens to the interest credited to Eugene E. Nearburg, the total equals that purportedly assigned by said Transfer. The county records reflect an Assignment and Bill of Sale between Nearburg and Sun wherein assignor purports to convey all of his right, title and interest in Lease LC-066037 insofar as it covers Tract 1. Further investigation is required

with respect to this matter to determine the quantum of interest assigned and establish whether the heirs and/or devisees of Joe A. Warren, deceased, and Emma Jean Warren, presently own an interest in Lease LC-066037.

REQUIREMENT H: Inquire of Sun Operating Limited Partnership and its predecessor in title, Eugene E. Nearburg, as to the quantum of interest assigned by the Transfer of Operating Rights and in the event they claim that the interest of Joe A. Warren and wife, Emma Jean Warren, or any third party was acquired prior to this conveyance, such transfer must be filed with the BLM on the appropriate federal form of assignment and a counterpart thereof recorded in the Office of the County Clerk for Eddy County, New Mexico. If a lesser interest is claimed, a correction transfer of operating rights should be executed by Eugene E. Nearburg and accepted by Sun Operating Limited Partnership setting forth the correct percentages assigned thereby and filed with the BLM.

2. Wild Instruments: The materials examined reflect the following instruments executed by a person or persons who are not credited with owning an interest in the captioned leases and lands but such instrument purports to affect the captioned leases and lands.

(a) Inseco Production Payment: A Subordination Agreement dated December 28, 1964, recorded in Mortgage Records Book 224, page 189, from the Bank of the Southwest National Association, Houston, to Inseco, Inc. subordinates the lien of a mortgage which the Bank held on the interest of J. Hiram Moore to a production payment which Inseco owned as created December 28, 1964, recorded in Book 151, page 374. This production payment does not appear in the abstract submitted to us and we assume that it does not cover the captioned lands since the abstracter does not reflect the same in our abstracts. If this interest becomes important to you, the record should be checked to make certain that the captioned lands are not described in the production payment mentioned above. We make no requirement for drilling purposes.

(b) Sabine Claim: Page 94 of Federal abstract No. 42912 reflects a decision of the BLM dated April 16, 1980, reflecting the merger of Sabine Royalty Corporation into Sabine Corporation which purports to affect an overriding royalty interest in Lease LC-066037. We do not credit Sabine Royalty Corporation or Sabine Corporation with an overriding royalty interest in said lease. This may be a typographical error. In this regard we have the following requirement:

REQUIREMENT I: Inquire of Sabine Corporation whether it claims any interest in the captioned leases and lands and we reserve possible further requirement. If it does claim an interest, inquire of the nature and quantum of their claim and submit to us any conveyancing instruments establishing its claim and we reserve possible further requirement. If its interest is from Odessa Natural Corporation the chain of title must be established in both the BLM records and the county records.

(c) Meridian Claim: Page 103 of the same abstract reflects a Transfer, Assignment or Sublease of Operating Rights in an Oil and Gas Lease dated December 30, 1982, from EXP Company to El Paso Exploration Company, purporting to assign all of assignor's interest in Lease LC-066037 covering Tract 1 from the surface down to 7,630 feet. A letter from the BLM dated April 28, 1983, returned the above assignment because the BLM records do not reflect that EXP Company owned an interest in said lease. Page 110 of the same abstract reflects a Decision of the BLM dated August 26, 1985, recognizing the name change of El Paso Exploration Co. to Meridian Oil Production, Inc. This decision further reflects that Meridian claims an interest in Lease

LC 066037 covering Tract 1. El Paso may have acquired the interests of Odessa Natural Corp., but nothing appears in the materials examined to support this presumption. We have not credited EXP, El Paso Exploration or Meridian with an interest in the captioned lands or leases. In this regard we have a requirement on point below.

REQUIREMENT J: Inquire of Meridian Oil Production, Inc. how it acquired an interest in Lease LC-066037 and we reserve possible further requirement. If its interest is from Odessa Natural Corporation the chain of title must be established in both the BLM records and the county records.

(d) Doil and Monarch Claims: Page 435 and 440 of Currier abstract No. 89,058 reflect two Assignments and Bills of Sale, each dated February 19, 1988, recorded in Eddy County Records Book 18, pages 335 and 340, respectively, the first from Doil Oil & Gas Corporation and the second from Monarch Petroleum Properties, Inc., and each is in favor of Sun Operating Limited Partnership. The assignment purports to assign operating rights, equipment, contract rights, etc., but does not specifically described the captioned lands. The instruments utilized broad language and may be included in the abstract because of their interest within the West Indian Basin Unit.

REQUIREMENT K: Inquire of Sun Operating Limited Partnership whether it claims an interest in the captioned lands and leases grater than that credited to it herein as a result of the above assignments.

3. Estate of Joe A. Warren, deceased: Page 240 of the county abstract reflects an Affidavit of Death and Heirship dated December 30, 1983, recorded in Miscellaneous Records Book 233, page 1126, by Emma Jean Warren wherein she states that Joe A. Warren died on February 28, 1983, a resident of the State of Texas, and that his Will was probated in Comal County, Texas. He was survived by his widow, Emma Jean Warren who was appointed Executrix of his estate, and three children, C. Joe Warren, Jesse Cole Warren and G. Cory Warren. We have not examined this man's Will and we cannot advise you as to how his interest in the captioned land was devised. At the time of his death; this man owned of record as community property with his wife, an undivided .009146959 interest in the operating rights for all depths from the surface down to 7630 feet and an undivided .012195945 interest in the operating rights for all depths below 7630 feet in Lease LC-066037. In this regard we have the following requirement.

REQUIREMENT L: Submit for our examination a certified copy of ancillary probate proceedings conducted on this man's estate in the State of New Mexico, and we reserve possible further requirement. If this man's Will has not been probated in the State of New Mexico, submit for our examination authenticated copies of the following instruments which should appear in the Texas probate proceedings: The Petition, Letters Testamentary, the Will, the Order Admitting the Will to Probate, and a Final Decree determining heirship. Any real property interest owned by the decedent in the State of New Mexico passing through this man's estate are not marketable until such time as ancillary probate proceedings are conducted on his estate.

4. Mortgages: The materials examined reflect the following mortgages which have not been released of record.

(a) Enfield - FNB: Page 57 of the county abstract reflects a Mortgage dated January 15, 1964, recorded in Mortgage Records Book 219, page 339, from Robert N. Enfield and wife, Mona L. Enfield to the First National Bank of Roswell (now United New Mexico Bank at Roswell, N.A.) covering Enfield's working interest in and under the West Indian Basin Unit, including the captioned

land, and securing a Promissory Note of even date in the principal amount of \$65,000.00. Thereafter, the Enfield's executed a series of mortgages appearing at page 108 through 142 of the county abstract in favor of the First National Bank of Roswell identified as follows:

<u>Instrument</u>	<u>Date</u>	<u>Recording Book/Page</u>
Mortgage, Chattel Mortgage, Security Agreement and Financing Statement	5-3-66	236/200
First Supplemental Mortgage, Security Agreement, Collateral Assignment of Runs and Financing Statement	8-11-82	327/212
<u>Instrument</u>	<u>Date</u>	<u>Recording Book/Page</u>
First Supplemental Mortgage, Security Agreement, Collateral Assignment of Runs and Financing Statement	8-11-82	332/1
Second Supplemental Mortgage, Security Agreement, Collateral Assignment of Runs and Financing Statement	4-1-83	334/556
Third Supplemental Mortgage, Security Agreement, Collateral Assignment of Runs and Financing Statement	1-31-86	366/122

While the Supplemental Mortgages do not specifically identify the captioned land, they do incorporate a prior Mortgage by reference which does specifically include all the Enfields' interest in the captioned land. The prior Mortgage referenced in such supplements has been released. However, such release does not reference the supplemental mortgages. We have a requirement on point below.

(b) Moore - Edens, Trustee: Page 62 of the county abstract reflects a Deed of Trust, Mortgage, Assignment and Collateral Mortgage dated March 18, 1964, recorded in Mortgage Records Book 217, page 280, from J.-Hiram Moore and wife, Betty Moore, to E. C. Edens, Jr., Trustee for the Bank of the Southwest National Association, Houston, covering all of mortgagor's right, title and interest in the captioned land. The indebtedness secured by this mortgage was subsequently assigned to the First National Bank of Midland. The subsequent mortgage executed by the Moores to the Trustee and the Bank of the Southwest National Association in Houston was released. We suspect that the indebtedness secured by this mortgage has been paid and that the mortgage should be released.

REQUIREMENT M: The above described mortgages must be released insofar as they cover the captioned land and the release must be filed of record in Eddy County, New Mexico.

5. Judgment Liens: Page 210 and 211 of the county abstract reflect two Transcripts of Judgment against Tom L. Ingram and wife, Joan Ingram. The first is dated March 3, 1988, recorded in Eddy County Records Book 15, page 887, wherein Halliburton Company is judgment creditor of a Judgment dated December 29, 1987 in the amount of \$97,932.08, bearing interest at 15%. The Judgment was obtained in a cause of action in the Fifth Judicial District Court, County of Eddy, State of New Mexico, Cause No. CV-87-252-S. The second Transcript is dated July 28, 1988, recorded in Eddy County Records Book 26, page 730, wherein Dowell Schlumberger Incorporated is judgment creditor in a Judgment dated July 18, 1988, in the total amount of \$20,954.29. The Judgment was obtained in the Fifth Judicial District Court, County of Chaves, State of New Mexico, Cause No. CV-86-719. These judgment liens burdens the interest of Tom L.

Ingram in the captioned land and in the event you intend to acquire an interest from the Ingrams, a release of the Transcripts of Judgment or a Subordination Agreement subordinating the interest you acquire from the Ingrams must be obtained from the judgment creditors and filed of record in Eddy County, New Mexico.

REQUIREMENT N: In the event you intend to acquire an interest from Tom L. Ingram and wife, Joan Ingram, secure from Halliburton Company and Dowell Schlumberger Incorporated a release of the above described Transcripts of Judgment or a Subordination Agreement which subordinates their judgment lien to the interest you are acquiring from the Ingrams. The release or Subordination Agreement must be filed of record in the Office of the County Clerk for Eddy County, New Mexico.

6. Defects regarding the Wills Royalty Production Payment: By Conveyance and Assignment dated March 12, 1976, and more particularly described in Section IV, paragraph 2(i) above, Neil H. Wills conveyed his interest in the production payment affecting Lease LC-066037 and Tract 1 to Elizabeth W. Mendez, J Ray Hobbs and Donald L. Killgore, among others. Thereafter, these grantees purport to convey their interests therein to Wills Royalty, Inc. by a Conveyance and Assignment dated March 24, 1986, also described in said paragraph 2(i) above. All property acquired during marriage is presumed to be community property and neither spouse has authority to convey community real property without joinder of the other spouse. Any attempt to convey community real property by one spouse is absolutely void.

We have had occasion to examine this instrument in connection with an examination of other land and have discussed a number of potential defects with respect to this conveyance with some of the parties involved. With the exception of Robert S. Light and Joanna W. Light, none of the grantors were joined in the conveyance by their spouse. We have in our files a copy of an Affidavit sworn to by Bob Light on the 16th day of June, 1988, which appears of record in Lea County Miscellaneous Records Book 498, page 433, which reflects that at the time of the above conveyance, Elizabeth W. Mendez was married, but acquired her interest in said minerals as her sole and separate property, having paid for said interest out of her sole and separate property and that Bradley T. Light, Robert M. Light, Stanley W. Light, Neil T. Christensen and Thayer P. Christensen were unmarried at the time of the conveyance. In addition, we also discovered that J. Ray Hobbs and Donald L. Killgore were married at the time of the conveyance to Ida May Hobbs and Ovella L. Killgore, respectively. An additional problem lies in the fact that the Carlsbad National Bank was Trustee for Bradley T. Light, Robert M. Light, Stanley W. Light, Neil T. Christensen and Thayer P. Christensen and did in fact execute the above conveyance, but was not named as a grantor therein.

To resolve all the problems on certain Lea County lands, except for the marital status of Elizabeth W. Mendez, J. Ray Hobbs and wife, Ida May Hobbs, Donald L. Killgore and wife, Ovella Killgore, and the Carlsbad National Bank, Trustee for Bradley T. Light, Robert M. Light, Stanley W. Light, Neil T. Christensen and Thayer P. Christensen, executed a Ratification and Conveyance acknowledged June 18, 1988, and recorded in Lea County Miscellaneous Records Book 500, page 315, wherein they ratify and confirm the Conveyance and Assignment dated March 24, 1986, with present words of grant. We do not believe that this conveyance is broad enough to cure the defects herein. However, a similar instrument should be prepared and executed by J. Ray Hobbs and Ida May Hobbs, Donald L. Killgore and wife, Ovella Killgore, and the Carlsbad National Bank to eliminate the problems enumerated hereinabove.

With respect to the interest of Elizabeth W. Mendez, Mr. Bob Light and Mrs. Mendez are related and the Affidavit noted above reflecting that she acquired it as her sole and separate property may be self serving. Mr. Mendez filed divorce proceedings, apparently in Bernalillo County, New Mexico, and the divorce should be completed at this time. We have credited Wills Royalty, Inc. with ownership of an undivided 5/12 interest in said production payment. In addition, it must be ascertained whether this production payment is still in force and effect or whether the \$280,000.00 has been completely paid by production from those lands within Section 17. We make no requirement on this point for drilling purposes, but for division order purposes, the status of the production payment must be ascertained and if it has been paid a release thereof should be filed of record in Eddy County, New Mexico.

7. Power of Attorney: The Transfer of Operating Rights and the Assignment and Bill of Sale analyzed in Section V, paragraph 2(h) above, from Ben A. Copass, Jr. and wife, Dorothy K. Copass, were executed by Cynthia Copass Woolley, as Attorney in Fact for the grantors. The abstracts examined do not reflect a Power of Attorney from Ben A. Copass, Jr. and wife, Dorothy K. Copass, to Cynthia Copass Woolley and in this regard we have the following requirement.

REQUIREMENT O: Submit for our examination a copy of the Power of Attorney from Ben A. Copass, Jr. and wife, Dorothy K. Copass, to Cynthia Copass Woolley and we reserve possible further requirement. In addition, an original counterpart of the Power of Attorney or a certified copy of the same must be filed of record in Eddy County, New Mexico.

8. Briefed Instruments: Most of the conveyancing instruments contained in the county abstract have been briefed by the abstracter, in that, the abstracter included only those pages of an exhibit that apparently affect the captioned land. While we believe this matter is satisfactory, we bring this to your attention because we have relied upon the actual materials submitted to us for examination. This is advisory.

9. Surface: The abstracts examined are certified only as to the mineral estate or the oil and gas rights under the captioned land. We do note that Tract 4 is subject to grazing lease GS-1897 issued to Forrest Lee Residuary Trust, P.O. Box 284, Lakewood, New Mexico 88254 which expires October 1, 1992. Lease E-10170 provides that the lessee is liable for injury to range, livestock, growing crops or improvements of the grazing lessee and we believe that this clause creates absolute liability and that you must pay for such injury whether or not your acts or negligent or unreasonable. This is advisory. In addition, the historical index on the captioned land reflects a right of way for a pipeline, Serial No. NM0558101 crossing a portion of the N½SE¼ which is a part of Tract 3. You are on notice of all rights of way of record and those that are apparent from a visual inspection of the premises even if not recorded. You should conduct your operations upon the captioned lands so as not to interfere with any easements or rights of way affecting the captioned land. This is advisory.

10. Possible Gas Dedication: This opinion does not cover the question of possible dedication of natural gas deposits under prior contracts subject to the jurisdiction of governmental regulatory agencies. Such dedication may survive the expiration of oil and gas leases owned by the party making such dedication. In this regard, the materials examined reflect the following Gas Purchase Contracts that, at least at one time, affected production from the captioned land. In this regard, the materials examined reflect the following gas purchase contracts.

<u>Seller</u>	<u>Purchaser</u>	<u>Date</u>	<u>Recording Book/Page</u>
Monsanto Company	Natural Gas Pipeline Company of America	9-10-64	149/410
Robert N. Enfield, Nearburg & Ingram, Carper Drilling Company, Inc., and Hiram Moore	Natural Gas Pipeline Company of America	9-10-64	148/326
Sun Oil Company	Natural Gas Pipeline Company of America	9-10-64	149/77

11. Limitation of Opinion: This opinion does not deal with any matters not revealed by the materials examined, such as matters which could be determined only by an investigation upon the ground or by a survey of the premises. This opinion also does not deal with any questions of state or federal securities or environmental laws or the possible affect thereof on title to this property or the interest to be assigned to you therein. Federal abstract No. 42912 reflects that all prior oil and gas leases have expired or terminated as reflected on the historical index. We have relied upon such representations and no releases appear of record. In addition, Tracts 2 and 3 do not have complete county abstract coverage, but it is our opinion that abstract coverage is sufficient under the circumstances. This is advisory.

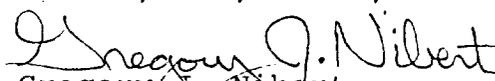
12. Communitization Agreement: You have advised us that the proration unit of the prospect you intend to drill will be the entire section, containing 640 acres. You must communitize all of the captioned leases and lands to form a standard proration unit for your potential production. It is necessary for you to enter into agreements with owners of the adjacent parcels or to force pool their interests.

REQUIREMENT P: All of the captioned leases and lands must be communitized to form a standard proration unit for your proposed operations. Notice of the Communitization Agreement must be filed of record in Eddy County, New Mexico. Four counterparts of the Communitization Agreement must be executed by all of the owners of operating rights and filed with the authorized officer of the BLM prior to April 30, 1989, for the communitized well and drilling operations to extend Lease NM58511 (see Requirement A above). The Communitization Agreement must also be approved by the Commissioner of Public Lands for the State of New Mexico. The overriding royalty interest owners and production payment owners, if it is still in force, should ratify the Communitization Agreement and such ratifications should be recorded in Eddy County, New Mexico.

Subject to the foregoing comments and requirements, title to the captioned land and leases is approved, for drilling purposes, as of the respective closing dates of the abstracts examined.

Respectfully submitted,

HINKLE, COX, EATON, COFFIELD & HENSLEY


Gregory J. Nibert

GJN/jw

Federal Abstract Company
abstracts No. 42912 and 42913
and Currier Abstract Company
No. 89,058 returned herewith.

PRINCIPAL FEATURES OF LEASE (Form 4-213)

LESSOR: United States, acting by and through the Director, Bureau of Land Management.

TERM: For a term of five years and so long thereafter as oil or gas is produced in paying quantities, subject to any unit agreement approved by the Secretary of the Interior.

BOND: Requires lessee, upon the inclusion of any part of the leased land within the known geologic structure of a producing oil or gas field, to furnish a bond in a sum double the amount of the \$1.00 per acre annual rental, but not less than \$1000 nor more than \$5000; to furnish, prior to commencement of drilling operations, \$5000 lease bond with approved corporate surety; and, prior to furnishing of either of said bonds, to pay rentals 90 days in advance, or to furnish 90 days in advance of the time for payment of next annual rental a \$1000 bond unless the lessee has consented to the provisions of Sec. 7 of Act of July 29, 1954 (See Sec. 2(a) of lease).

COOPERATIVE OR UNIT PLAN: Requires lessee within 30 days of demand to subscribe to and to operate under such reasonable or cooperative unit plan as may be determined by the Secretary to be practicable and necessary or advisable.

DRILLING REQUIREMENTS: Requires lessee to drill and produce all wells necessary to protect the leased land from drainage by wells on lands not the property of the lessor, or lands of the lessor leased at a lower royalty rate, and to drill and produce such other wells as may be approved by or required by the Secretary.

RENTALS: Initial rental of 50¢ per acre has been paid. Rentals for second and third lease years waived, unless (i) the lease or a part of the lands therein are included within the known geologic structure of a producing oil or gas field, as defined by the U.S.G.S.; or (ii) the lands are included within an approved cooperative or unit plan; or (iii) a discovery is made on the leased premises during said two year period.

Beginning with the first lease year after the expiration of 30 days notice to the lessee that all or part of the land is included within the known geologic structure of a producing oil or gas field, and for each year thereafter prior to discovery, a rental of \$1.00 per acre.

If lands are committed to an approved cooperative or unit plan, from and after discovery as to lands not included within a participating area, an annual rental of 50¢ per acre for the first and each succeeding lease years.

Except for the contingencies above noted, rentals for the fourth and fifth lease years, 25¢ per acre; and if extended for an additional term, rental for the sixth and succeeding years, 50¢ per acre (see Schedule "A" attached to lease and Regulation 192.80).

Any lease issued after July 29, 1954, or any lease extended after that date upon which there is no well capable of producing oil or gas in paying quantities, terminates automatically by operation of law if lessee fails to pay the rental on or before the anniversary date of such lease. If time for payment falls upon any date in which proper office to receive payment is not open, payment received on next official working date shall be deemed to be timely. Any lessee of a lease issued prior to July 29, 1954 may at any time prior to the anniversary date of such lease and the accrual of rental, elect to subject his lease to automatic termination provisions by notifying in writing the manager of the appropriate land office to that effect.

ROYALTY: 12½% in amount or value of the production removed or sold from the leased lands; provided, a minimum royalty in lieu of rental shall be paid at the expiration of each lease year after discovery equal to \$1.00 per acre; royalty is payable only on the participating acreage.

Secretary may establish reasonable minimum values for purpose of computing royalty on all oil or gas produced.

All contracts for disposal of products must be approved by the Director, U.S.G.S., or his representative, subject to review by the Secretary of the Interior.

ASSIGNMENTS: All assignments are to be filed within 90 days of date of final execution and are to take effect upon final approval by the Director, Bureau of Land Management, as of the first day of the lease month following the date of filing. Assignments may effectuate further extension of lease term (see Regulation 192.144).

REGULATIONS: Lease is made subject to all reasonable regulations of the Secretary now or hereafter in force not inconsistent with the provisions of the lease.

HELIUM: All helium gas is reserved to the United States.

SURRENDER AND TERMINATION OF LEASE: Lease may be surrendered and terminated as provided by Section 5 thereof.

EXTENSIONS: Any non-competitive leases maintained in accordance with statutory requirements and the regulations may be extended by expiration of initial five year term (unless then otherwise provided by law) by application filed by record title holder, assignee or operator (whose assignment or operating agreement has been filed for approval) under the following conditions:

(a) Application for extension must be filed within 90 days before expiration date of lease on Form 4-1238.

(b) Where lands have been withdrawn from leasing, lease will not be extended as to lands withdrawn, except that a withdrawal shall not affect the right to an extension if drilling operations were actually commenced on the withdrawn lands prior to the effective date of withdrawal, and such operations are being diligently prosecuted on expiration date or if notice of withdrawal has not been sent by registered mail to lessee at least 90 days prior to termination date of lease.

(c) As to lands not within the known geologic structure of producing oil or gas field, lease will be extended for five years and so long thereafter as oil or gas is produced in paying quantities, and as to lands within the known geologic structure, for a period of two years and so long thereafter as oil and gas is produced in paying quantities.

SCHEDULE A
 PRINCIPAL FEATURES OF LEASE
 Competitive
 (Form 3120-7)

LESSOR: United States, acting by and through the Director, Bureau of Land Management.

TERM: For a term of five years and so long thereafter as oil or gas is produced in paying quantities, subject to any unit agreement approved by the Secretary of the Interior.

BOND: Requires lessee to furnish, prior to the beginning of drilling operations and maintained at all times thereafter as required by lessor, a bond in the penal sum of \$10,000.00 with approved corporate surety or with deposit of United States Bond as surety therefore, condition on compliance with the terms, unless a bond in that amount is already being maintained or unless such a bond furnished by an operator of the lease is accepted, or unless a bond has been filed under 43 CFR 3104 applicable to the lease.

COOPERATIVE OR UNIT PLAN: Requires lessee within 30 days of demand to subscribe to and to operate under such reasonable or cooperative unit plan as may be determined by the Secretary to be practicable and necessary or advisable.

DRILLING REQUIREMENTS: Requires lessee to drill and produce all wells necessary to protect the leased land from drainage by wells on lands not the property of the lessor, or lands of the lessor leased at a lower royalty rate, and to drill and produce such other wells as may be approved by or required by the Secretary.

RENTALS: Lessee is to pay an annual rental of \$2.00 per acre or a fraction of an acre in advance on or before the first day of the month in which the lease is issued and for each lease year thereafter prior to the discovery of oil or gas.

ROYALTY: On oil, the lessee is to pay royalty based on the sliding scale as set forth on the schedule below.

When average production for the month in barrels a day is:

OVER	NOT OVER	PERCENT OF ROYALTY	OVER	NOT OVER	PERCENT OF ROYALTY
	50	12.5	130	150	19
50	60	13	150	200	20
60	70	14	200	250	21
70	80	15	250	300	22
80	90	16	300	350	23
90	110	17	350	400	24
110	130	18	400		25

Secretary may establish reasonable minimum values for purpose of computing royalty on all oil or gas produced.

On gas, the royalty is as follows: When the average production of gas per well per day for the month does not exceed five million cubic feet, 12 $\frac{1}{2}$ %, when the production of gas exceeds five million cubic feet, 16 $\frac{2}{3}$ %.

The lease also provides for a minimum royalty which requires that the lessee pay in lieu of rental at the expiration of each lease year after discovery a minimum royalty of \$1.00 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of \$1.00 per acre, provided that on unitized leases, the minimum royalty shall be payable only on the participating acreage.

All contracts for the disposal of products must be filed with the oil and gas supervisor of the Geological Survey within thirty days after the effective date of the contract.

ASSIGNMENTS: All assignments are to be filed within 90 days of date of final execution and are to take effect upon final approval by the Director, Bureau of Land Management, as of the first day of the lease month following the date of filing.

REGULATIONS: Lease is made subject to all reasonable regulations of the Secretary now or hereafter in force not inconsistent with the provisions of the lease.

HELIUM: All helium gas is reserved to the United States.

SURRENDER AND TERMINATION OF LEASE: Lease or any part thereof may be surrendered and terminated by lessee's filing a written relinquishment (in triplicate) with the BLM.

SCHEDULE A
PRINCIPAL FEATURES OF LEASE

Competitive
(Form 3100-11)
March, 1984

LESSOR: United States, acting by and through the Director, Bureau of Land Management.

TERM: For a term of five years and so long thereafter as oil or gas is produced in paying quantities, subject to any unit agreement approved by the Secretary of the Interior.

BOND: Requires lessee to furnish, prior to the beginning of drilling operations and maintained at all times thereafter as required by lessor, any bond required by regulations then in effect.

COOPERATIVE OR UNIT PLAN: Requires lessee within 30 days of demand to subscribe to and to operate under such reasonable or cooperative unit plan as may be determined by the Secretary to be practicable and necessary or advisable.

DRILLING REQUIREMENTS: Requires lessee to drill and produce all wells necessary to protect the leased land from drainage by wells on lands not the property of the lessor, or lands of the lessor leased at a lower royalty rate, and to drill and produce such other wells as may be approved by or required by the Secretary.

RENTALS: Lessee is to pay an annual rental of \$2.00 per acre or a fraction of an acre in advance on or before the first day of the month in which the lease is issued and for each lease year thereafter prior to the discovery of oil or gas.

ROYALTY: On oil, the lessee is to pay royalty based on the sliding scale as set forth on the schedule below.

When average production for the month in barrels a day is:

OVER	NOT OVER	PERCENT OF ROYALTY	OVER	OVER	PERCENT OF ROYALTY
	50	12.5	130	150	19
50	60	13	150	200	20
60	70	14	200	250	21
70	80	15	250	300	22
80	90	16	300	350	23
90	110	17	350	400	24
110	130	18	400		25

Secretary may establish reasonable minimum values for purpose of computing royalty on all oil or gas produced.

On gas, the royalty is as follows: When the average production of gas per well per day for the month does not exceed five million cubic feet, 12 $\frac{1}{2}$ %, when the production of gas exceeds five million cubic feet, 16 $\frac{2}{3}$ %.

The lease also provides for a minimum royalty which requires that the lessee pay in lieu of rental at the expiration of each lease year after discovery a minimum royalty of \$1.00 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of \$1.00 per acre, provided that on unitized leases, the minimum royalty shall be payable only on the participating acreage.

All contracts for the disposal of products must be filed with the oil and gas supervisor of the Geological Survey within thirty days after the effective date of the contract.

ASSIGNMENTS: All assignments are to be filed within 90 days of the date of final execution and are to take effect upon final approval by the Director, Bureau of Land Management, as of the first day of the lease month following the date of filing.

REGULATIONS: Lease is made subject to all reasonable regulations of the Secretary now or hereafter in force not inconsistent with the provisions of the lease. Prior to disturbing the surface of the leased lands, the lessee shall contact the lessor to be appraised of procedures to be followed and modifications or reclamation measures which may be necessary.

HELIUM: All helium gas is reserved to the United States.

SURRENDER AND TERMINATION OF LEASE: Lease or any part thereof may be surrendered and terminated by lessee's filing a written relinquishment (in triplicate) with the BLM.

PRINCIPAL FEATURES OF LEASE FORM 45

LESSOR: State of New Mexico by its Commissioner of Public Lands.

TERM: Primary Term: Five years from date with customary thereafter clause.

Secondary Term: Paragraph 15 of the lease provides that if the lessee fails to make a commercial discovery of oil or gas during the primary term of five years that the lessee can continue it for an additional term of five years with customary thereafter clause by paying double the rental provided for the primary term or paying the highest rental prevailing in the rental district at the beginning of the secondary term, whichever rental is higher.

ROYALTY: Customary 1/8 oil royalty. One-eighth of the cash value of gas, or of the net proceeds derived from the sale of such gas in the field, or 5¢ per m.c.f., whichever is the greater, but see lease for details as to gas royalty. There is no provision for shut-in gas wells, which we consider undesirable. Royalty is due on the 20th day of each month for all royalty from production for the preceding month, and all production records must be available for inspection by lessor and total production furnished annually upon receipt.

RENTAL: Rentals are due on successive anniversary dates of the lease, are payable to the Commissioner of Public Lands, Santa Fe, New Mexico, and remain payable even though the lands go on production.

ADDITIONAL FEATURES:

Paragraph 16 makes this a commence form of lease, but a written application must be filed with the lessor on or before the expiration of the ten year term of the lease and a report of the drilling status of the well must be filed every 30 days, and there must be no cessation of drilling for more than 20 consecutive days. Under paragraph 7 the lease can be assigned in whole or in part but it is necessary to obtain the consent of the State to such assignments, and this is normally given as a matter of course. Even though the lease goes on commercial production and royalty is paid the State, it is necessary to continue the payment of the annual rental.

If default be made in the lease as to paying the rental or otherwise, the lease is not automatically lost but under paragraph 13 the State must give 30 days notice by registered mail of intention to cancel and within this time the default can be cured. Paragraph 8 of the lease provides for offsetting wells within 300 feet of the land, but on our normal 40-acre spacing pattern, an offset well would normally be 660 feet from the subject land.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 9619
ORDER NO. R-_____

APPLICATION OF SANTA FE EXPLORATION
COMPANY FOR AN UNORTHODOX GAS WELL
LOCATION, DUAL COMPLETION, AND
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 29, 1989, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this ____ day of _____, 1989, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

2. The applicant, Santa Fe Exploration Company, seeks approval of an unorthodox gas well location 660 feet from the South line and 660 feet from the East line (Unit P) of Section 8, Township 21 South, Range 23 East, NMPM, to test the Indian Basin-Upper Pennsylvanian Gas Pool and Indian

Basin-Morrow Gas Pool, Eddy County, New Mexico, and to dually complete the well in the two pools; applicant further seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying all of said Section 8, forming a standard 640-acre, more or less, gas spacing and proration unit for any and all formations and/or pools within said vertical limits developed on 640-acre gas well spacing, said unit to be dedicated to a well to be drilled at a standard gas well location thereon.

3. A well at the proposed unorthodox location will better enable the applicant to produce the gas underlying the proration unit, since the well drilled at a standard location in the NW/4SE/4 has been abandoned.

4. No offset operator objected to the proposed unorthodox location; however, by agreement with the offset operators, applicant suggested a ^{60%}~~40%~~ penalty on both the Morrow and Upper Pennsylvanian completions based on the proration of distance the well was moved from a standard location to the unit boundary, or 660/1650.

5. The applicant has the right to drill the proposed well.

6. There are interest owners in the proposed proration unit who have not agreed to pool their interests.

7. To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, 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 production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

8. The applicant should be designated the operator of the subject well and unit.

9. 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.

10. 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.

11. Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

12. 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.

13. \$5,000.00 per month while drilling and \$500.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); 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.

14. 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.

15. Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before _____, 1989, the order pooling said unit should become null and void and of no effect whatsoever.

16. Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

17. The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provision of this order.

18. Approval of the subject application will afford the applicant the opportunity to produce its just and equitable share of the gas in the affected pools, will prevent the economic loss caused by the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

1. The application of Santa Fe Exploration Company for an unorthodox gas well location for the Indian Basin-Upper Pennsylvanian Gas Pool and Indian Basin-Morrow Gas Pool is hereby approved for a well to be located at a point 660 feet from the South line and 660 feet from the East line (Unit P) of Section 8, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico.

2. All of said Section 8 shall be dedicated to the above-described well forming a standard 640 acre gas spacing and proration unit for both pools.

PROVIDED HOWEVER THAT the allowable of said well in the Upper Pennsylvanian and Morrow, or either of them, shall be penalized to 60% of top allowable by reducing the acreage factor to 0.6.

3. Applicant is authorized to dually-complete said well in the Morrow and Upper Pennsylvanian formations of the Indian Basin Field by installation of parallel strings of 2 3/8-inch tubing and separating the zones with packers, as shown on Exhibit No. 7 introduced at the hearing.

4. Applicant shall comply with Rule 112-A VI in testing and operating the well so dually completed.

5. All mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying all of said Section 8 are hereby pooled to form a standard 640-acre, more or less, gas spacing and proration unit for any and all formations and/or pools developed on 640-acre spacing within said vertical limits, said proration unit to be dedicated to a well to be drilled at a standard gas well location 660 feet from the South line and 660 feet from the East line (Unit P) of said Section 8.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before _____, 1989, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before _____ 1989, Ordering Paragraph No. 5 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 Ordering Paragraph No. 5 of this order should not be rescinded.

6. Santa Fe Exploration Company is hereby designated the operator of the subject well and unit.

7. 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.

8. 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 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.

9. 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; 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, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

10. Within 60 days following determination of reasonable well costs, any non-consenting working interest

owner who has paid his share of estimated well 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.

11. 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.

12. The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

13. \$5,000.00 per month while drilling and \$500.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); 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.

14. Any unleased 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.

15. 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 interest.

16. All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; 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.

17. Should all parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

18. The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

19. 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

WILLIAM J. LEMAY
Director

S E A L



BILL TO: SANTA FE EXPLORATION
 2200 N HESCALERO
 ROSWELL, NM 88201

SENDER ACTIVITY SUMMARY

INVOICE NO. 6-706-96417 ACCOUNT NO. 1210-10066-1
 PAGE 1 OF 3
 DATE 02/27/89

TRACKING NOS REFERENCE	SENDER'S NAME AND ACCOUNT ADDRESS	RECIPIENT INFORMATION AND PROOF OF DELIVERY	PACKAGES & HEIGHT	SERVICES	CHARGES	NET CHARGES
2351071240	MR WILLIAM A HEALPINE JR SANTA FE EXPLORATION 2200 N HESCALERO ROSWELL, NM 88201 DROP OFF 02/07/89	J HUDN HOORE TRUST 201 WALL BUILDING SUITE 519 HIGHLAND, TX 79701 AA DELIVERED 02/08/89 10:51 SIGNED: A. ROBBINS	1/ NA	OVERNIGHT LTR DISCOUNT ADDRESS CORR	16.00 -3.00 5.00	16.00
3453906 1	WILLIAM A HEALPINE JR SANTA FE EXPLORATION 2200 N HESCALERO ROSWELL, NM 88201 DROP OFF 02/10/89	SHIRLEY LYOND U S A EXXON COMPANY HWY 515 400 HIGHLAND, TX 79702 PO DELIVERED 02/13/89 09:29 SIGNED: C. MILKRESON	1/ NA	OVERNIGHT LTR DISCOUNT ADDRESS CORR	14.00 -3.00 5.00	16.00
2351071306	WILLIAM A HEALPINE JR SANTA FE EXPLORATION 2200 N HESCALERO ROSWELL, NM 88201 DROP OFF 02/10/89	HARRY SALTER EXXON COMPANY-PRODUCTION DIST NO 25 DESIA DRIVE HIGHLAND, TX 79705 AA DELIVERED 02/13/89 14:24 SIGNED: B. MORRIS	1/ NA	OVERNIGHT LTR DISCOUNT ADDRESS CORR	14.00 -3.00 5.00	16.00
3921891 1						

CONTINUED NEXT PAGE



BILL TO: SANTA FE EXPLORATION
2200 N HESCALERO
ROSMELL, NM 88201

SENDER ACTIVITY SUMMARY

INVOICE NO. 6-700-63315 ACCOUNT NO. 1210-1046-1
PAGE 1 OF 3
DATE 02/20/89

TRACKING NOS REFERENCE	SENDER'S NAME AND ACCOUNT ADDRESS	RECIPIENT INFORMATION AND PROOF OF DELIVERY	PACKAGES & WEIGHT	SERVICES	CHARGES	NET CHARGES
2351071214	WILLIAM A HEALPINE JR SANTA FE EXPLORATION 2200 N HESCALERO ROSMELL, NM 88201	STEVE DANFELS LAND DEPT PARATHON OIL COMPANY 125 N MISSOURI HIGHLAND DELIVERED 02/07/89 10:20 SIGNED: P. EOBEN	1/ NA	OVERNIGHT LTR DISCOUNT	14.00 -3.00	11.00
3316424	1 DROP OFF 02/06/89	HR DUKE HAZLIP FINA OIL COMPANY LAND DEPT 6 DESTA DRIVE SUITE 4400 HIGHLAND TX 79705 AA DELIVERED 02/08/89 09:50 SIGNED: K. HINGEL	1/ NA	OVERNIGHT LTR DISCOUNT	14.00 -3.00	11.00
2351071225	MR WILLIAM A HEALPINE JR SANTA FE EXPLORATION 2200 N HESCALERO ROSMELL, NM 88201	RANDALL DAVIS H P PETROLEUM COMPANY INC 6 DESTA DRIVE SUITE 3200 LAND HIGHLAND TX 79705 AA DELIVERED 02/08/89 10:03 SIGNED: S. BRIBBS	1/ NA	OVERNIGHT LTR DISCOUNT	14.00 -3.00	11.00
3634886	1 DROP OFF 02/07/89					
2351071236	MR WILLIAM A HEALPINE JR SANTA FE EXPLORATION 2200 N HESCALERO ROSMELL, NM 88201					
3634886	1 DROP OFF 02/07/89					

CONTINUED NEXT PAGE



BILL TO: SANTA FE EXPLORATION
2200 N HESCALERO
ROSMELL, NM 88201

SENDER ACTIVITY SUMMARY

INVOICE NO. 6-700-63315 ACCOUNT NO. 1210-1046-1
PAGE 2 OF 3
DATE 02/20/89

TRACKING NOS REFERENCE	SENDER'S NAME AND ACCOUNT ADDRESS	RECIPIENT INFORMATION AND PROOF OF DELIVERY	PACKAGES & WEIGHT	SERVICES	CHARGES	NET CHARGES
2351071251	MR WILLIAM A HEALPINE JR SANTA FE EXPLORATION 2200 N HESCALERO ROSMELL, NM 88201	MR KEITH NELSON & PRODUCTION SUN EXPLORATION TWO SITE 600 AA 24 SWITH RD SUN TX 77205 AA HIGHLAND DELIVERED 02/08/89 10:24 SIGNED: O. LOYA	1/ NA	OVERNIGHT LTR DISCOUNT	14.00 -3.00	11.00
3634886	1 DROP OFF 02/07/89					
2351071262	MR WILLIAM A HEALPINE JR SANTA FE EXPLORATION 2200 N HESCALERO ROSMELL, NM 88201	MR ED TAYLOR OXY USA LAND 6 DESTA DRIVE SUITE 6000 HIGHLAND TX 79705 AA DELIVERED 02/08/89 09:59 SIGNED: H. EDWARDS	1/ NA	OVERNIGHT LTR DISCOUNT	14.00 -3.00	11.00
3634686	1 DROP OFF 02/07/89					
2351071273	WILLIAM A HEALPINE JR SANTA FE EXPLORATION 2200 N HESCALERO ROSMELL, NM 88201	TON INERAN 100 S KENTUCKY ROSMELL DELIVERED 02/08/89 09:45 SIGNED: E. GLASS	1/ NA	OVERNIGHT LTR DISCOUNT	14.00 -3.00	11.00
3665258	1 DROP OFF 02/07/89					

CONTINUED NEXT PAGE



BILL TO: SANTA FE EXPLORATION
2200 W HESCALERO
ROSWELL, NM 88201

ORDER NUMBER SUMMARY

INVOICE NO. 4-AMV-47-1-8-89

TRACING NOS REFERENCE	SENDER'S NAME AND ACCOUNT ADDRESS	DELIVERY INFORMATION AND ADDRESS OF DELIVER	PACKAGE & WEIGHT	SERVICES	CONTAINER EXT PAGE
351071214	MILLIAN A NEALPINE JR SANTA FE EXPLORATION 2200 W HESCALERO ROSWELL, NM 88201	1155 GARDEN LAND DEPT MATHISON ST 125 W HESCALERO MIDLAND TX 79701 AA DELIVERED 02/07/89 10:20 SIGNED P. KOEN	1/ NO	OVERNIGHT DISCOUNT	19 (0)
351071724	MR WILLIAM A NEALPINE JR SANTA FE EXPLORATION 2200 W HESCALERO ROSWELL, NM 88201	HR MIKE HAZLIP FINN OT COMPANY LAND DEPT 6 DE SIA WATIVE SUITE 4400 MIDLAND TX 79705 AA DELIVERED 02/08/89 09:50 SIGNED K MINNET	1/ NA	OVERNIGHT DISCOUNT	19 (0)
3519886	MR WILLIAM A NEALPINE JR SANTA FE EXPLORATION 2200 W HESCALERO ROSWELL, NM 88201	RANDALL DAVIS PETROLEUM COMPANY INC B B DESTA DRIVE SUITE 3200 LAND MIDLAND TX 79705 AA DELIVERED 02/08/89 10:01 SIGNED R GRIBBS	1/ NA	OVERNIGHT DISCOUNT	19 (0)
351071234	MR WILLIAM A NEALPINE JR SANTA FE EXPLORATION 2200 W HESCALERO ROSWELL, NM 88201				
3519886	1 DROP OFF 02/07/89				
351071234	1 DROP OFF 02/07/89				
3519886	1 DROP OFF 02/07/89				



BILL TO: SANTA FE EXPLORATION
2200 W HESCALERO
ROSWELL, NM 88201

ORDER NUMBER SUMMARY

TRACING NOS REFERENCE	SENDER'S NAME AND ACCOUNT ADDRESS	DELIVERY INFORMATION AND ADDRESS OF DELIVER
351071251	MR WILLIAM A NEALPINE JR SANTA FE EXPLORATION 2200 W HESCALERO ROSWELL, NM 88201	MR WILLIAM NEALPINE & PRODUCTION SANTA FE EXPLORATION 26 SWITH RD SUN TWR STE 500 MIDLAND TX 79705 AA DELIVERED 02/06/89 10:26 SIGNED O BOE
3519886	1 DROP OFF 02/07/89	
351071251	1 DROP OFF 02/07/89	
3519886	1 DROP OFF 02/07/89	

ILLEGIBLE

FEDERAL EXPRESS

Bill TO: SANTA FE EXPLORATION
2200 M HESCALERO
ROSMELL, NM 88201

NM 88201

SENDER ACTIVITY SUMMARY

INVOICE NO. 6-70A-96417 471 7A

TRACKING NOS REFERENCE	SENDER'S NAME AND ACCOUNT ADDRESS	RECIPIENT INFORMATION AND PROOF OF DELIVERY	PACKAGES & WEIGHT	SERVICES	CHARGES
2351071240	MR WILLIAM A McALPINE JR SANTA FE EXPLORATION 2200 M HESCALERO ROSMELL, NM 88201 1ST ATTEMPT 02/08/89 09:54:03 DROP OFF 02/07/89	J HIRAM MOORE TRUST 201 MALL BUILDING SUITE 519 DELIVERED 02/08/89 10:51 TX 79701 AA SIGNED: A. ROBBINS	1/ NA	OVERNIGHT LTR DISCOUNT ADDRESS CORR	
3453806 1	WILLIAM A McALPINE JR SANTA FE EXPLORATION 2200 M HESCALERO ROSMELL, NM 88201 DROP OFF 02/10/89	SHIRLEY LYDIA U S A EXXON COMPANY HWY STE 400 1031 ANDREWS TX 79702 PO MIDLAND TX 79702 PO DELIVERED 02/13/89 09:29 SIGNED: C. WILKINSON	1/ NA	OVERNIGHT LTR DISCOUNT ADDRESS CORR	
2351071506	WILLIAM A McALPINE JR SANTA FE EXPLORATION 2200 M HESCALERO ROSMELL, NM 88201 1ST ATTEMPT 02/13/89 09:29:43 DROP OFF 02/10/89	LARRY SAILER EXXON COMPANY-PRODUCTION DIST NO 25 DESIA DRIVE TX 79705 AA MIDLAND TX 79705 AA DELIVERED 02/13/89 14:24 SIGNED: B. MORRIS	1/ NA	OVERNIGHT LTR DISCOUNT ADDRESS CORR	
3921891 1					

FEDERAL EXPRESS

ILLEGIBLE



1500-823-2433
P.O. Box 1136
ROBELL, NEW MEXICO 88202

February 7, 1989

J. Hiram Moore, Trust
201 Wall Building, Suite 519
Midland, Texas 79701

Re: 9,000' Morrow Test
660' FEL & 660' PSL
Section 8, T21S, R23E
Eddy County, New Mexico

Gentleman:

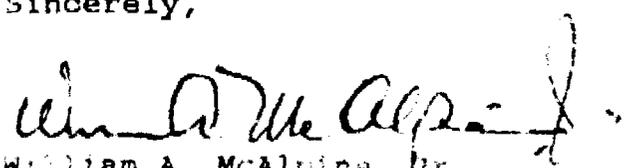
Santa Fe Exploration Company is requesting you to join in the drilling of a Morrow Test to approximately 9,000 feet, at an unorthodox location 660 feet from the east line and 660 feet from the south line in the above captioned location. This well would include all of section eight as the proration unit as to the Morrow and Cisco or Upper Penn. An AFE is enclosed for your consideration.

If you do not care to participate in the drilling of this test, we request that you farmout your interest in the section on a 5% NRI basis proportionately reduced.

Santa Fe proposes to file for an unorthodox location request, together with comunization, and spud the subject well prior to the expiration of the lease in the SE/4 of the SE/4 on May 1, 1989.

We appreciate your timely consideration of our proposal.

Sincerely,


William A. McAlpine, Jr.

WAM:cm

2/7/89

ILLEGIBLE

HINKLE, COX, EATON, COFFIELD & HENSLEY

ATTORNEYS AT LAW
700 UNITED BANK PLAZA
POST OFFICE BOX 6
ROSWELL, NEW MEXICO 88202
(505) 622-6510

2800 CLAYCESTA NATIONAL BANK BUILDING
POST OFFICE BOX 3580
MIDLAND, TEXAS 79708
(915) 683-4891

1700 TEXAS AMERICAN BANK BUILDING
POST OFFICE BOX 8538
AMARILLO, TEXAS 79108
(806) 378-8889

818 MONTEZUMA
POST OFFICE BOX 8058
SANTA FE, NEW MEXICO 87504
(505) 982-4834

800 MARQUETTE BLDG, SUITE 740
ALBUQUERQUE, NEW MEXICO 87102-2121
(505) 426-1800

DAVID T. MARSHALL
MARK C. COX
KAREN M. RICHARDSON
FRED W. SCHREINDORF
DAVID MORAN
JAMES R. WADSWORTH
JAMES M. HUDSON
MAGDOONELL GORDON
REBECCA NICHOLS JOHNSON
PAUL R. NEWTON
WILLIAM R. JOHNSON
ELLEN S. CASEY
MARGARET C. JOSEWICZ
PATRICIA A. WATSON
MARTIN MEYERS
GREGORY S. WHEELER
ANDREW J. COLQUHOUN
WANA RADEMAEKERS
S. BARRY RANSNER
W. CRAIG BARN, GM
ROBERT W. LARSEN
JAMES A. GILLESPIE
KAREN L. COLLIER
GARY W. LARSON
STEPHANIE LANDRY

DAVID T. MARSHALL
MARK C. COX
KAREN M. RICHARDSON

FRED W. SCHREINDORF
DAVID MORAN
JAMES R. WADSWORTH
JAMES M. HUDSON
MAGDOONELL GORDON
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ELLEN S. CASEY
MARGARET C. JOSEWICZ
PATRICIA A. WATSON
MARTIN MEYERS
GREGORY S. WHEELER
ANDREW J. COLQUHOUN
WANA RADEMAEKERS
S. BARRY RANSNER
W. CRAIG BARN, GM
ROBERT W. LARSEN
JAMES A. GILLESPIE
KAREN L. COLLIER
GARY W. LARSON
STEPHANIE LANDRY

OF COUNSEL:
D. M. CALHOUN
MACK FARLEY
JOE W. WOOD
STEPHEN L. ELLIOTT

CLARENCE E. HINKLE (505) 622-6510
W. E. BONDURANT, JR. (505) 622-6510
RON C. SHODGRASS, JR. (505) 622-6510

NOT LICENSED IN NEW MEXICO

PLEASE DELIVER THE FOLLOWING PAGES TO:

NAME: Ernie Padilla
LOCATION: Santa Fe
PHONE: 988-7592

FROM

NAME: Santa Fe Exploration Co.
LOCATION: Roswell, NM
DATE TRANSMITTED: 3-28 TIME: 8:17

YOU SHOULD RECEIVE 5 PAGES OF COPY, INCLUDING THIS COVER LETTER. PLEASE NOTIFY US IMMEDIATELY IF NOT RECEIVED PROPERLY, AT (505) 622-6510. OUR DIRECT TELECOPIER LINE IS (505) 623-9332. OUR MACHINE IS A PITNEY BOWES 8100 AUTOMATIC.

THANK YOU,
TOCCO JR
HINKLE, COX, EATON, COFFIELD & HENSLEY
ROSWELL OFFICE

ILLEGIBLE

SANTA FE EXPLORATION COMPANY

P. O. Box 1136
Roswell, New Mexico 88202

AUTHORIZATION FOR EXPENDITURE**INDIAN BASIN PROSPECT**

660' FEL & 660' FSL
Sec. 8, T-21-S, R-23-E
Eddy County, New Mexico

DRILL AND COMPLETE A 9,000' MORROW TEST WELL:**DRILLING COSTS:**

Abstracts, Damages, Legal and Surveying	\$ 15,000.00
Road, Location, Pits and Liner	22,000.00
Drilling: 9,000' X \$16.50/ft	148,500.00
Daywork: 6 Days @ \$4,000/Day	24,000.00
Water, Mud, and Chemicals	30,000.00
Casing: Surface - 225' of 13-3/8" @ \$19.30/ft	4,400.00
Intermediate - 1650' of 9-5/8" @ \$15.56/ft	25,700.00
Cement: Surface	2,700.00
Intermediate	6,300.00
Wellheads	7,600.00
Logs	25,000.00
Drill Stem Tests: 4 @ \$3,500	14,000.00
Mud Logging: 30 Days @ \$340.00	7,200.00
Cleanup and Plugging	15,000.00
Supervision	10,000.00
Administrative Overhead	5,000.00
Contingency	10,000.00
Gross Receipts Tax @ 5.875%	<u>21,879.00</u>
Sub-Total	\$394,279.00

COMPLETION COSTS:

Production Casing: 9,000' of 4-1/2" @ \$5.25/ft	\$ 47,250.00
Cement	15,000.00
Tubing: 9,000' of 2-7/8" @ \$2.86/ft	25,740.00
Wellheads	17,000.00
Completion Unit: 10 Days @ \$1,100/Day	11,000.00
Acid, Water and Frac	30,000.00
Engineering Consultant: 7 Days @ \$300/Day	2,100.00
Rentals (BOP, Packer, Frac Tank)	5,000.00
Contingency	5,000.00
Gross Receipts Tax @ 5.875%	<u>9,288.00</u>
Sub-Total	\$167,378.00

SURFACE EQUIPMENT:

Tank Battery	\$ 30,000.00
Gross Receipts Tax @ 5.875%	<u>1,763.00</u>
Sub-Total	\$ 31,763.00

GRAND TOTAL	\$593,420.00
-------------	--------------

Cisco or Upper Penn only deduct \$25,000 from total.
Dual completion of Cisco and Morrow add \$110,000 to total.

IT IS RECOGNIZED THAT THE AMOUNTS HEREIN ARE ESTIMATES ONLY AND APPROVAL OF THIS AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED, WHETHER MORE OR LESS THAN THAT SET OUT HEREIN. THE ABOVE ESTIMATES ARE BASED UPON A FLOWING WELL

SANTA FE EXPLORATION COMPANY

COMPANY: _____

BY _____

APPROVED BY: _____

William A. McAlpine, Jr

DATE: _____

Date: _____

SS# or TAX ID# _____

ILLEGIBLE

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 212

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

FAX 988-7592
AREA CODE 505

ERNEST L. PADILLA
MARY JO SNYDER

(505) 988-7577

March 8, 1989

HAND-DELIVERED

Mr. William J. Lemay, Director
New Mexico Oil Conservation Division
310 Old Santa Fe Trail
Santa Fe, New Mexico 85701

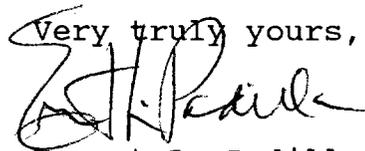
Re: Second Amended Application of Santa Fe Exploration Company for Dual Completion, Unorthodox Location and Compulsory Pooling, Section 8, Township 21 South, Range 23 East, Eddy County, New Mexico; Case No. 9619.

Dear Mr. Lemay:

On behalf of our client, Santa Fe Exploration Company, we are hereby submitting their second amended application, in triplicate, for approval of dual completion, unorthodox location and compulsory pooling in the above-captioned area.

We wish to continue this case from the hearing scheduled for March 15, to March 29, 1989. If you have any questions or need further information from us, please let us know.

Thank you for your consideration of this second amended application.

Very truly yours,

Ernest L. Padilla

ELP:njp

Enclosures as stated

cc: Santa Fe Exploration Company

BEFORE THE OIL CONSERVATION DIVISION
STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION COMPANY FOR
DUAL COMPLETION, UNORTHODOX LOCATION,
AND COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

NO. 9619

SECOND AMENDED APPLICATION FOR DUAL COMPLETION,
UNORTHODOX LOCATION, AND COMPULSORY POOLING

Applicant states:

1. Applicant is a working interest owner and operator of Section 8, Township 21 South, Range 23 East, Eddy County, New Mexico.
2. Applicant proposes to dually complete a well in an unorthodox location 660 FEL and 660 FSL of said Section 8 to the Cisco and Morrow Formations.
3. The proposed well is subject to the Indian Basin Upper Pennsylvanian Gas Pool and Indian Basin Morrow Gas Pool Rules which provide for 640-acre spacing and proration units and for well locations not closer than 1650 feet from the sides of a governmental section.
4. The proposed well is further subject to the General Rules and Regulations of the Division for dual completion.
5. The approval of the unorthodox location would be in the best interests of conservation of oil and gas and would not impair the correlative rights of offsetting operators and owners.

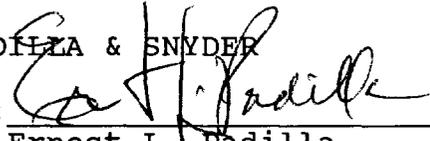
6. There are working interest owners in Section 8, the proposed proration unit, who have not consented to drill the well; Applicant proposes to compulsorily pool the interest of such non-consenting working interest owners from the surface of the earth to the base of the Morrow formation.
7. Any nonconsenting working interest owner that does not pay its share of estimated well costs should have withheld from production its 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.
8. Applicant should be authorized to withhold from production a reasonable supervision charge, attributable to each nonconsenting working interest owner's proportionate share, during the drilling and production stages of the well.
9. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in the proposed proration unit the opportunity to recover or receive without unnecessary expense its just and fair share of the hydrocarbons in the unit, said lands should be pooled as proposed herein.

WHEREFORE, Applicant respectfully requests that after notice and hearing:

1. The Division approve the application for dual completion;

2. The Division approve the requested unorthodox location;
3. That upon hearing, the Division enter its order pooling all oil and gas mineral interests from the surface of the earth to the base of the Morrow formation;
4. And for such other relief as the Division may deem appropriate in the premises.

PADILLA & SNYDER

By: 

Ernest L. Padilla

Post Office Box 2523

Santa Fe, New Mexico 87504-2523

(505) 988-7577

Attorneys for Applicant

BEFORE THE OIL CONSERVATION DIVISION
STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION COMPANY FOR
DUAL COMPLETION, UNORTHODOX LOCATION,
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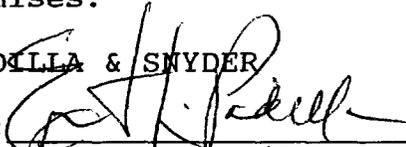
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PADILLA & SNYDER

By: 

Ernest L. Padilla

Post Office Box 2523

Santa Fe, New Mexico 87504-2523

(505) 988-7577

Attorneys for Applicant

BEFORE THE OIL CONSERVATION DIVISION
STATE OF NEW MEXICO

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BEFORE THE OIL CONSERVATION DIVISION
STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION COMPANY FOR
DUAL COMPLETION, UNORTHODOX LOCATION,
AND COMPULSORY POOLING, EDDY COUNTY,
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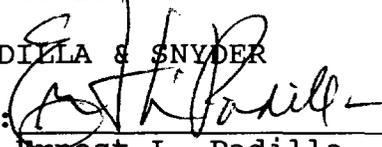
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4. And for such other relief as the Division may deem appropriate in the premises.

PADILLA & SNYDER

By: 

Ernest L. Padilla

Post Office Box 2523

Santa Fe, New Mexico 87504-2523

(505) 988-7577

Attorneys for Applicant

Dockets Nos. 10-89 and 11-89 are tentatively set for March 29 and April 12, 1989. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 15, 1989

**8:15 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO**

The following cases will be heard before Michael E. Stogner, Examiner, or David R. Catanach, or Victor T. Lyon, Alternate Examiners:

- ALLOWABLE:**
- (1) Consideration of the allowable production of gas for April, 1989, from fourteen prorated gas pools in Lea, Eddy, and Chaves Counties, New Mexico.
 - (2) Consideration of the allowable production of gas for April, 1989, from four prorated gas pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 9610: (Continued from March 1, 1989, Examiner Hearing.)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Knights Bridge Petroleum Corporation and James Marchbanks and all other interested parties to appear and show cause why the Triple Crown Well No. 1 located 660 feet from the South line and 1980 feet from the East line (Unit O) of Section 6, Township 9 North, Range 31 East, Quay County, New Mexico (being located approximately 7.75 miles northeast by north of Quay, New Mexico), should not be plugged and abandoned in accordance with a Division-approved plugging program. Additionally, the Division seeks an order directing the operator to pay the costs of such plugging and if the Operator fails to do so, ordering a forfeiture of the Operator's bond and authorizing the Director of the Division to make demand upon First National Bank of Tucumcari to pay to the Division so much of the funds of the certificate of deposit given as collateral for the bond as is necessary to pay the costs of plugging said well.

CASE 9620: Application of Texmex Seven Ltd. for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Pretty Bird Unit Area comprising 11,782.54 acres, more or less, of State and Federal lands in Townships 18 and 19 South, Ranges 17 and 18 East. Said unit area is located approximately 16 miles east by north of Pinon, New Mexico.

CASE 9621: Application of Amoco Production Company for six non-standard gas proration units, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks exceptions to Division Order No. R-8768 to establish six non-standard gas spacing and proration units for Basin-Fruitland Coal (Gas) Pool production in Irregular Sections 6, 7, 18, 19, and 30, Township 29 North, Range 9 West. Said row of Sections are located approximately 0.75 miles east of Blanco, New Mexico and extends north and south for approximately 2 miles.

CASE 9606: (Continued from March 1, 1989, Examiner Hearing.)

Application of Read & Stevens, Inc. for statutory unitization, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of establishing a secondary recovery project, all mineral interests in the designated and Undesignated Bunker Hill-Penrose Associated Pool underlying 1360.00 acres, more or less, of State, Federal, and Fee lands in portions of Sections 13, 14, 23, and 24, Township 16 South, Range 31 East. Said unit is to be designated the Bunker Hill Unit Area. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of the horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including, but not necessarily limited to, unit voting procedures, selection, removal, or substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a provision for carrying any nonconsenting working owner within the unit area upon such terms and conditions to be determined by the Division as just and reasonable. Said Unit Area is centered approximately 3.5 miles south-southwest of a point common to Eddy, Chaves, and Lea Counties, New Mexico.

CASE 9607: (Continued from March 1, 1989, Examiner Hearing.)

Application of Read & Stevens, Inc. for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Penrose Formation in its proposed Bunker Hill Unit Area (Division Case No. 9606) underlying portions of Sections 13, 14, 23, and 24, Township 16 South, Range 31 East, Bunker Hill-Penrose Associated Pool. Said area is centered approximately 3.5 miles south-southwest of a point common to Eddy, Lea and Chaves Counties, New Mexico.

CASE 9619: (Readvertised)

Application of Santa Fe Exploration Company for compulsory pooling and an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Undesignated Indian Basin-Morrow Gas Pool underlying all of Section 8, Township 21 South, Range 23 East, forming a standard 640-acre spacing and proration unit for said pool to be dedicated to a well to be drilled

at an unorthodox gas well location 660 feet from the South and East lines (Unit P) of said Section 8. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said well is located approximately 3.75 miles west-northwest of the Marathon Oil Company Indian Basin Gas Plant.

CASE 9622: Application of Conoco, Inc. for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order promulgating special rules and regulations for the Warren-Drinkard Pool in Sections 27, 28, 29, and 32, Township 20 South, Range 38 East, to include a provision for a gas-oil ratio limitation of 10,000 cubic feet of gas per barrel of oil with a retroactive effective date for such special pool rules to November 10, 1988. Said pool is in an area located approximately 8.5 miles north of Eunice, New Mexico.

CASE 9623: Application of Meridian Oil, Inc. for a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 299.85-acre non-standard gas spacing and proration unit for production from the Basin-Fruitland Coal (Gas) Pool comprising Lots 3, 4, 5, 6 and 7, the SE/4 NW/4, and the E/2 SW/4 of Section 8 and Lots 1 and 2 and the E/2 NW/4 of Section 7, both in Township 30 North, Range 9 West. Said unit is to be dedicated to a well to be drilled at a standard coal gas well location 1030 feet from the South line and 850 feet from the West line (Unit N) of said Section 6. Said unit is located approximately 9 miles east of Aztec, New Mexico.

CASE 9145: (Continued from February 15, 1989, Examiner Hearing.) (Reopened)

In the matter of Case 9145 being reopened pursuant to the provisions of Division Order No. R-8497, which promulgated temporary special rules and regulations for the North Knowles-Devonian Pool, Lea County, including a provision for 80-acre spacing units. Operators in the subject pool may appear and show cause why the North Knowles-Devonian Pool rules should not be rescinded.

CASE 9624: Application of W. A. Moncrief, Jr. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to either the base of the Strawn formation or to a depth of 11,300 feet, whichever is deeper, underlying the E/2 NE/4 of Section 30, Township 16 South, Range 37 East, forming a standard 80-acre spacing and proration unit for any and all pools developed on 80-acre spacing (which presently includes but is not necessarily limited to the Northeast Lovington-Pennsylvanian Pool), said unit to be dedicated to a well to be drilled at a standard oil well location 1980 feet from the North line and 510 feet from the East line (Unit H) of said Section 30. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said well location is approximately 5 miles southeast of Lovington, New Mexico.

CASE 9625: Application of Marshall Pipe and Supply Company for compulsory pooling, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Undesignated Tule-Montoya Gas Pool underlying the following described acreage in Section 23, Township 2 South, Range 29 East, and in the following described manner:

- the SW/4 SW/4 to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing;
- the SW/4 to form a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing; and,
- the S/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing (which presently includes but is not necessarily limited to the Tule-Pennsylvanian Gas Pool and the Undesignated Tule-Montoya Gas Pool).

All of the above-described units are to be dedicated to the existing Perry Well No. 1 drilled at a previously approved unorthodox gas well location 990 feet from the South line and 660 feet from the West line (Unit M) of said Section 23 (Division Order No. R-8617). Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said well is approximately 4.5 miles east-northeast from the point common to Roosevelt, Chaves, and De Baca Counties, New Mexico.

CASE 9626: Application of Mobil Producing Texas and New Mexico, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Undesignated North Vacuum Atoka-Morrow Gas Pool underlying the S/2 of Section 17, Township 17 South, Range 35 East, forming a standard 320-acre gas spacing and proration unit for said pool, to be dedicated to its State Section 17 Com Well No. 3 to be drilled at a previously approved unorthodox gas well location (NSL-2626) 2034 feet from the South line and 2064 feet from the West line (Unit K) of said Section 17. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said well location is approximately 2 miles north-northeast of Buckeye, New Mexico.

CASE 9627: Application of Yates Petroleum Corporation for an unorthodox gas well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location 330 feet from the North and East lines (Unit A) of Section 25, Township 7 South, Range 29 East, San Andres formation, the NE/4 of said Section 25 to be dedicated to the well forming a standard 160-acre gas spacing and proration unit. Said location is approximately 7.5 miles east by south of Elkins, New Mexico.

CASE 9628: Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to re-enter the plugged and abandoned Carper Drilling Company, Inc. Marathon-State Well No. 1 located at an unorthodox gas well location 660 feet from the North and East lines (Unit A) of Section 33, Township 17 South, Range 24 East, to test any and all formations and/or pools from the top of the Undesignated Collins Ranch-Wolfcamp Gas Pool to the base of the Morrow formation, the N/2 of said Section 33 to be dedicated to said well forming a standard 320-acre gas spacing and proration unit. Said well is located approximately 7.75 miles east by south of Hope, New Mexico.

CASE 9629: Application of Yates Petroleum Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Ordovician formation underlying the E/2 of Section 36, Township 10 South, Range 26 East, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools within said vertical extent developed on 320-acre spacing. Said unit is to be dedicated to a well to be drilled at a standard gas well location 1980 feet from the North and East lines (Unit G) of said Section 36. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said location is approximately 16 miles east of Roswell, New Mexico.

CASE 9630: Application of Yates Petroleum Corporation for an unorthodox gas well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location 1650 feet from the North line and 2310 feet from the East line (Unit G) of Section 36, Township 10 South, Range 26 East, Ordovician formation, the E/2 of said Section 36 to be dedicated to the well forming a standard 320-acre gas spacing and proration unit. Said location is approximately 16 miles east of Roswell, New Mexico.

CASE 9631: Application of BHP Petroleum Company, Inc. for compulsory pooling and an unorthodox gas well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the top of the Wolfcamp to the base of the Montoya formation underlying the E/2 of Section 36, Township 10 South, Range 26 East, forming a standard 320-acre gas spacing and proration unit for all formations within said vertical extent, said unit is to be dedicated to a well to be drilled at an unorthodox gas well location 1650 feet from the North line and 2310 feet from the East line (Unit G) of said Section 36. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said location is approximately 16 miles east of Roswell, New Mexico.

CASE 9602: (Continued from March 1, 1989, Examiner Hearing.)

Application of BHP Petroleum, Inc. for special GOR, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the adoption of special pool rules for the East Avalon-Bone Spring Pool, establishing a limiting gas-oil ratio of 5,000 cubic feet of gas per barrel of oil. Said pool is located in portions of Townships 20 and 21 South, Ranges 27 and 28 East, which is approximately 9 miles northeast of Carlsbad, New Mexico.

CASE 9608: (Continued from March 1, 1989, Examiner Hearing.)

In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, and extending certain pools in Chaves and Eddy Counties, New Mexico.

(a) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Bone Spring production and designated as the Magruder-Bone Spring Gas Pool. The discovery well is the OXY USA Inc. State CP Com Well No. 1 located in Unit J of Section 9, Township 21 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM
Section 9: SE/4

(b) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the West Millman-Wolfcamp Gas Pool. The discovery well is the Yates Petroleum Corp. State HU Com Well No. 1 located in Unit N of Section 7, Township 19 South, Range 28 East, NMPM. Said pool would comprise:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 7: S/2

Examiner Hearing - Wednesday - March 15, 1989

- (c) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Strawn production and designated as the West Wickiup Hill-Strawn Gas Pool. The discovery well is the Yates Petroleum Corp. Eland AFC Federal Com Well No. 1 located in Unit N of Section 12, Township 20 South, Range 29 East, NMPM. Said pool would comprise:

TOWNSHIP 20 SOUTH, RANGE 29 EAST, NMPM
Section 12: W/2

- (d) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Morrow production and designated as the Diamond Mound-Morrow Gas Pool. The discovery well is the Mesa Operating Derrick Federal Com Well No. 1 located in Unit K of Section 5, Township 16 South, Range 28 East, NMPM. Said pool would comprise:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM
Section 33: All
Section 34: All
Section 35: All
Section 36: All

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM
Section 30: S/2
Section 31: All
Section 32: All

TOWNSHIP 16 SOUTH, RANGE 27 EAST, NMPM
Section 1: All
Section 2: Lots 1, 2, 7, 8, 9, 10, 15 and 16
Section 9: S/2
Section 10: All
Section 11: All
Section 12: All
Section 15: N/2
Section 16: N/2

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM
Section 3: Lots 1 through 16
Section 4: Lots 1 through 16
Section 5: Lots 1 through 16
Section 6: All

- (e) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Atoka production and designated as the Diamond Mound-Atoka Gas Pool. The discovery well is the Northern Natural Gas Co. Vandagriff Federal Com Well No. 1 located in Unit K of Section 1, Township 16 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 16 SOUTH, RANGE 27 EAST, NMPM
Section 1: All
Section 2: Lots 1, 2, 7, 8, 9, and 10
Section 9: S/2
Section 10: All
Section 11: All
Section 12: All
Section 16: N/2

- (f) ABOLISH the Diamond Mound Atoka-Morrow Gas Pool in Eddy and Chaves Counties, New Mexico.

- (g) • EXTEND the Diablo-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 27 EAST, NMPM
Section 22: E/2 SW/4 and SE/4

- (h) EXTEND the North Grayburg-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 29 EAST, NMPM
Section 22: W/2

- (i) EXTEND the Owen Mesa-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 29 EAST, NMPM
Section 35: NE/4
Section 36: N/2

- (j) EXTEND the North Shugart-Bone Spring Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM
Section 5: SW/4

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 212

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

(505) 988-7577

ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

February 24, 1989

RECEIVED

FEB 25 1989

HAND-DELIVERED

OIL CONSERVATION DIVISION

Mr. William J. Lemay, Director
New Mexico Oil Conservation Division
310 Old Santa Fe Trail
Santa Fe, New Mexico 85701

Re: Amended Application of Santa Fe Exploration
Company for Unorthodox Location and Compulsory
Pooling, Section 8, Township 21 South, Range 23
East, Eddy County, New Mexico; Case No. 9619.

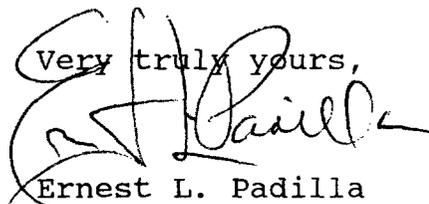
Dear Mr. Lemay:

On behalf of our client, Santa Fe Exploration Company, we are hereby submitting their amended application, in triplicate, for approval of an unorthodox location and compulsory pooling in the above-captioned area.

If you have any questions or need further information from us, please let us know.

Thank you for your consideration of this amended application.

Very truly yours,



Ernest L. Padilla

ELP:njp

Enclosures as stated

cc: Santa Fe Exploration Company

BEFORE THE OIL CONSERVATION DIVISION
STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION COMPANY FOR
UNORTHODOX LOCATION AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

RECEIVED

FEB 25 1980

OIL CONSERVATION DIVISION

NO. 9619

AMENDED APPLICATION FOR UNORTHODOX LOCATION
AND COMPULSORY POOLING

Applicant states:

1. Applicant is a working interest owner and operator of Section 8, Township 21 South, Range 23 East, Eddy County, New Mexico.
2. Applicant proposes to drill a well in an unorthodox location 660 FEL and 660 FSL of said Section 8 to the Morrow Formation.
3. The proposed well is subject to the Indian Basin Morrow Gas Pool Rules which provide for 640-acre spacing and proration units and for well locations not closer than 1650 feet from the sides of a governmental section.
4. The approval of the unorthodox location would be in the best interests of conservation of oil and gas and would not impair the correlative rights of offsetting operators and owners.
5. There are working interest owners in Section 8, the proposed proration unit, who have not consented to drill the well.
6. Any nonconsenting working interest owner that does not pay its share of estimated well costs should have withheld from production its share of the reasonable

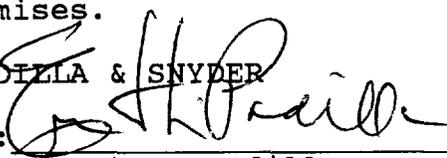
well costs, plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

7. Applicant should be authorized to withhold from production a reasonable supervision charge, attributable to each nonconsenting working interest owner's proportionate share, during the drilling and production stages of the well.
8. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in the proposed proration unit the opportunity to recover or receive without unnecessary expense its just and fair share of the hydrocarbons in the unit, said lands should be pooled as proposed herein.

WHEREFORE, Applicant respectfully requests that after notice and hearing:

1. The Division approve the requested unorthodox location;
2. That upon hearing, the Division enter its order pooling all oil and gas mineral interests within said lands and formations;
3. And for such other relief as the Division may deem appropriate in the premises.

PADILLA & SNYDER

By: 

Ernest L. Padilla
Post Office Box 2523
Santa Fe, New Mexico 87504-2523
(505) 988-7577
Attorneys for Applicant

BEFORE THE OIL CONSERVATION DIVISION
STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION COMPANY FOR
UNORTHODOX LOCATION AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

RECEIVED

FEB 25 1961

NO. 9619
OIL CONSERVATION DIVISION

AMENDED APPLICATION FOR UNORTHODOX LOCATION
AND COMPULSORY POOLING

Applicant states:

1. Applicant is a working interest owner and operator of Section 8, Township 21 South, Range 23 East, Eddy County, New Mexico.
2. Applicant proposes to drill a well in an unorthodox location 660 FEL and 660 FSL of said Section 8 to the Morrow Formation.
3. The proposed well is subject to the Indian Basin Morrow Gas Pool Rules which provide for 640-acre spacing and proration units and for well locations not closer than 1650 feet from the sides of a governmental section.
4. The approval of the unorthodox location would be in the best interests of conservation of oil and gas and would not impair the correlative rights of offsetting operators and owners.
5. There are working interest owners in Section 8, the proposed proration unit, who have not consented to drill the well.
6. Any nonconsenting working interest owner that does not pay its share of estimated well costs should have withheld from production its share of the reasonable

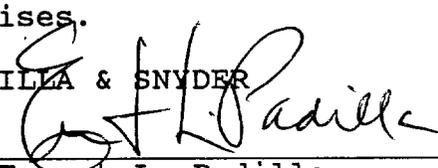
well costs, plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

7. Applicant should be authorized to withhold from production a reasonable supervision charge, attributable to each nonconsenting working interest owner's proportionate share, during the drilling and production stages of the well.
8. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in the proposed proration unit the opportunity to recover or receive without unnecessary expense its just and fair share of the hydrocarbons in the unit, said lands should be pooled as proposed herein.

WHEREFORE, Applicant respectfully requests that after notice and hearing:

1. The Division approve the requested unorthodox location;
2. That upon hearing, the Division enter its order pooling all oil and gas mineral interests within said lands and formations;
3. And for such other relief as the Division may deem appropriate in the premises.

PADILLA & SNYDER

By: 

Ernest L. Padilla
Post Office Box 2523
Santa Fe, New Mexico 87504-2523
(505) 988-7577

Attorneys for Applicant

BEFORE THE OIL CONSERVATION DIVISION
STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION COMPANY FOR
UNORTHODOX LOCATION AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

RECEIVED
FEB 23 1970
OIL CONSERVATION DIVISION
NO. 9619

AMENDED APPLICATION FOR UNORTHODOX LOCATION
AND COMPULSORY POOLING

Applicant states:

1. Applicant is a working interest owner and operator of Section 8, Township 21 South, Range 23 East, Eddy County, New Mexico.
2. Applicant proposes to drill a well in an unorthodox location 660 FEL and 660 FSL of said Section 8 to the Morrow Formation.
3. The proposed well is subject to the Indian Basin Morrow Gas Pool Rules which provide for 640-acre spacing and proration units and for well locations not closer than 1650 feet from the sides of a governmental section.
4. The approval of the unorthodox location would be in the best interests of conservation of oil and gas and would not impair the correlative rights of offsetting operators and owners.
5. There are working interest owners in Section 8, the proposed proration unit, who have not consented to drill the well.
6. Any nonconsenting working interest owner that does not pay its share of estimated well costs should have withheld from production its share of the reasonable

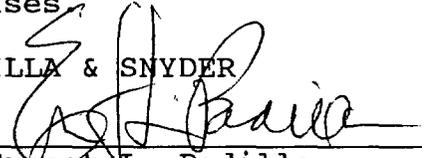
well costs, plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

7. Applicant should be authorized to withhold from production a reasonable supervision charge, attributable to each nonconsenting working interest owner's proportionate share, during the drilling and production stages of the well.
8. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in the proposed proration unit the opportunity to recover or receive without unnecessary expense its just and fair share of the hydrocarbons in the unit, said lands should be pooled as proposed herein.

WHEREFORE, Applicant respectfully requests that after notice and hearing:

1. The Division approve the requested unorthodox location;
2. That upon hearing, the Division enter its order pooling all oil and gas mineral interests within said lands and formations;
3. And for such other relief as the Division may deem appropriate in the premises

PADILLA & SNYDER

By: 

Ernest L. Padilla
Post Office Box 2523
Santa Fe, New Mexico 87504-2523
(505) 988-7577
Attorneys for Applicant

Memo

From
FLORENE DAVIDSON
OC Staff Specialist

To

Ernie Padilla called
2/21/89 to add
compulsory pooling
640-acre spacing

Oil Conservation Division Santa Fe, New Mexico 87504-2088
827-5802

Dockets Nos. 9-89 and 10-89 are tentatively set for March 15 and March 29, 1989. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 1, 1989

**8:15 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO**

The following cases will be heard before David R. Cstanach, Examiner, or Michael E. Stogner, or Victor T. Lyon, Alternate Examiners:

CASE 9610: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Knights Bridge Petroleum Corporation and James Marchbanks and all other interested parties to appear and show cause why the Triple Crown Well No. 1 located 660 feet from the South line and 1980 feet from the East line (Unit O) of Section 6, Township 9 North, Range 31 East, Quay County, New Mexico (being located approximately 7.75 miles northeast by north of Quay, New Mexico), should not be plugged and abandoned in accordance with a Division-approved plugging program. Additionally, the Division seeks an order directing the operator to pay the costs of such plugging and if the Operator fails to do so, ordering a forfeiture of the Operator's bond and authorizing the Director of the Division to make demand upon First National Bank of Tucumcari to pay to the Division so much of the funds of the certificate of deposit given as collateral for the bond as is necessary to pay the costs of plugging said well.

CASE 9589: (Continued from February 15, 1989, Examiner Hearing.)

Application of Murphy Operating Corporation for expansion of unit area, Chaves and Roosevelt Counties, New Mexico. Applicant, in the above-styled cause, seeks authority to expand the Haley Chaveroo San Andres Unit Area, authorized by Division Order No. R-8750, to include an additional 80 acres of State lands in Section 3, Township 8 South, Range 33 East, Chaveroo-San Andres Pool, Chaves County. Said unit area is located approximately 13 miles west of Milnesand, New Mexico.

CASE 9590: (Continued from February 15, 1989, Examiner Hearing.)

Application of Murphy Operating Corporation for area expansion of a waterflood project, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand the Haley Chaveroo San Andres Waterflood Project Area, authorized by Division Order No. R-8760, to include an additional 80 acres in Section 3, Township 8 South, Range 33 East, Chaveroo-San Andres Pool, Haley Chaveroo San Andres Unit Area. Said project area is located approximately 13 miles west of Milnesand, New Mexico.

CASE 9611: Application of The Petroleum Corporation of Delaware for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location 660 feet from the South and West lines (Unit M) of Section 1, Township 20 South, Range 29 East, Undesignated East Burton Flat-Morrow Gas Pool, the S/2 of said Section 1 to be dedicated to the well forming a standard 320-acre gas spacing and proration unit for said pool. Said location is approximately 3.5 miles west of the Eddy Potash Inc. Mine and Refinery.

CASE 9597: (Readvertised)

Application of Meridian Oil, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal (Gas) Pool underlying the W/2 of Section 16, Township 30 North, Range 8 West, forming a standard 320-acre gas spacing and proration unit for said pool, to be dedicated to its Delhi Com Well No. 300 to be drilled at an unorthodox coal gas well location 570 feet from the South line and 185 feet from the West line (Unit M) of said Section 16. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said well location is approximately 4 miles northwest by west of the Navajo Reservoir Dam.

CASE 9602: (Continued from February 15, 1989, Examiner Hearing.)

Application of BHP Petroleum, Inc. for special GOR, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the adoption of special pool rules for the East Avalon-Bone Spring Pool, establishing a limiting gas-oil ratio of 5,000 cubic feet of gas per barrel of oil. Said pool is located in portions of Townships 20 and 21 South, Ranges 27 and 28 East, which is approximately 9 miles northeast of Carlsbad, New Mexico.

CASE 9612: Application of Pennzoil Company for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox oil well location 1650 feet from the North line and 330 feet from the East line (Unit H) of Section 21, Township 17 South, Range 37 East, Undesignated Humble City-Strawn Pool, the E/2 NE/4 of said Section 21 to be dedicated to the well forming a standard 80-acre oil spacing and proration unit for said pool. Said location is approximately 2.5 miles north-northwest of Humble City, New Mexico.

CASE 9613: Application of Chevron U.S.A. Inc. for an unorthodox oil well location and a non-standard oil proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox oil well location 940 feet from the North line and 2210 feet from the West line (Unit C) of Section 2, Township 17 South, Range 37 East, Shipp-Strawn Pool, Lots 3 and 4 of said Section 2 to be dedicated to the well forming a non-standard 82.37-acre oil spacing and proration unit for said pool. Said location is approximately 5 miles north of Humble City, New Mexico.

CASE 9572: (Continued from February 1, 1989, Examiner Hearing.)

Application of Dugan Production Corporation for a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 164.87-acre non-standard gas spacing and proration unit for production from the Basin-Fruitland Coal (Gas) Pool comprising Lots 1 and 2 and the E/2 NW/4 of Section 31, Township 28 North, Range 10 West. Said unit is to be dedicated to its Knauff Well No. 1 which is presently completed in the Kutz-Fruitland Pool and is located at a previously authorized unorthodox coal gas well location (pursuant to Decretory Paragraph No. (4) of Division Order No. R-8768) 1015 feet from the North line and 1650 feet from the West line (Unit C) of said Section 31. This well is located approximately 6.5 miles south-southeast of Bloomfield, New Mexico

CASE 9573: (Continued from February 1, 1989, Examiner Hearing.)

Application of Dugan Production Corporation for a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 160-acre non-standard gas spacing and proration unit for production from the Basin-Fruitland Coal (Gas) Pool comprising the NE/4 of Section 18, Township 29 North, Range 11 West. Said unit is to be dedicated to its Hana Well No. 1 which is presently a dually completed gas well in the Fruitland formation and the Fulcher Kutz-Pictured Cliffs Pool and is located at a standard coal gas well location 790 feet from the North line and 1520 feet from the East line (Unit B) of said Section 18. This well is located approximately 2.5 miles west-northwest of Bloomfield, New Mexico

CASE 9614: Application of Blackwood & Nichols Co., Ltd. for an unorthodox coal gas well location and a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox coal gas well location 930 feet from the South line and 610 feet from the West line (Unit N) of irregular Section 6, Township 30 North, Range 7 West, Basin-Fruitland Coal (Gas) Pool. Said well is to be dedicated to a 296.02-acre non-standard gas spacing and proration unit comprising Lots 11 and 12 and the E/2 SW/4 of Section 31, Township 31 North, Range 7 West, and Lots 11, 12, 17, and 18 and the E/2 W/2 equivalent of said Section 6. Said location is approximately 2.25 miles north of the Navajo Reservoir Dam.

CASE 9615: Application of Blackwood & Nichols Co., Ltd. for an unorthodox coal gas well location and a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox coal gas well location 320 feet from the South line and 1250 feet from the West line (Unit N) of irregular Section 19, Township 31 North, Range 7 West, Basin-Fruitland Coal (Gas) Pool. Said well is to be dedicated to a 259.82-acre non-standard gas spacing and proration unit comprising Lots 5, 6, 7, and 8 and the E/2 W/2 of said Section 19 and Lot 5 and the NE/4 NW/4 of Section 30, both in Township 31 North, Range 7 West. Said location is approximately 6 miles north of the Navajo Reservoir Dam.

CASE 9616: Application of Blackwood & Nichols Co., Ltd. for an unorthodox coal gas well location and a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox coal gas well location 2255 feet from the North line and 340 feet from the West line (Unit F) of irregular Section 31, Township 31 North, Range 7 West, Basin-Fruitland Coal (Gas) Pool. Said well is to be dedicated to a 250.65-acre non-standard gas spacing and proration unit comprising Lots 6, 9, and 10, the E/2 SW/4, and the SE/4 SW/4 of Section 30 and Lots 7 and 8 and the E/2 NW/4 of said Section 31, both in Township 31 North, Range 7 West. Said location is approximately 4 miles north of the Navajo Reservoir Dam.

CASE 9617: Application of Curry and Thornton for an unorthodox oil well location and a non-standard proration unit, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox oil well location 1980 feet from the South line and 2475 feet from the West line (Unit K) of Section 9, Township 14 South, Range 29 East, Undesignated North King Camp-Devonian Pool, the E/2 W/2 of said Section 9 to be dedicated to said well forming a non-standard 160-acre oil spacing and proration unit for said pool. Said location is approximately 17 miles east of Hagerman, New Mexico.

CASE 9618: Application of Bill Penn, Inc. for an unorthodox gas well location and dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to dually complete a well in the Indian Basin-Upper Pennsylvanian Gas Pool and Indian Basin-Morrow Gas Pool at an unorthodox gas well location 1650 feet from the North line and 990 feet from the West line (Unit E) of Section 14, Township 21 South, Range 23 East, all of said Section 14 to be dedicated to the well forming a standard 640-acre gas spacing and proration unit for both pools. Said well location is approximately 1.25 miles north-northwest of the Marathon Oil Company Indian Basin Gas Plant.

CASE 9619: Application of Santa Fe Exploration Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location 660 feet from the South and East lines (Unit P) of Section 8, Township 21 South, Range 23 East, Undesignated Indian Basin-Morrow Gas Pool, all of said Section 8 to be dedicated to said well, forming a standard 640-acre gas spacing and proration unit for said pool. Said well is located approximately 3.75 miles west-northwest of the Marathon Oil Company Indian Basin Gas Plant.

CASE 9606: (Continued from February 1, 1989, Examiner Hearing.)

Application of Read & Stevens, Inc. for statutory unitization, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of establishing a secondary recovery project, all mineral interests in the designated and Undesignated Bunker Hill-Penrose Associated Pool underlying 1360.00 acres, more or less, of State, Federal, and Fee lands in portions of Sections 13, 14, 23, and 24, Township 16 South, Range 31 East. Said unit is to be designated the Bunker Hill Unit Area. Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of the horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including, but not necessarily limited to, unit voting procedures, selection, removal, or substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a provision for carrying any nonconsenting working owner within the unit area upon such terms and conditions to be determined by the Division as just and reasonable. Said Unit Area is centered approximately 3.5 miles south-southwest of a point common to Eddy, Chaves, and Lea Counties, New Mexico.

CASE 9607: (Continued from February 1, 1989, Examiner Hearing.)

Application of Read & Stevens, Inc. for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Penrose Formation in its proposed Bunker Hill Unit Area (Division Case No. 9606) underlying portions of Sections 13, 14, 23, and 24, Township 16 South, Range 31 East, Bunker Hill-Penrose Associated Pool. Said area is centered approximately 3.5 miles south-southwest of a point common to Eddy, Lea and Chaves Counties, New Mexico.

CASE 9608: (Continued from February 1, 1989, Examiner Hearing.)

In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, and extending certain pools in Chaves and Eddy Counties, New Mexico.

- (a) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Bone Spring production and designated as the Magruder-Bone Spring Gas Pool. The discovery well is the OXY USA Inc. State CP Com Well No. 1 located in Unit J of Section 9, Township 21 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM
Section 9: SE/4

- (b) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the West Millman-Wolfcamp Gas Pool. The discovery well is the Yates Petroleum Corp. State HU Com Well No. 1 located in Unit N of Section 7, Township 19 South, Range 28 East, NMPM. Said pool would comprise:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 7: S/2

- (c) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Strawn production and designated as the West Wickiup Hill-Strawn Gas Pool. The discovery well is the Yates Petroleum Corp. Eland AFC Federal Com Well No. 1 located in Unit N of Section 12, Township 20 South, Range 29 East, NMPM. Said pool would comprise:

TOWNSHIP 20 SOUTH, RANGE 29 EAST, NMPM
Section 12: W/2

- (d) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Morrow production and designated as the Diamond Mound-Morrow Gas Pool. The discovery well is the Mesa Operating Derrick Federal Com Well No. 1 located in Unit K of Section 5, Township 16 South, Range 28 East, NMPM. Said pool would comprise:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM
Section 33: All
Section 34: All
Section 35: All
Section 26: All

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM
Section 30: S/2
Section 31: All
Section 32: All

TOWNSHIP 16 SOUTH, RANGE 27 EAST, NMPM

Section 1: All
Section 2: Lots 1, 2, 7, 8, 9, 10, 15 and 16
Section 9: S/2
Section 10: All
Section 11: All
Section 12: All
Section 15: N/2
Section 16: N/2

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM

Section 3: Lots 1 through 16
Section 4: Lots 1 through 16
Section 5: Lots 1 through 16
Section 6: All

- (e) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Atoka production and designated as the Diamound Mound-Atoka Gas Pool. The discovery well is the Northern Natural Gas Co. Vandagriff Federal Com Well No. 1 located in Unit K of Section 1, Township 16 South, Range 27 East, NMPM. Said pool would comprise:

TOWNSHIP 16 SOUTH, RANGE 27 EAST, NMPM

Section 1: All
Section 2: Lots 1, 2, 7, 8, 9, and 10
Section 9: S/2
Section 10: All
Section 11: All
Section 12: All
Section 16: N/2

- (f) ABOLISH the Diamound Mound Atoka-Morrow Gas Pool in Eddy and Chaves Counties, New Mexico.
(g) EXTEND the Diablo-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 27 EAST, NMPM

Section 22: E/2 SW/4 and SE/4

- (h) EXTEND the North Grayburg-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 29 EAST, NMPM

Section 22: W/2

- (i) EXTEND the Owen Mesa-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 29 EAST, NMPM

Section 35: NE/4
Section 36: N/2

- (j) EXTEND the North Shugart-Bone Spring Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 5: SW/4

Docket 8-89

DOCKET: COMMISSION HEARING - THURSDAY - MARCH 9, 1989

9:00 A.M. - MORGAN HALL, STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

CASE 9511: (Continued from February 16, 1989, Commission Hearing.) (De Novo)

Application of Phillips Petroleum Company for salt water disposal, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced water into the South Peterson-Fusselman Pool and Montoya formation in the perforated interval from approximately 7892 feet to 7994 feet in its Lambirth "A" Well No. 6 located 1830 feet from the South line and 1980 feet from the East line (Unit J) of Section 30, Township 5 South, Range 33 East, which is located 10.5 miles west of Pop, New Mexico. Upon application of Enserch Exploration, Inc., this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 9543: (Continued from February 16, 1989, Commission Hearing.) (De Novo)

Application of Meridian Oil, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying the W/2 of Section 16, Township 32 North, Range 10 West, forming a standard 320-acre gas spacing and proration unit for said pool, to be dedicated to its EPNG Com C Well No. 100 to be drilled at a standard gas well location in the NE/4 SW/4 (Unit K) of said Section 16. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 3.1 miles north of Cedar Hill, New Mexico. Upon application of Fina Oil and Chemical Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 9544: (Continued from February 16, 1989, Commission Hearing.) (De Novo)

Application of Meridian Oil, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying the E/2 of Section 16, Township 32 North, Range 10 West, forming a standard 320-acre gas spacing and proration unit for said pool, to be dedicated to its Burroughs Com A Well No. 100 to be drilled at a standard gas well location in the SW/4 NE/4 (Unit G) of said Section 16. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 3.1 miles north of Cedar Hill, New Mexico. Upon application of Fina Oil and Chemical Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 9588: (Continued from February 16, 1989, Commission Hearing.)

Application of Sun Exploration and Production Company for contraction of the North Vacuum Atoka-Morrow Gas Pool, extension horizontally and vertically of the South Shoe Bar-Atoka Gas Pool, redesignation of said pool as the South Shoe Bar Atoka-Morrow Gas Pool, and the institution of proration in said pool as extended and redesignated, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order

- (1) contracting the area of the North Vacuum Atoka-Morrow Gas Pool by deleting therefrom the following lands:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, N.M.P.M
E/2 Section 1, S/2 and NE/4 Section 12

TOWNSHIP 17 SOUTH, RANGE 35 EAST, N.M.P.M.
All of Section 7, W/2 Section 8, W/2 Section 16, N/2 Section 17 and all of Section 18;

- (2) extending the horizontal limits of the South Shoe Bar-Atoka Gas Pool to include the above-described lands; plus the SE/4 of Section 16, Township 17 South, Range 35 East;
- (3) extending the vertical limits of the South Shoe Bar-Atoka Gas Pool downward to include the Pennsylvanian formations to the base of the Morrow;
- (4) redesignating said pool as the South Shoe Bar Atoka-Morrow Gas Pool; and
- (5) instituting gas proration and promulgating special pool rules in the extended and redesignated gas pool. Said pools are approximately 2 miles north of Buckeye, New Mexico.

CASE 9490: (Continued from February 16, 1989, Commission Hearing.) (De Novo)

Application of Texaco Producing, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in any and all formations to the base of the Strawn formation underlying the E/2 of Section 17, Township 25 South, Range 36 East, forming a standard 320-acre spacing and proration unit for any and all formations developed on 320-acre spacing. Said unit is to be dedicated to its West Jal B Deep Well No. 1 located at a standard location 1980 feet from the North line and 660 feet from the East line of said Section 17. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 5 1/2 miles west by north of Jal, New Mexico. Upon application of Texaco Producing, Inc., this case will be heard De Novo pursuant to the provisions of Rule 1220.

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION COMPANY,
FOR AN UNORTHODOX LOCATION,
EDDY COUNTY, NEW MEXICO.

NO. 9619

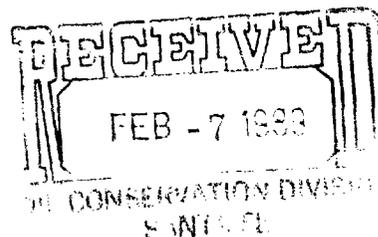
APPLICATION

Applicant states:

1. Applicant is the operator of Section 8, Township 21 South, Range 23 East, Eddy County, New Mexico;
2. Applicant proposes to drill a well in an unorthodox location 660 FEL and 660 FSL of said Section 8 to the Morrow Formation;
3. The proposed well is subject to the Indian Basin Morrow Gas Pool Rules which provide for 640-acre spacing and proration units and for well locations not closer than 1650 feet from the sides of a governmental section;
4. That approval of this Application would be in the best interests of conservation of oil and gas and would not impair the correlative rights of offsetting operators and owners.

WHEREFORE, Applicant requests that after Notice and Hearing:

1. The Division approve the Application of the requested unorthodox location;



2. For such and further relief as the Division deems proper.

Respectfully submitted,

PADILLA & SNYDER

By: 
Ernest L. Padilla
Post Office Box 2523
Santa Fe, New Mexico 87504-2523
(505) 988-7577

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION COMPANY,
FOR AN UNORTHODOX LOCATION,
EDDY COUNTY, NEW MEXICO.

NO. 9619

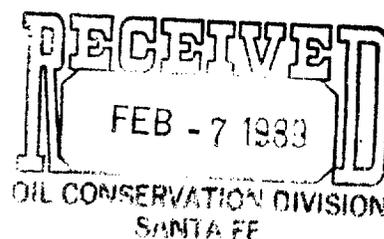
APPLICATION

Applicant states:

1. Applicant is the operator of Section 8, Township 21 South, Range 23 East, Eddy County, New Mexico;
2. Applicant proposes to drill a well in an unorthodox location 660 FEL and 660 FSL of said Section 8 to the Morrow Formation;
3. The proposed well is subject to the Indian Basin Morrow Gas Pool Rules which provide for 640-acre spacing and proration units and for well locations not closer than 1650 feet from the sides of a governmental section;
4. That approval of this Application would be in the best interests of conservation of oil and gas and would not impair the correlative rights of offsetting operators and owners.

WHEREFORE, Applicant requests that after Notice and Hearing:

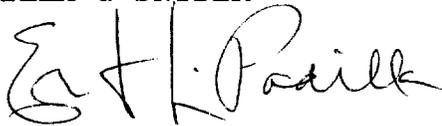
1. The Division approve the Application of the requested unorthodox location;



2. For such and further relief as the Division deems proper.

Respectfully submitted,

PADILLA & SNYDER

By: 

Ernest L. Padilla
Post Office Box 2523
Santa Fe, New Mexico 87504-2523
(505) 988-7577

BEFORE THE OIL CONSERVATION DIVISION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION COMPANY,
FOR AN UNORTHODOX LOCATION,
EDDY COUNTY, NEW MEXICO.

NO. 9619

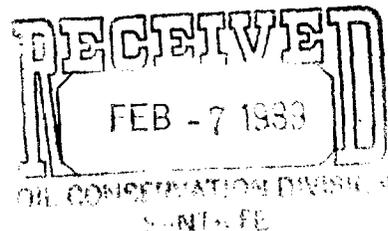
APPLICATION

Applicant states:

1. Applicant is the operator of Section 8, Township 21 South, Range 23 East, Eddy County, New Mexico;
2. Applicant proposes to drill a well in an unorthodox location 660 FEL and 660 FSL of said Section 8 to the Morrow Formation;
3. The proposed well is subject to the Indian Basin Morrow Gas Pool Rules which provide for 640-acre spacing and proration units and for well locations not closer than 1650 feet from the sides of a governmental section;
4. That approval of this Application would be in the best interests of conservation of oil and gas and would not impair the correlative rights of offsetting operators and owners.

WHEREFORE, Applicant requests that after Notice and Hearing:

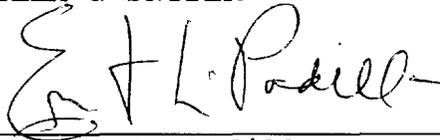
1. The Division approve the Application of the requested unorthodox location;



2. For such and further relief as the Division deems proper.

Respectfully submitted,

PADILLA & SNYDER

By: 

Ernest L. Padilla
Post Office Box 2523
Santa Fe, New Mexico 87504-2523
(505) 988-7577

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 212

P.O. BOX 2523

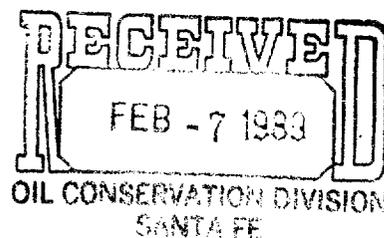
SANTA FE, NEW MEXICO 87504-2523

(505) 988-7577

ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

February 7, 1989



HAND-DELIVERED

Mr. William J. Lemay, Director
New Mexico Oil Conservation Division
310 Old Santa Fe Trail
Santa Fe, New Mexico 85701

Re: Application of Santa Fe Exploration Company
for Unorthodox Location, Section 8, Township
21 South, Range 23 East, Eddy County, New Mexico.

Dear Mr. Lemay:

On behalf of our client, Santa Fe Exploration Company, we are hereby submitting their application, in triplicate, for approval of an unorthodox location in the above-captioned area.

If you have any questions or need further information from us, please let us know.

Thank you for your consideration of this application.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Ernest L. Padilla".

Ernest L. Padilla

ELP:njp

Enclosure as stated

cc: Santa Fe Exploration Company

COUNTY *Eddy*

POOL *Indian Basin - Upper Pennsylvanian Gas*

TOWNSHIP *21 South*

RANGE *23 East*

NMPM

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Description: All Sec. 22 & 23 (R-2440, 2-28-63)

Ext: All Sec. 10, 14 & 15 (R-2569, 10-1-63) - All Sec. 26 (R-2679, 4-1-64)

- All Sections 16, 17, 19, 20, 21, 24, 25, 35 & 36 (R-2726, 7-1-64)

- All Secs. 9, 11, 27, 28, 33 & 34 (R-2911, 6-1-65) - All Sec. 3 (R-2946, 9-1-65)

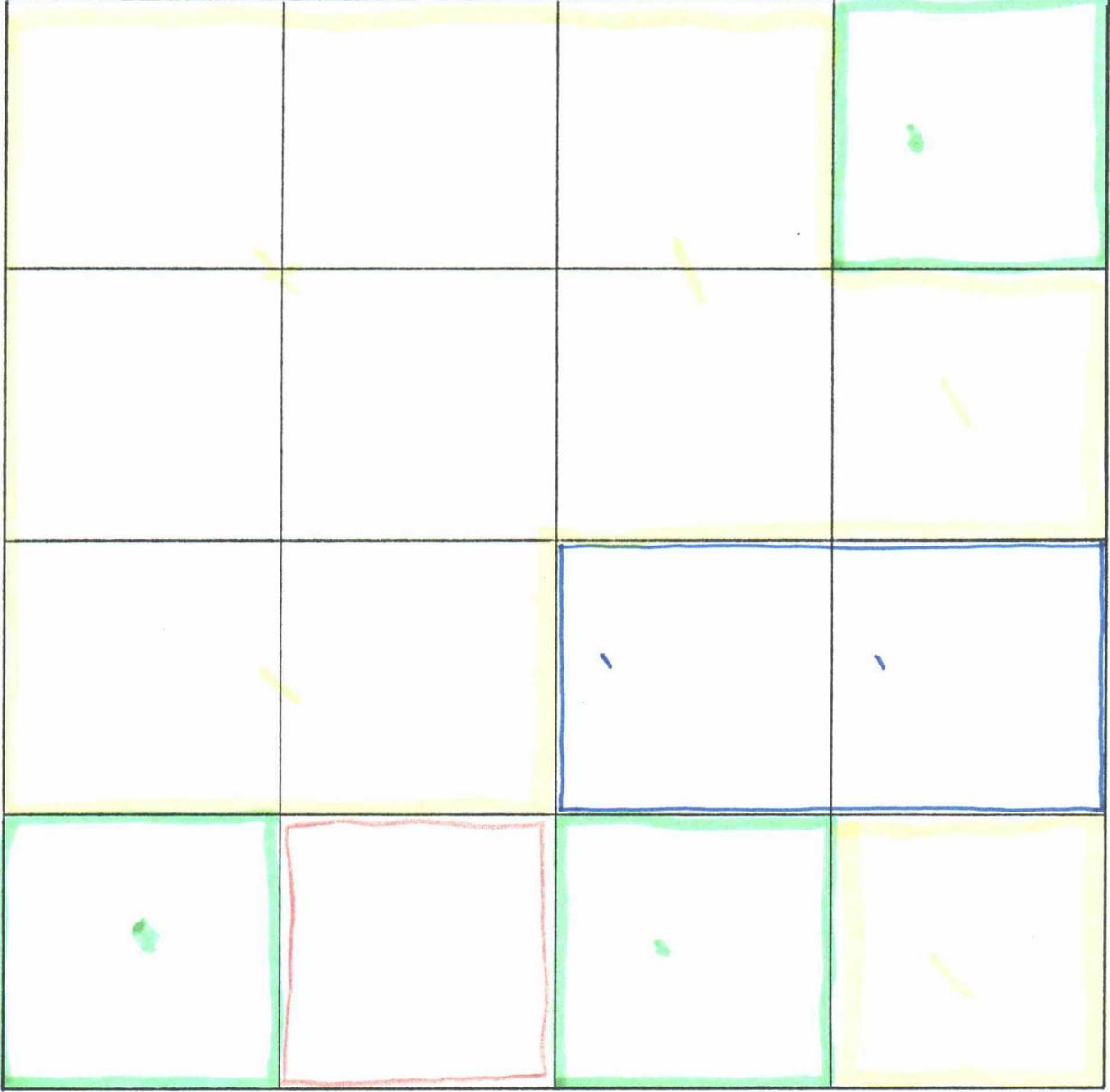
- All Sec. 18 (R-3030, 2-1-66) - All Sec. 29 & 32 (R-3056, 5-1-66) - All Sec. 4 (R-3342, 12-1-67)

Ext: All Sec 30 (R-6657, 4-20-81)

Below 7000'

1 - ~~Johnson Nat. Corp.~~ - 250 ac
Joe A. Warren - 00457348
Emmi Warren - 00457348

4 - Eugene H. Staebung
- 060 9773



SECTION 8 TOWNSHIP _____ RANGE _____

1 2 3 4

9570: Application of Nearburg Producing Company for compulsory pooling and an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Strawn formation underlying the E/2 SE/4 of Section 1, Township 17 South, Range 37 East, Undesignated Shipp-Strawn Pool or Undesignated South Humble City-Strawn Pool, to form a standard 80-acre oil spacing and proration unit for either pool, to be dedicated to a well to be drilled at an unorthodox oil well location 2310 feet from the South line and 600 feet from the East line (Unit I) of said Section 1. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 4.5 miles north by east of Humble City, New Mexico. MS

9553:

~~(Proposed and Rejected)~~ ~~(This case will be continued to January 18, 1989.)~~
Application of Benson-Montin-Greer Drilling Corp. for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval to commingle production from the Basin-Dakota Pool and West Puerto Chiquito-Mancos Oil Pool within the wellbore of its Canada Ojitos Unit Well No. 22 located 1685 feet from the North line and 1860 feet from the West line (Unit F) of Section 20, Township 26 North, Range 1 West. Said well is located approximately 20 miles north of Regina, New Mexico.
either 1700 feet from the North line and 1790 feet from the West line

9525:

(Continued from December 7, 1988, Examiner Hearing.) (This case will be continued to January 18, 1989.)
Application of Benson-Montin-Greer Drilling Corporation for the amendment of Division Order No. R-6469, as amended, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an amendment to Division Order No. R-6469, as amended, to rescind approval for those non-standard proration units approved therein located in Township 24 North, Range 1 West and Township 26 North, Range 1 West. The center of said area is located approximately 13 miles southwest of Regina, New Mexico.

9571:

Application of Meridian Oil Inc. for an unorthodox coal gas well location and simultaneous dedication, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox coal gas well location 2560 feet from the North line and 2610 feet from the West line (Unit F) of Section 15, Township 30 North, Range 7 West, Basin-Fruitland Coal (Gas) Pool, the W/2 of said Section 15 to be dedicated to said well forming a standard 320-acre gas spacing and proration unit for said pool, to be simultaneously dedicated to said well and to the applicant's San Juan 30-6 Unit Wells Nos. 406 and 402. Said Well No. 402 is located at a standard coal gas well location 1455 feet from the South and West lines (Unit K) of said Section 15 and Well No. 406 is located at a previously authorized unorthodox coal gas well location (pursuant to Decretory Paragraph No. 4 of Division Order No. R-8768) 2105 feet from the North line and 2390 feet from the West line (Unit F) of said Section 15. Said location unit is approximately 2.75 miles east by north of the Navajo Reservoir Dam.

9572:

Application of Dugan Production Corporation for a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 164.87-acre non-standard gas spacing and proration unit for production from the Basin-Fruitland Coal (Gas) Pool comprising lots 1

Notes to Case No. 9619 prepared by D. Catanach on April 7, 1989.

After Santa Fe Exploration Company filed the title abstract subsequent to the hearing, it seemed from the document that they had failed to negotiate and provide notice of the pooling case to the Warren interest and the Nearburg interest. After conferring with Ernie Padilla, their attorney on April 6, 1989, he advised that as best as he could determine, these interests had been obtained by Sun Exploration & Production, a party whom Santa Fe was pooling and who had been provided sufficient notice of the hearing.

Concerning the proposed 60 percent penalty on the subject well, Marathon had proposed that the well be assigned 40 percent of the well's CAOF based on an annual test, or 40 percent of the normal allowable it would be assigned, being in two prorated gas pools, whichever was less. I talked with Vic Lyon concerning the proposal and he advised that the either/or method proposed by Marathon would be very difficult to administer and that he would not recommend calculating the penalty by this method. He advised that it would serve the purpose to just assign the well an acreage factor of .40 in the two subject prorated gas pools. At his recommendation, this is the method that is written in the order.

~~DC~~
4/7/89

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 9619

Order No. R-8913

DIC 4/7/89
LS 4/20/89
WTH 4/10
WTH 4/10

APPLICATION OF SANTA FE EXPLORATION
COMPANY FOR AN UNORTHODOX GAS WELL
LOCATION, DUAL COMPLETION, AND
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 29, 1989, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this _____ day of April, 1989, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Santa Fe Exploration Company, seeks an order pooling all mineral interests in the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool, underlying all of Section 8, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, forming a standard 640-acre gas spacing and proration unit for both pools.

(3) Production from both zones is to be from a dually completed well to be located at a proposed unorthodox gas well location 660 feet from the South and East lines (Unit P) of said Section 8.

(4) The applicant has the right to drill and proposes to drill a well at the unorthodox gas well location described above.

(5) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

(6) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, 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 production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(7) The applicant should be designated the operator of the subject well and unit.

(8) The evidence presented at the hearing and information obtained from Division records indicates that there have been two wells previously drilled in said Section 8, these being the Robert N. Enfield Indian Basin Well No. 3 located at a standard location 1650 feet from the South and East lines (Unit J), which was drilled in 1966, tested in the Upper Pennsylvanian, and was apparently deemed non-commercial and subsequently plugged and abandoned, and the Odessa Natural Gasoline Company Standard Federal "A" Well No. 1 located at an unorthodox gas well location 660 feet from the South and West lines (Unit M), which was drilled in 1962, tested in the Upper Pennsylvanian, and was also subsequently plugged and abandoned.

(9) Geologic evidence and testimony presented at the hearing indicates that a well at the proposed unorthodox location will better enable the applicant to produce the gas underlying the proposed proration unit.

(10) Marathon Oil Company (Marathon), the operator of the North Indian Basin Unit Area which encompasses acreage immediately to the East of said Section 8, entered an appearance at the hearing in this case.

(11) Evidence presented at the hearing indicates that the applicant has voluntarily reached an agreement with Marathon Oil Company as to a production penalty to be assessed against the subject well due to its proposed unorthodox location.

(12) The proposed 60 percent production penalty is based upon the proposed well location's east-west variance from a standard well location or 990/1650.

(13) The agreement, presented as applicant's Exhibit No. (6), stipulates that said 60 percent penalty is to be applied against any producing well rate, and to this end, Marathon has proposed that the well's daily production be limited to 40 percent of the CAOF established by test as required by Rule 401 of the Division Rules and Regulations or 40 percent of its prorated allowable, whichever is less.

(14) Both the Indian Basin-Upper Pennsylvanian Gas Pool and the Indian Basin-Morrow Gas Pools are prorated gas pools governed by the Rules and Regulations for the Prorated Gas Pools in New Mexico as promulgated by Division Order No. R-8170.

(15) The method of determining the well's gas allowable should be accomplished by assigning the subject well an acreage factor of 0.40 in the subject pools inasmuch as the alternate method proposed by Marathon does not blend itself well into the current gas proration system and would be very difficult to administer.

(16) No other offset operator objected to the proposed unorthodox gas well location.

(17) Approval of the proposed unorthodox location and dual completion will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject pools, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights, provided that the subject well's gas allowable in the subject pools be penalized as described in Finding No. (15) above.

(18) 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.

(19) 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.

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

(21) 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.

(22) \$5000.00 per month while drilling and \$500.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); 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.

(23) 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.

(24) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before July 15, 1989, the order pooling said unit should become null and void and of no effect whatsoever.

(25) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, the forced pooling provisions of the order shall thereafter be of no further effect.

(26) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool underlying all of Section 8, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 640-acre gas spacing and proration unit for said pools, to be dedicated to a well to be drilled at an unorthodox gas well location, also hereby approved, 660 feet from the South and East lines (Unit P) of said Section 8.

(2) The applicant is further authorized to dually complete the subject well in the Undesignated Indian Basin Upper-Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of July, 1989, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Upper Pennsylvanian and Morrow formations.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of July, 1989, Ordering Paragraph No. (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 Ordering Paragraph No. (1) of this order should not be rescinded.

(3) Santa Fe Exploration Company is hereby designated the operator of the subject well and unit.

(4) 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.

(5) 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 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.

(6) 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; 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, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well 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 rate share of the amount that estimated well costs exceed reasonable well costs.

(8) 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, *and*
- (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.

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

(10) \$5000.00 per month while drilling and \$500.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); 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.

(11) Any unleased 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.

(12) 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.

(13) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to

the true owner thereof upon demand and proof of ownership; 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.

(14) Should all parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, the forced pooling provisions of this order shall thereafter be of no further effect.

(15) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(16) For purposes of assigning gas allowables, the subject well shall be assigned an acreage factor of 0.40 in the Undesignated Indian Basin-Upper*Pennsylvanian Gas Pool and the Undesignated Indian Basin-Morrow Gas Pool.

(17) 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

WILLIAM J. LEMAY
Director

S E A L

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

RECEIVED
JUL 17 1989
OIL CONSERVATION DIVISION
12-5
RS 7/24/89
WT #125

IN THE MATTER OF THE APPLICATION
OF SANTA FE EXPLORATION COMPANY
FOR AN UNORTHODOX WELL LOCATION,
DUAL COMPLETION, AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO

CASE NO. 9619 DeNovo
ORDER NO. R-8913-A

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on ~~June~~ ^{July} 20, 1989, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this _____ day of July, 1989, the Commission, a quorum being present, having considered the matter and being fully advised in the premises:

FINDS THAT:

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

2. ~~That~~ Pursuant to ^{Division} Order ^{No.} R-8913, the applicant, Santa Fe Exploration Company, commenced the drilling of the subject well at an unorthodox location 660 feet ~~665~~ ⁶⁶⁰ ~~and 660~~ ^{from the South and} ~~feet~~ ^{East lines} of Section 8, T21S, R23E, NMPM, Eddy County, New Mexico.

3. ~~That~~ The applicant has completed the drilling of the subject well, has been unsuccessful in establishing commercial production and has plugged and abandoned the well.

4. ~~That~~ ^{No.} Order ^{No.} R-8913 should be vacated and Case No. 9619 dismissed.

CASE NO. 9619 DeNovo
ORDER NO. R-8913-A

IT IS THEREFORE ORDERED THAT:

^{Division No.}
is hereby ¹ Order R-8913 is hereby vacated and Case No. 9619
dismissed.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

MR. WILLIAM J. LEMAY
DIRECTOR

S E A L

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 29 March 1989

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Santa Fe Exploration Company for an unorthodox gas well location, dual completion and compulsory pooling, Eddy County, New Mexico. CASE 9619

10
11
12 BEFORE: David R. Catanach, Examiner

13
14
15 TRANSCRIPT OF HEARING

16
17
18 A P P E A R A N C E S

19 For the Division:

20 For Santa Fe Exploration Company:

Ernest L. Padilla
Attorney at Law
PADILLA & SNYDER
P. O. Box 2523
Santa Fe, New Mexico 87504

21
22 For Marathon Oil Company:

W. Thomas Kellahin
Attorney at Law
KELLAHIN, KELLAHIN & AUBREY
P. O. Box 2265
Santa Fe, New Mexico 87504

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I N D E X

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JACK AHLEN

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1 MR. CATANACH: Case Number
2 9619, application of Santa Fe Exploration Company for an
3 unorthodox gas well location, dual completion and compul-
4 sory pooling, Eddy County, New Mexico.

5 Are there appearances in this
6 case?

7 MR. PADILLA: Mr. Examiner,
8 Ernest L. Padilla, Santa Fe, New Mexico, for Santa Fe
9 Exploration Company.

10 MR. CATANACH: Any other ap-
11 pearances?

12 MR. KELLAHIN: Mr. Examiner,
13 I'm Tom Kellahin of the Santa Fe law firm of Kellahin,
14 Kellahin & Aubrey.

15 I'm appearing today on behalf
16 of Marathon Oil Company.

17 MR. CATANACH: Any other ap-
18 pearances?

19 How many witnesses do you
20 have?

21 MR. PADILLA: I have three
22 witnesses, Mr. Examiner.

23 MR. CATANACH: Can I get the
24 witnesses to please stand and be sworn at this time?
25

1 (Witnesses sworn.)

2
3 MR. PADILLA: Mr. Ahlen, will
4 you take the stand, please.

5
6 JACK AHLEN,
7 being called as a witness and being duly sworn upon his
8 oath, testified as follows, to-wit:

9
10 DIRECT EXAMINATION

11 BY MR. PADILLA:

12 Q Mr. Ahlen, for the record, please state
13 your full name and what you do for a living.

14 A My name is Jack Ahlen. I'm a consulting
15 geologist in Roswell.

16 Q Mr. Ahlen, have you previously testified
17 before the Oil Conservation Division and had your creden-
18 tials accepted as a matter of record as a petroleum geolo-
19 gist?

20 A Yes, sir.

21 Q Have you made a study of the application
22 and the formations and conditions involving the applica-
23 tion?

24 A Yes, I have.

25 MR. PADILLA: Mr. Examiner, we

1 tender Mr. Ahlen as a petroleum geologist.

2 MR. CATANACH: He is so qual-
3 ified.

4 Q Mr. Ahlen, can you briefly tell the
5 Examiner what this hearing is about insofar as the unortho-
6 dox location is concerned?

7 A Santa Fe Exploration seeks an unortho-
8 dox location, a dual completion and forced pooling for a
9 well that they intend to drill in the southeast quarter of
10 the southeast quarter of Section 8, Township 21 South,
11 Range 23 East, Eddy County, New Mexico.

12 Q Mr. Ahlen, let's -- have you prepared
13 for this hearing certain exhibits for introduction at this
14 hearing?

15 A Yes, sir, I have.

16 Q And can you tell us -- well, let's go on
17 to Exhibit Number One and have you identify what that is
18 and what it contains.

19 A Yes, sir, let me unfold my copy, and I
20 think the Examiner has a copy as well. I apologize for the
21 size.

22 Q Mr. Ahlen, what is Exhibit Number One.

23 A First, let me explain that which appears
24 in the legend in the lower righthand corner of the montage.

25 This exhibit was prepared in 1984, in

1 October of '84, by Mr. J. W. Peterson. I have utilized his
2 exhibit in this hearing because I have found it to be -- to
3 be an exhibit which shows the same things that I would have
4 interpreted if I had done the work myself, but I have made
5 certain additions to it.

6 Q Did you make -- did you make an indepen-
7 dent study of the conditions, geologic conditions, as shown
8 on Exhibit Number One?

9 A Yes, I have.

10 Q And did -- does Exhibit Number One show
11 a fair and accurate representation of what your independent
12 study would have concluded?

13 A Yes, it does.

14 Q Can you -- now, was Mr. Peterson an em-
15 ployee of Santa Fe Exploration in 1984?

16 A Yes, he was doing a considerable amount
17 of consulting work for Santa Fe Exploration. Mr. Peterson
18 is currently employed by Hondo Oil & Gas Company and he
19 could not appear today to present his evidence because that
20 might have been a conflict of interest.

21 Q Mr. Ahlen, can you now tell us what
22 changes you have made to the exhibit?

23 A If you will note in the extreme south,
24 lower left corner of the map, there is a structure map on
25 the top of the Pennsylvanian Reef. You'll note that there

1 are five red dots on the map which represent wells that
2 have been drilled since the time that Mr. Peterson did the
3 work.

4 I have checked the geology of those five
5 wells and find that it conforms very well with the data
6 that Mr. Peterson performed five years ago. The structure
7 contours are no different by more than a quarter of an inch
8 on the particular scale of this map, so I felt as though
9 that this was a good job.

10 The five maps -- or the five new wells
11 that are -- have been spotted on there are the location for
12 our unorthodox location in the southeast of Section 8.

13 Q And what is that location, Mr. -- in
14 footage?

15 A 660 from the south and east lines of
16 Section 8 in 21 South, 23 East.

17 Q Mr. Ahlen, let's go to the cross section
18 portion of the exhibit and have you tell us or explain to
19 the Examiner the geology insofar as the cross sections
20 show.

21 A There are essentially two cross sections
22 in the upper half of the map. One is essentially an east/
23 west cross section; the other is a north/south cross sec-
24 tion.

25 Q Are the --

1 A Two of the wells are repeated on both of
2 the cross sections, the extreme -- Well No. 2 and Well No.
3 3 are wells that are in Section 8 and Section 9 of 21, 23.
4 They're repeated on both of the cross sections.

5 The B-B' cross section in the middle is
6 essentially the north/south section.

7 Q Is there a line of cross section shown
8 on Exhibit One?

9 A Yes, it's in the third panel from the
10 left is the line of the cross section, you can see it.

11 Q Okay.

12 A A-A' and B-B' sections.

13 Q Okay, let's go on now to A-A' and have
14 you explain that to the Examiner, please.

15 A A-A' shows two wells in Section 8 in the
16 southern half of the section and one well in Section 9. Two
17 wells were drilled in the early 1960's. The well on the
18 extreme left is the Odessa Natural Gas Company Standard
19 Federal A No. 1. It was drilled in 1962. In 1964 Robert
20 Enfield drilled his No. 3 West Indian Basin, and then in
21 1965 Marathon drilled the North Indian Basin Unit No. 5.

22 The two wells on the left side of that
23 cross section are dry holes in the Upper Pennsylvanian
24 zone; however, they did drill stem test gas while they were
25 drilling.

1 You will note that the Odessa Natural
2 Gasoline Company well was drill stem tested from a depth of
3 7,205 feet to 7417 feet. The test was open for two hours,
4 recovered gas to the surface in an hour and 25 minutes, and
5 they recovered 206 feet of very slightly gas cut mud above
6 the tool. The initial shut-in pressure failed; however,
7 the final shut-in pressure showed 890 pounds. That is a
8 subnormal pressure suggesting that the immediate vicinity
9 of the borehole is tight and that probably a commercial
10 well might not be obtained.

11 Subsequent testing through running pipe,
12 perforating, acidizing, failed to develop a commercial
13 well.

14 Q Mr. Ahlen. what kind of flow rates were
15 encountered in this well shown on the cross section A-A'?

16 A The flow rate in the Odessa well was too
17 small to measure.

18 Q The second well that was drilled by Mr.
19 Enfield in 1964 was also drill stem tested in that same
20 stratigraphic interval recovering gas to the surface in 13
21 minutes and they measured a volume of 27,000 cubic feet of
22 gas a day.

23 Subsequent setting of pipe, perforating,
24 acidizing and fracing, the well flowed at a maximum rate of
25 1.25-million cubic feet of gas a day. The operator at that

1 time decided that that was a noncommercial well because of
2 conditions in the immediate vicinity of the borehole and
3 subsequently plugged the well.

4 The Marathon well in Section -- in Sec-
5 tion 9, Marathon North Indian Basin Unit No. 5, drill stem
6 tested 9.3-million cubic feet of gas on drill stem test.
7 It perforated most of the reef section and they obtained a
8 well that IP'd for a calculated absolute open flow poten-
9 tial of 88-million cubic feet of gas a day and it is cur-
10 rently a producing well in the Indian Basin Field. That
11 particular well has produced cumulative production in ex-
12 cess of 25-million -- billion cubic feet of gas.

13 Q Mr. Ahlen, does your testimony indicate
14 that the reservoir exists in these wells that are drilled
15 in -- as shown on cross section A-A'?

16 A It is my opinion that the reservoir is
17 present in both the Odessa Natural Gas Well, as well as Mr.
18 Enfield's well.

19 Q How about permeability, what did these
20 wells show as far as permeability is concerned?

21 A They show that the permeability in the
22 vicinity of the wellbore is very poor and it is poorly con-
23 nected to the primary reservoir.

24 Q Are you going to discuss the type of --
25 the reason why it's tight or why some of these wells are

1 productive and some are not?

2 A Yes, sir.

3 Q Go ahead, please, and tell the Examiner
4 that.

5 A Okay. The second map on the bottom half
6 of the map shows the -- an isopach of the dolomite facies
7 of the reef. This map, individual beds were counted and
8 the thickness of the dolomite present in the wellbore was
9 added together and this was a dolomite isopach map of the
10 Indian Basin Upper Pennsylvanian.

11 The dolomite is a special type of rock
12 that has good porosity. It's an extremely brittle rock.
13 It fractures quite readily and the normal movement of the
14 earth has fractured the reservoir in the dolomite facies
15 significantly.

16 The No. 1 and the No. 2 Wells on the
17 cross section, the Odessa well, as well as the Enfield
18 well, were in the limestone facies of the Upper Pennsyl-
19 vanian Reef; had not yet been dolomitized by migrating
20 fluids through the reservoir, so they were not in a situa-
21 tion where there would be abundant fracturing in the well-
22 bore.

23 There is some fracturing as indicated,
24 and some natural porosity as indicated by the drill stem
25 tests and by the presence of the gas in the reservoir and

1 from those drill stem tests.

2 You'll note that there are other wells
3 that have produced from the limestone facies and have been
4 quite commercial. For instance, in Section 18 Enfield
5 drilled his No. 1 Monel (sic) Well. That particular well
6 has produced in excess of 4.1-billion cubic feet of gas.
7 That well has been plugged since Mr. Peterson did this map
8 and a second well was drilled closer -- to the east, closer
9 to the section line, at an unorthodox location 330 feet
10 from the east line of said Section 18. That particular
11 well is currently producing and has produced in excess of
12 1.6-billion cubic feet -- excuse me, 1.3-billion cubic feet
13 of gas.

14 Q Mr. Ahlen, would you explain now the
15 B-B' cross section that you have?

16 A Okay, the only different well in cross
17 section B-B' is the well that's located in Section 17,
18 which is Mr. Enfield's English No. 1 "FD". That well is in
19 the dolomite facies of the reef and is a significant pro-
20 ducer out of the Upper -- Upper Pennsylvanian Reef facies.

21 That particular well lost circulation
22 while it was drilling and blew out. That zone has been
23 perforated and that particular well is one of the excep-
24 tional producers in the field; also it has produced in ex-
25 cess of 28-billion cubic feet of gas out of that well.

1 Q Mr. Ahlen, looking at your structure
2 map, or your isopach, you've shown the zero line -- well,
3 let me ask the question this way. Is the zero line the
4 line that generally separates the dolomite from the lime-
5 stone?

6 A Okay, that zero line separates the dol-
7 omite facies from the limestone facies but it is not ne-
8 cessarily the edge of the reservoir. The edge of the re-
9 servoir is that place that in my opinion is the outer
10 limits of gas occurrence within the reservoir rock or with-
11 in the --

12 Q Where, in your opinion, is the edge of
13 the reservoir?

14 A I have drawn that location in red, heavy
15 red, on the isopach map that the commissioner has, as well
16 as that map is on the wall.

17 Q Insofar as the proposed location is con-
18 cerned, how does that red line affect the proposed loca-
19 tion?

20 A The proposed location is well within the
21 reservoir and perhaps 60 to 70 percent of Section 8 is
22 covered by the reservoir itself.

23 Q Is the proposed well location necessary
24 to be placed at that location in order to recover the just
25 and equitable share of hydrocarbons underlying Section 8?

1 A Yes, I think so, primarily demonstrated
2 by the fact that the two wells that have already been
3 drilled in Section 8 had permeability problems in the im-
4 mediate vicinity of the wellbore. In this Pennsylvanian
5 Reef permeability and porosity is extremely erratic and
6 just because a well has gone through the reservoir and not
7 secured production does not mean that there is not produc-
8 tion under the rest of that section, or the majority part
9 of that section.

10 Q Mr. Ahlen, you're aware that Santa Fe
11 Energy and Marathon have entered into an agreement for a 60
12 percent penalty factor. Do you -- can you discuss that for
13 the Examiner, please?

14 A I understand Santa FE has entered into
15 an agreement with Marathon Oil & Gas, and that's not neces-
16 sarily my personal opinion. In my opinion I did not think
17 such an agreement was necessary, but that's beyond my area
18 of influence with Santa Fe.

19 Q Okay. It's your understanding that
20 Santa Fe will abide by the agreement.

21 A That is my understanding.

22 Q Okay. Mr. Ahlen, do you have anything
23 further concerning Exhibit Number One?

24 A I might note that the -- in the extreme
25 southeast corner of this display, or the montage, the lower

1 righthand corner is a production map and that is the pro-
2 duction, cumulative production, as of October, '84. Since
3 that time most of the wells on the montage have produced
4 significantly more gas, and the average amount in the good
5 wells is from 4-to-5-billion cubic feet of gas per well.

6 Q Mr. Ahlen, does Exhibit Number One show
7 anything concerning the Morrow formation?

8 A It shows nothing other than in the upper
9 righthand corner there's a display of -- of the -- of an
10 electric log and a sample log relating to the Morrow forma-
11 tion and it's showing that the Morrow is present in the
12 area; that sands are randomly developed within that Morrow
13 section and they could be present in commercial quantities.

14 The Morrow test at this particular loca-
15 tion is actually a wildcat well to the Morrow formation.
16 There are no Morrow wells that have produced within a mile
17 of that particular location. The closest producing Morrow
18 well is a mile and a quarter away.

19 Q Essentially you don't have any well
20 control to be able to present anything concerning the
21 Morrow formation, is that correct?

22 A That is correct.

23 MR. PADILLA: Mr. Examiner,
24 I'll pass the witness for cross examination.

25

CROSS EXAMINATION

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BY MR. CATANACH:

Q Mr. Ahlen, the target zone is going to be the Upper Penn --

A Yes, sir.

Q -- basically, and you said that the wells completed in the dolomitic section are basically more prolific.

A Yes, sir.

Q Because of the fractures.

A Yes, sir.

Q The well in Section 8, drilled by Enfield, was that -- was that a noncommercial well?

A The testing after casing was set suggested that there -- they had penetrated a relatively impermeable section in the immediate vicinity of the borehole. There was stored hydrocarbon, perhaps, for 20 to 50 feet around the borehole and then permeability (unclear). Actually, on the 4-point test, no, they conducted a 6-point test, and with increasing size of the choke in the latter part of that test, the actual volume diminished, suggesting that they were in a supercharged part of the reservoir in the immediate vicinity of the wellbore.

Q So what you're saying is you don't think that the well was capable of sustaining any production.

1 A Correct.

2 Q Or sustaining that high a production.

3 A Correct, it was not capable of sustain-

4 ing the maximum high volume rate that was measured during

5 that potential test of 1.25-million.

6 Q Mr. Ahlen, you don't have a copy of that

7 6-point test, by chance, do you?

8 A I do not.

9 Q Do you know if that's on file here with

10 the Division?

11 A I'm sure it is.

12 Q Mr. Ahlen, why, in your opinion, could-

13 n't the well be moved further north than west?

14 A I'm sure it could be physically moved

15 north and west; however, at the 650 -- 1650/1650 location

16 that Mr. Enfield drilled they did have communication prob-

17 lems of the vertical order. We would like to move in the

18 direction of the reef floor for a higher probability of

19 being within some portion of the dolomite facies, if at all

20 possible, and we think that part of the dolomite facies

21 will be present in the wellbore at this location.

22 Q How much --

23 A It's important that we get into the

24 reservoir itself. I think it has been pretty well esta-

25 blished that the primary drive in this reservoir is a water

1 drive and water is encroaching from the east. Our location
2 is quite far west and it will be a long time before water
3 encroaches that far and it will produce revenue for the
4 State of New Mexico as well as Santa Fe Energy through a
5 long period of time, longer than some of -- most of the
6 wells to the east.

7 Q How much do you think is necessary, how
8 much dolomitic section do you think is necessary to get a
9 good commercial well?

10 A It's not necessary at all, and it's de-
11 monstrated by -- by the wells that Mr. Enfield has drilled
12 in -- in Section 18.

13 Q And you're saying it's not necessary but
14 you're moving closer in order to be in it.

15 A In the oil and gas business it's ex-
16 tremely risky to get into the reservoir once you've identi-
17 fied one and to reduce the odds of failure and conserve re-
18 sources, we would like to drill a well at the most oppor-
19 tune location that would afford us that opportunity to get
20 into the reservoir.

21 MR. CATANACH: That's all I
22 have of the witness at this time.

23 MR. PADILLA: Mr. Examiner, I
24 have a couple more questions.

25

REDIRECT EXAMINATION

1
2 BY MR. PADILLA:

3 Q Mr. Ahlen, has -- in your opinion has
4 drainage occurred from the wells to the east of -- in the
5 past, or have the wells to the east drained portions of
6 Section 8, in your opinion?

7 A Absolutely. We expect that the bottom
8 hole pressure will be diminished significantly when we en-
9 counter our reservoir in this well, and that is a loss of
10 revenue as well as reserves.

11 Q Is it your opinion that the well needs
12 to be drilled at the proposed location in order to protect
13 Santa Fe Exploration's correlative rights?

14 A Yes, sir.

15 Q Would drilling of the location at the
16 proposed location -- or drilling of the well at the pro-
17 posed location prevent economic waste?

18 A Yes, sir.

19 Q How would that happen?

20 A Well, the point is we would drill the
21 location at the -- we would drill a well at a location that
22 has the highest probability of success. We also intend to
23 drill to the Morrow formation, which would be a wildcat in
24 this particular area, to see if there are additional re-
25 serves that might be recovered in this particular area, and

1 we would already have 9/10ths of the hole drilled in order
2 to proceed on to the Morrow formation.

3 Q Mr. Ahlen, in connection with the com-
4 pulsory pooling portion of this case, do you have an opin-
5 ion as to what the risk factor penalty should be for the
6 proposed order?

7 A Yes, sir, this is a highly risky oper-
8 ation. I would say (unclear) a 200 percent penalty.

9 Q That's the maximum penalty, is that
10 right, sir?

11 Mr. Ahlen, I neglected to have you
12 identify Exhibits Number Two and Number Two-A and I'd like
13 to have you identify those.

14 MR. PADILLA: Mr. Examiner, I
15 would like to explain that Exhibit Two is an exhibit that
16 was used in the Bill Fenn case in Case 9618 and we would
17 request that the Division take administrative notice of
18 that exhibit.

19 I would simply seek to ask
20 some questions from Mr. Ahlen concerning that exhibit.

21 MR. CATANACH: Administrative
22 notice will be taken, Mr. Padilla.

23 Q Mr. Ahlen, what is Exhibit Number Two?

24 A Exhibit Number Two is an exhibit from a
25 previous hearing, Number 9618 for Mr. Bill Fenn for an un-

1 orthodox location, Section 14 of 21 South, 23 East. It was
2 used to illustrate the fact that unorthodox locations are
3 not unusual in the Indian Basin Pool. It points out the
4 location of all of those unorthodox locations that are
5 present in that pool.

6 Q What is Exhibit -- what is Exhibit
7 Two-A?

8 A The Exhibit Two-A is a copy of the Mid-
9 land Map Company land map in the vicinity of Section 8,
10 Township 21 South. Range 23 East, showing the owners of in-
11 terest within that particular area.

12 Q It's just a clearer version of Exhibit
13 Two, is that correct?

14 A Yes, sir, it is (unclear).

15 MR. PADILLA: That's all I
16 have, Mr. Examiner.

17
18 RE CROSS EXAMINATION

19 BY MR. AHLEN:

20 Q Mr. Ahlen, how much of Section 8 do you
21 think is productive from the Upper Penn?

22 A I think the reservoir extends probably 8
23 -- 60, 60 percent, approximately, 60 percent of Section 8
24 is within the Upper Penn reservoir.

25 Q Do you feel that that 60 percent will

1 contribute to the production in your well?

2 A Yes, sir. I do.

3 Q That's all I have. You may be excused.

4 MR. PADILLA; Mr. Examiner, we
5 offer Exhibits One, Two, Three.

6 MR. CATANACH: Exhibits One
7 through Three will be admitted as evidence.

8 THE REPORTER: What was Three,
9 please?

10 MR. PADILLA: Oh, I'm sorry,
11 Two-A.

12 MR. CATANACH: Exhibits One,
13 Two and Two-A will be admitted as evidence.

14 MR. PADILLA: We'll next
15 call Mr. McAlpine, Mr. Examiner.

16

17 WILLIAM A. McALPINE, JR.,

18

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

21

22

DIRECT EXAMINATION

23 BY MR. PADILLA:

24 Q Mr. McAlpine, would you please state
25 your full name?

1 A William A. McAlpine, Junior.

2 Q Have you testified before the -- well,
3 in what capacity have you testified before the Oil Conser-
4 vation Division?

5 A As the president of Santa Fe Exploration
6 Company.

7 Q Mr. McAlpine, are you familiar with the
8 application before the Division today?

9 A I am.

10 MR. PADILLA: Mr. Examiner, we
11 tender Mr. McAlpine as a witness having previously been
12 qualified as President of Santa Fe Exploration Company.

13 MR. CATANACH: He is so qual-
14 ified.

15 Q Mr. Examiner -- or Mr. McAlpine, let me
16 hand you what we have marked as Exhibit Number Three and
17 have you tell the Examiner what that is.

18 A It's an application that has been filed
19 by Mr. Padilla on behalf of Santa Fe Exploration Company
20 for a dual completion and an unorthodox location, and com-
21 pulsory pooling at a location 660 feet from the south line
22 and 660 feet from the east line in Section 8 of Township 21
23 South, Range 23 East.

24 Q Mr. McAlpine, I'd like for you to turn
25 to about the fifth -- well, the fourth page of this exhibit

1 and tell the Examiner what that is.

2 A This particular page is a copy of a
3 certified mail return receipt requested letter sent to all
4 offset operators and nonconsenting working interest owners
5 by Mr. Padilla that would affect this location.

6 Q Okay, turn now to the next page and tell
7 us what's on the next page.

8 A There's a list of people that received
9 the letter on the preceding page.

10 Q Okay, can you tell us, sir, who are the
11 offsetting operators and who are the nonconsenting working
12 interest owners as shown on that exhibit?

13 A Marathon Oil Company and Sun Operating
14 Company are offset operators that have the existing pro-
15 ducing wells in both the Upper Penn and the Morrow.

16 OXY USA, Tom Ingram, Armstrong Energy,
17 Sun Operating, BHP Petroleum, and J. Hiram Moore Trust, are
18 -- all have interest, and El Paso Exploration, all have in-
19 terests in Section 8.

20 Q Who has consented to participate in the
21 drilling of this well?

22 A Armstrong Energy Corporation has with
23 Santa Fe Exploration.

24 Q So who are the folks on this list who
25 are going to get force pooled as a result of this hearing?

1 A Well, OXY and Tom Ingram and Sun, El
2 Paso Exploration, BHP and J. Hiram Moore Trust have not
3 responded.

4 Q What follows in this exhibit, can you
5 tell us?

6 A They're receipts that your office re-
7 ceived having mailed the preceding letter.

8 Q Okay. Let's go on now to what we have
9 marked as Exhibit Number Four and have you identify that
10 for the Examiner.

11 A This exhibit is an AFE that was prepared
12 by Santa Fe Exploration Company and forwarded to the owners
13 in Section 8 for the drilling of a Morrow test well at the
14 before discussed location.

15 Q Mr. McAlpine, does this -- do the total
16 amounts shown on that exhibit represent a reasonable amount
17 for drilling the wells in that area, or in the Indian Basin
18 Pool?

19 A We believe that it does, yes, sir.

20 Q What's on the second page of this exhi-
21 bit, Mr. McAlpine?

22 A It's a letter that went out from our
23 office from me to the individuals or companies that are
24 previously being mentioned as having an interest in Section
25 8, requesting, and this is dated February the 7th, request-

1 ing that they join with us in the drilling of this well or
2 farm out to us their interest in -- in the section.

3 Q This letter shows that it was sent to J.
4 Hiram Moore Trust. Was that letter sent to all working
5 interest owners in Section 8?

6 A Yes, sir, exactly the same letter.

7 Q And did you send these letters by Feder-
8 al Express?

9 A We -- we did, and there's -- attached
10 hereto is a copy of those receipts from Federal Express.

11 Q What progress did you make other than
12 with Armstrong Energy to obtain participation in the
13 drilling of this well?

14 A None to date.

15 Q No one has agreed to farmout or --

16 A Or join.

17 Q -- to join. What's Exhibit Number Five,
18 Mr. McAlpine?

19 A Exhibit Number Five is a letter to you,
20 Mr. Padilla, regarding this proposed well, indicating --
21 from Armstrong Energy Corporation, indicating their desire
22 to participate in the drilling of the well.

23 Q Mr. McAlpine, does Santa Fe Exploration
24 Company desire to be named operator in any compulsory
25 pooling order that is issued by the Division?

1 A It does.

2 Q And can you tell us or can you recom-
3 mend to the Examiner what overhead charges you would
4 propose to charge for a producing well and a drilling well
5 rate?

6 A We would propose a rate of \$5000 per
7 month while drilling and \$500 per month while producing.

8 Q Is this a reasonable amount for wells
9 being drilled to this formation or formations in the Indian
10 Basin Pool?

11 A We believe it's currently a reasonable
12 request, particularly in light of the dual completion pros-
13 pects of the well.

14 Q Let me hand you what we have marked as
15 Exhibit Number Six and have you identify that, please.

16 A Exhibit Six is a letter from Marathon
17 Oil Company to you, Mr. Padilla, outlining Marathon's in-
18 terest in reaching an agreement as far as a penalty is
19 concerned, since they are the offset operator here, and
20 basically what they have proposed and we have consented to
21 is a 60 percent penalty.

22 Q Mr. McAlpine, do you have a drilling
23 deadline on your well?

24 A Yes. The drill site is located on an
25 Armstrong Energy lease. It's a Federal lease and the lease

1 expires the last day of April of this year.

2 Q What -- what other regulatory permits do
3 you still need?

4 A Well, a Federal -- Federal government,
5 on a Federal lease currently requires thirty days prior to
6 spudding the well, so to have our application in and ap-
7 proved before we can actually spud the well. So with the
8 lease expiring the last day of April, you can see we do
9 have some time constraints.

10 Q Do you request an expeditious determin-
11 ation in this hearing --

12 A Yes, sir.

13 Q -- by the Division?

14 A Yes, sir.

15 Q Mr. McAlpine, do you have anything fur-
16 ther concerning your testimony here today?

17 A No, I do not.

18 MR. PADILLA; Mr. Examiner, we
19 pass Mr. McAlpine for cross examination.

20

21 CROSS EXAMINATION

22 BY MR. CATANACH:

23 Q Mr. McAlpine, besides the letter you've
24 entered into evidence, have you had any communication with
25 any of your other -- any of the interest owners who have

1 not agreed to join?

2 A Yes, we've had some telephone conver-
3 sations and it may well be that, you know, before the well
4 is actually drilled there may be some of the companies that
5 either farm out or join in the drilling of the well, but at
6 -- today, we don't -- the only people that we have a firm
7 response from is Armstrong Energy.

8 Q The well cost you've cited on your AFE,
9 is that in line with wells currently being drilled in this
10 area?

11 A Yes, sir, it is, and we have -- we have
12 gotten bids from drilling contractors as well as pipe bids
13 and others for that AFE.

14 Q And the overhead rates the same or are
15 those being currently utilized in this area?

16 A It's the first time we've been involved
17 with a dual completion well, so we're not real sure how
18 that should be affected, but we have recently a well at
19 less than 10,000 that had rates similar to the ones that
20 we're proposing here.

21 Q Mr. McAlpine, do you know how the 60
22 percent penalty agreement was reached or what it was based
23 on?

24 A As I understand it, Mr. Padilla actually
25 was involved in that and it started with the Morrow forma-

1 tion to begin with and frankly I think it was formed
2 strictly by negotiation. The wells adjacent to us have
3 been producing for some 22 years, or some lengthy time; I
4 think, perhaps, as long as 22 years, and the closest Morrow
5 well is about a mile and a quarter away, so I think it was
6 just strictly negotiations.

7 Q Do you know if Marathon -- Marathon's
8 well is producing? It's not producing from the Morrow?

9 A No. Their wells in adjacent sections
10 are strictly from the Upper Penn. They have one that's a
11 mile and a quarter away to the east that is a dual comple-
12 tion from the Upper Penn and the Morrow.

13 Q Mr. McAlpine, do you know how the 60
14 percent penalty is proposed to be utilized or enforced or
15 --

16 A Well, I'm a little foggy on exactly how,
17 you know, how it's enforced, but I presume that this is a
18 prorated pool and it's my understanding that each well, I
19 think each month, this office states how much production
20 will be produced from each well, and I'm assuming that when
21 your order is issued the person that sets those production
22 limits will take the figure that you come up with into ac-
23 count when assigning us an allowable.

24 Q So what you're saying is you'll -- the
25 well, your well will be limited to 40 percent of the allow-

1 able assigned by us?

2 A Yes, sir. Well, it will be unless your
3 people have already taken this into account. We would hope
4 that it wouldn't be penalized twice.

5 MR. CATANACH: I have no fur-
6 ther questions of the witness. He may be excused.

7 MR. PADILLA: Mr. Examiner,
8 we'll call Richard Gilliland at this time.

9
10 RICHARD C. GILLILAND,
11 being called as a witness and being duly sworn upon his
12 oath, testified as follows, to-wit:

13
14 DIRECT EXAMINATION

15 BY MR. PADILLA:

16 Q Mr, Gilliland, would you please state
17 your full name?

18 A Richard C. Gilliland.

19 Q Do you work for Santa Fe Exploration
20 Company?

21 A Yes, I do.

22 Q Have you previously testified before
23 the Oil Conservation Division?

24 A No, I have not.

25 Q Can you tell us about your educational

1 background?

2 A I received my petroleum engineering de-
3 gree in May of 1986. I continued for an MBA degree and
4 recently graduated in December of 1988.

5 Q When did you start working for Santa Fe
6 Exploration Company?

7 A I first came to work for Santa Fe in the
8 summer of 1988, where I worked with production and was also
9 responsible for the drilling of a 10,000 foot Devonian
10 test.

11 I left in August to continue my educa-
12 tion, finish my graduate degree, and returned just recent-
13 ly, in January.

14 Q What's your graduate degree in?

15 A General business administration.

16 Q Is that an MBA, is that what --

17 A Yes, MBA, Master of Business Administra-
18 tion.

19 Q Have you studied the rules and regula-
20 tions of the Oil Conservation Division insofar as preparing
21 -- insofar as the dual completion portion of this applica-
22 tion is concerned?

23 A Yes, I have.

24 Q Have you prepared certain exhibits for
25 introduction here today?

1 A Yes, I have.

2 MR. PADILLA: Mr. Examiner, we
3 tender Mr. Gilliland as a petroleum engineer.

4 MR. CATANACH: He is so qual-
5 ified.

6 Q Mr. Gilliland, let me show you what we
7 have marked as Exhibit Number Seven and I'd like for you to
8 tell the Examiner what that is.

9 A This is a production tubing schematic
10 diagram without specifications for a dual completion. It
11 consists of 2-7/8ths inch short tubing string through which
12 the Indian Basin Upper Pennsylvanian Gas Pool would be pro-
13 duced and that is set with a dual hydraulic packer and
14 J-latch seal assembly.

15 It also consists of a 2-7/8ths inch long
16 production string through which the Indian Basin Morrow Gas
17 Pool would be produced and that is set with a 4-1/2 inch
18 Permalatch and a tubing seal divider.

19 Q How -- does this schematic show how
20 Santa Fe Exploration is going to keep the production segre-
21 gated from the two zones?

22 A Production will be segregated by means
23 of the packer. All the production from the Morrow Gas Pool
24 will be produced up the long string and we will have
25 separate surface facilities for the production coming from

1 each zone.

2 The production from the Upper Pennsyl-
3 vanian will be produced up the short string.

4 Q Mr. Gilliland, does -- will dually com-
5 pleting this well prevent economic waste?

6 A Yes, it will prevent cost waste in that
7 when you can go ahead and drill on down to test the Morrow
8 in the same hole instead of moving over and drilling another
9 hole to test the Morrow formation.

10 Q Mr. Gilliland, do you have anything fur-
11 ther concerning Exhibit Number Seven?

12 A I probably should add that no blast
13 joint has been shown but a blast joint would be required
14 where the long tubing string is opposite the perforated
15 interval for the Upper Pennsylvanian to protect the tubing
16 string from any corrosive effect from the gas in the Upper
17 Pennsylvanian.

18 Q Okay, let's go on now to Exhibit Number
19 Eight and have you identify that for the Examiner.

20 A Okay, this is again a schematic diagram
21 of the casing design for a dual completion. It shows the
22 hole sizes, the casing sizes, the casing seats. We would
23 enter when the hole size is 17-1/2 inches to 200 feet and
24 set casing, 13-3/8ths inch conductor pipe.

25 We'd reduce our hole to 12-1/4 inch and

1 drill to 1650 and at that point we would set our fresh
2 water protection string, 9-5/8ths inch casing. We would
3 reduce our hole to 8-3/4 inch and drill down to the Cisco
4 formation and this would be a decision point.

5 At the Cisco formation we'd perform a
6 test and if it justified setting pipe, then we would set
7 7-inch casing and cement back to 500 foot above the top of
8 the reef formation.

9 Then we would reduce our hole to 6-1/8th
10 inch and then continue to the Morrow. At that point we
11 would test the Morrow formation. If it justified setting
12 pipe we would hang a 4-1/2 inch liner and circulate cement
13 back to the top of the liner.

14 Q Mr. Gilliland, do you have anything fur-
15 ther concerning Exhibit Number Eight?

16 A No, I don't.

17 MR. PADILLA: Mr. Examiner, I
18 offer Exhibits, I believe, Three through Eight, and at this
19 time I would pass the witness.

20 MR. CATANACH: Exhibits Three
21 through Eight will be admitted as evidence.

22

23 CROSS EXAMINATION

24 BY MR. CATANACH:

25 Q Mr. Gilliland, are you aware of any

1 operational problems that might result from this type of
2 dual completion?

3 A No, sir.

4 Q Are you aware of any problems you might
5 have with cement communication behind pipe, or anything
6 like that in this area? Is that not a problem?

7 A No, sir.

8 MR. CATANACH: That's all I
9 have of the witness. He may be excused.

10 MR. PADILLA: I have nothing
11 further, Mr. Examiner.

12 MR. CATANACH: Mr. Kellahin,
13 did you have anything to present.

14 MR. KELLAHIN: Mr. Examiner,
15 I'd be happy to explain to you the basis upon which Mara-
16 thon proposed the penalty upon which Mr. Padilla's clients
17 have accepted that penalty, if you'd like.

18 MR. CATANACH: Would you,
19 please?

20 MR. KELLAHIN: In lieu of
21 making an extensive geologic and engineering investigation
22 in Section 8 by which you then could determine the net pro-
23 ductive acres available for the well at this location,
24 Marathon proposed a penalty whereby the numerator is the
25 unorthodox location; the denominator is the closest stand-

1 ard location, and convert the fraction to a percentage and
2 you get a 40 percent allowable.

3 It was suggested to Mr. Pad-
4 illa's client that the 40 percent allowable would apply to
5 more production in any of the Upper Pennsylvanian produc-
6 tion. This is a prorated gas pool. The understanding of
7 my client is that the penalty would stay in place on the
8 well regardless of whether or not it's classified as mar-
9 ginal or nonmarginal. It would simply be applied against
10 the -- the allowable assigned to the well and is fixed
11 against what amounts to its producing rate.

12 But that was the basis of the
13 fraction, is it was simply a ratio between the closest
14 standard location and the proposed unorthodox location as
15 to the eastern boundary.

16 MR. CATANACH: I'm a little
17 unclear about how that would be assessed against a marginal
18 well, though.

19 MR. KELLAHIN: Marginal wells
20 would be classified as marginal and allowed to produce at
21 capacity. The arrangement is that notwithstanding that
22 proration scheme, this well would still only produce 40
23 percent of its capacity if classified as a marginal well.

24 MR. CATANACH: I see. Is that
25 all you have?

1 MR. KELLAHIN: Yes, sir.

2 MR. CATANACH: Mr. Padilla,
3 can I get Mr. McAlpine back on the stand for a couple
4 minutes?

5 MR. PADILLA: Sure.

6

7

WILLIAM A. McALPINE, JR.,

8 being recalled as a witness and remaining under oath, tes-
9 tified as follows, to-wit:

10

11

RE CROSS EXAMINATION

12 BY MR. CATANACH:

13 Q Mr. McAlpine, on your Exhibit Three
14 you've listed the parties you were pooling. That did not,
15 however, list the interest they had. Do you have any other
16 documents that list what kind of interest is being pooled,
17 or what interest you have?

18

19

20

A Out of the 640 acres I believe our lease
contains 200 acres. If memory serves me correctly, Arm-
strong Energy Company owns 120 acres.

21

22

Q You don't know about the rest of these
interest owners?

23

24

25

A Sun, I believe, has interest in 80
acres. Now whether they own the entire 80 acres I don't
recall. And I don't recall offhand the size of the inter-

1 est of the other parties. Let's see, though, let me back
2 up to our interest. We may -- our lease may contain 400
3 acres rather than 200 acres. Do we have that land map?
4 Sorry, I know all that, let's see here, yes, our -- our
5 lease contains 400 acres, so, let's see, that -- what part
6 that I've given you so far, then, would amount to 600
7 acres. The balance of 40 acres are interests that OXY,
8 Ingram, El Paso, BHP and the Moore Trust have interests,
9 but it may be that one or more of those people have an in-
10 terest in that 80 acres of Sun. They don't have any of our
11 400 acres or any of the 120 of Armstrong.

12 Here's a copy of our -- our lease and
13 it's a U. S. government Serial No. NM-59375 and containing
14 400 acres.

15 Q I see. Do you somewhere have an exact
16 number of what these companies own?

17 A Yes, sir, we have an abstract.

18 Q You do.

19 A Yes, sir.

20 Q Can I get a copy of a summary of the in-
21 terests owned by each of these companies?

22 A Certainly, we'll provide you with a copy
23 of the abstract; it's brand new. It's been done in the
24 last 30 days.

25 Q Okay.

1 MR. PADILLA: Mr. Examiner, I
2 believe he's talking about a title opinion. Is that what
3 you're really talking about or --

4 A Yes, it's been brought up to date. The
5 abstracts have been brought up to date by an attorney.

6 MR. PADILLA: Okay.

7 MR. CATANACH: Okay. Any-
8 thing further, Mr. Padilla?

9 MR. PADILLA: Nothing further.

10 MR. CATANACH: There being
11 nothing further in this case, it will be taken under ad-
12 visement.

13

14 (Hearing concluded.)

15

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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 Conservation Division (Commission) 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 CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9619 heard by me on March 29 1989 :

David R. Catamb, Examiner
Oil Conservation Division