



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

RECEIVED
APR 27 1990
CAMPBELL & BLACK

GARREY CARRUTHERS
GOVERNOR

April 27, 1990

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

*Exhibits 1 through 6
Complete Set*

Mr. William F. Carr
Campbell & Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico

Dear Mr. Carr:

Based upon your letter of April 25, 1990, and in accordance with the provisions of Division Order No. R-9046, Anadarko Petroleum Corporation is hereby granted an additional extension of time in which to begin the well on the unit pooled by said order until August 1, 1990.

Sincerely,

WILLIAM J. LEMAUX
Director

WJL/fd

cc: Case No. 9807
Jerry Sexton

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
ANADARKO EXHIBIT NO. 1
CASE NO. 9932



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

GARREY CARRUTHERS
GOVERNOR

January 19, 1990

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

Ms. Karen Aubrey
Kellahin, Kellahin & Aubrey
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

Dear Ms. Aubrey:

Based upon your letter of January 16, 1990, and in accordance with the provisions of Division Order No. R-9046, Anadarko Petroleum Corporation is hereby granted an extension of time in which to begin the well on the unit pooled by said order until May 1, 1990.

Sincerely,

A handwritten signature in cursive script, appearing to read "William J. Lema".

WILLIAM J. LEMAX
Director

WJL/fd

cc: ✓ Case No. 9807
Jerry Sexton

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. 9807
ORDER NO. R-9046

APPLICATION OF ANADARKO PETROLEUM
CORPORATION FOR COMPULSORY POOLING,
DIRECTIONAL DRILLING AND AN UNORTHODOX
OIL WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 1, 1989, at Santa Fe, New Mexico, before Examiner Victor T. Lyon.

NOW, on this 20th day of November, 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, Anadarko Petroleum Corporation, seeks an order pooling all mineral interests in the Strawn formation, underlying the SE/4 NW/4 (Unit F) of Section 33, Township 16 South, Range 38 East, NMPM, Lea County, New Mexico.
- (3) The applicant has the right to drill a well and proposes to directionally drill a well from a non-standard surface location 2440 feet from the North line and 2230 feet from the West line of said Section 33, to the Strawn formation at a true vertical depth of approximately 11,700 feet within a 125-foot radius of an unorthodox oil well location 2060 feet from the North line and 2500 feet from the West line of said Section 33.
- (4) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) The proposed well is a wildcat projected to the Strawn formation, reservoirs which are typically small and difficult to find. The proposed location was selected from data obtained by eight seismic lines run through the immediate area.

(6) The Division is normally tolerant of unorthodox locations for wildcat wells when ownership is common between the drillsite and adjacent tracts, but this encroachment is excessive.

(7) The SE/4 NW/4 (drillsite) and the SW/4 NE/4 (crowded tract) of Section 33 are both under lease to applicant but are not commonly owned as to mineral interests, and both leases expire, respectively, in April and May, 1990.

(8) A well completed at the eastern edge of the proposed target area would be only fifteen feet from the common lease line which is also common to the NE/4 and NW/4 of the section.

(9) A surface location at the proposed bottomhole location would interfere with irrigated crop land and mitigation costs would be greater than the estimated incremental costs of the directional drilling.

(10) The proposed target should be modified to a 125-foot radius semi-circle west of the proposed bottomhole location and a penalty on the well's allowable should be imposed proportional to the distance the well is moved from a standard location.

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

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

(13) 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.

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

(15) 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.

Case No. 9807
Order No. R-9046
Page No. 3

(16) 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.

(17) \$5500.00 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.

(18) 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.

(19) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 1990, the order pooling said unit should become null and void and of no further effect whatsoever.

(20) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(21) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(22) Should the well result in a producing oil well, the operator should propose pool rules and other measures designed to prevent waste and protect correlative rights in the reservoir.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Strawn formation, underlying the SE/4 NW/4 (Unit F) of Section 33, Township 16 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled to form a 40-acre oil spacing and proration unit to be dedicated to a well to be directionally drilled at a non-standard surface location 2440 feet from the North line and 2230 feet from the West line of said Section 33, to the Strawn formation at a true vertical depth of approximately 11,700 feet within a 125-foot radius semi-circle west of an unorthodox oil well location 2060 feet from the North line and 2500 feet from the West line of said Section 33.

Case No. 9807
Order No. R-9046
Page No. 4

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of February, 1990, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Strawn formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of February, 1990, 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.

(2) Anadarko Petroleum Corporation is hereby designated the operator of the subject well and unit.

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

(4) 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.

(5) 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 an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

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

Case No. 9807
Order No. R-9046
Page No. 5

(7) 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.

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

(9) \$5500.00 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.

(10) 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.

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

(12) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea 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.

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

Case No. 9807
Order No. R-9046
Page No. 6

(14) 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 force-pooling provisions of this order.

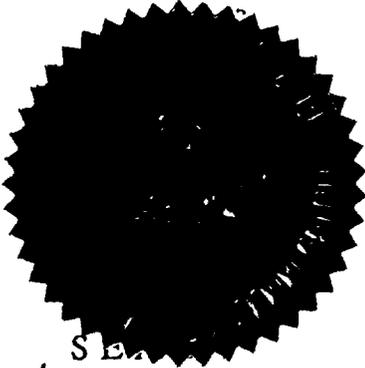
(15) Operator shall run a continuous or multi-shot directional survey of the well so as to determine the bottomhole location and file same with the Hobbs and Santa Fe offices of the Division.

(16) Should the well be completed as a producing oil well, the well shall receive an allowable of 365 barrels of oil per day, as provided in Statewide Rule 505 for a period of seven days. Thereafter, the well shall have a penalized allowable based on the depth bracket allowable mentioned above multiplied by the ratio that the distance of the bottomhole perforations from the nearest unit boundary bears to 330 feet.

(17) Within 90 days after completion of the well as an oil well or gas well applicant shall file application for appropriate special pool rules or propose other appropriate measures designed to prevent waste and protect correlative rights.

(18) 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



CO(2) DIV(2) AFE NO(4)/(4) LOCATION NO(7) DATE-MO/DAY/YR(6)
 03 47 / 04/04/90
 WORK DES(12) WELL LOCATION NAME(20) WELL NO(5) FIELD/PROSPECT(25) ST(5) ST CD(2)
 DC&E EXPL J. SMITH #1 WEST KNOWLES NM 30
 EXPLAIN PROJECT DRILL, COMPLETE & EQUIP 11,700' DEVIATED STRAWN EXPLORATORY OIL WELL
 O/S OPERATOR AFE# SECTION-TOWNSHIP-RANGE-DES OF LOC (23) COUNTY(13) CO CD(3)
 33-16S-38E LEA 025
 FIELD CD (3) PROJ CD (4) PROSP CD (3) BUDGET (3) AMOUNT AUTHORIZED (9)/(9)
 000 6530 046 250 \$436,100 /

OWNER NAME (24) WORKING INT(1.6) OWNER NAME (24) WORKING INT(1.6)
 OPER ANADARKO PETROLEUM CORP. 0.785937
 WOOD OIL COMPANY 0.125000
 TXO PRODUCTION CORP. 0.089063
 COMPANY REVENUE INTEREST 0.656775

TYPE: PROJECT SUBJECT TO: ORIGINATING OFFICE MIDLAND
 XX DRILLING CONSTRUCTION CARRIED INTEREST PREPARED BY G.R.S. BUEHLER
 XX EXPLORATION LHP NET PROFITS INTEREST
 DEVELOPMENT GEOPHYSICAL RIGHT TO CONVERT TO WI FOR DRILLING WELLS
 RECOMPLETION FARMIN EST SPUD
 PLUG & ABANDON DHC or BHC DATE EST TD 11700TVD
 SALE TYPE WELL(OIL,GAS,ETC) OIL
 EXPLAIN: DRILLING OBLG DATE
 EST DAYS TO DRILL 38
 EST DAYS TO COMPLETE 10

ACRES (Spacing Unit) LSE EXP DATE
 LSE NOS IN UNIT

DRY HOLE COST-AFE			RETIREMENT COST		
TOTAL	JT OWNERS	CO NET	TOTAL	JT OWNERS	CO NET
IDC \$440,400	\$ 94,300	\$346,100	REMOVALS \$	\$	\$
TDC 114,500	24,500	90,000	SALVAGE		
TOTAL \$554,900	\$118,800	\$436,100	COST/		
			(RECOVER) \$	\$	\$
DHC/					
BHC (\$) (\$) (\$)			EXPLORATION AND OTHER PROJECTS COST		
TOTAL \$554,900	\$118,800	\$436,100	IDC \$	\$	\$
COMPLETION COST - AFE			OTHER		
ICC \$ 42,700	\$ 9,100	\$ 33,600	TOTAL \$	\$	\$
TCC 238,400	51,000	187,400			
TOTAL \$281,100	\$ 60,100	\$221,000	REMARKS:		
CWC \$836,000	\$178,900	\$657,100			

APPROVAL LEVEL: Division Region General Office
 COMMITTEE ACTION: AUTHORIZED REJECTED DATE:
 RECOMMENDED: *M. B. Spode* DATE 4-5-90
 APPROVALS: *[Signature]* DATE 4/5/90

NON-OPERATORS APPROVAL
 BY COMPANY TITLE DATE

PROJECT ECONOMIC ASSUMPTIONS RISKED ECONOMIC YARDSTICKS (AFTT)
 CHANCE OF SUCCESS: EXPL % DEVEL % DCF RATE OF RETURN %
 PRICES: \$/BBL; \$/MCF PROFIT-TO-INVESTMENT RATIO
 UNDISCOUNTED
 DISCOUNTED
 RESERVES - THIS WELL TOTAL PROSPECT
 OIL, Mbbl Gross Ri Gross Ri PAYOUT YRS
 GAS, MMCF COST OF FINDING \$/NEEB
 EEB, Mbbl

BY: **BEFORE EXAMINER CATANACH**
OIL CONSERVATION DIVISION
 ANADARKO EXHIBIT NO. 2
 CASE NO. 9932
 AUTHORITY FOR EXPENDITURE



CO. (2) DIV. (2) AFE NO. (4)/(4) LOCATION NO. (7)

DATE - MO./DAY/YR. (8)

9-22-89

WORK DES. (12)

WELL LOCATION NAME (20) WELL NO. (5) FIELD/PROSPECT (25)

STATE (9) ST. CD. (2)

EXPLAIN PROJECT

O/S OPER. AFE # SEC. - TWN. - RANGE - DES. OF LOC. (23)

COUNTY (13)

OO. CD. (3)

FIELD CD. (3)

PROJ. CD. (4)

PROSP. CD. (3)

BUDGET (3)

AMOUNT AUTHORIZED (9)/(9)

OWNER NAME (24)

WORKING INT. (1.6)

OWNER NAME (24)

WORKING INT. (1.6)

OPER

COMPANY REVENUE INTEREST

CODE	INTANGIBLE DRILLING COSTS	AFE	
		DRY HOLE	COMPLETION
			COMPLETED
2010	ROAD AND LOCATION	\$ 30,000	\$ 30,000
2020	CONTRACT RIG COSTS	276,100	276,100
2030	MUD AND CHEMICALS	24,000	24,000
2040	CEMENT AND CEMENTING	35,700	5,000
2050	FORMATION EVALUATION	58,300	40,700
2060	COMPLETION		58,300
2070	OTHER TOOLS AND RENTALS	2,000	30,000
2080	TRANSPORTATION, TRUCKING, AND HAULING	1,000	1,000
2090	CONTRACT SERVICES	500	200
2100	COMPANY SUPERVISION	10,800	2,500
2150	MISCELLANEOUS INTANGIBLES	2,000	3,000
2200	ADMINISTRATIVE OVERHEAD		
2600	IDC - NON OPERATED		
	TOTAL INTANGIBLE DRILLING COSTS	\$ 440,400	\$ 42,700
2900	SPECIAL CREDITS - DRY AND BOTTOM HOLE CONTRIBUTIONS-RECEIVABLE	()	()
	TOTAL NET INTANGIBLE DRILLING COSTS	\$	\$
	<u>LEASE AND WELL EQUIPMENT</u>		
	<u>WELL CASING</u>		
	450 FT., 13 3/8 O.D.,	10,200	10,200
	4,800 FT., 9 5/8 O.D.,	83,700	83,700
	11,700 FT., 5 1/2 O.D.,		123,000
	FT., O.D.,		
3010	TOTAL WELL CASING	93,900	123,000
	<u>WELL TUBING</u>		
	11,700 FT., 2 7/8 O.D., 6.5 N-80 EVE		56,900
	FT., O.D.,		
	FT., O.D.,		
3020	TOTAL WELL TUBING		56,900
3070	OTHER CONTROLLABLE SUBSURFACE WELL EQUIPMENT		
3080	NON-CONTROLLABLE SUBSURFACE WELL EQUIPMENT		3,500
3110	WELLHEAD EQUIPMENT	20,000	15,000
3120	PUMPING EQUIPMENT		
3170	OTHER CONTROLLABLE SURFACE WELL EQUIPMENT		
3180	NON-CONTROLLABLE SURFACE WELL EQUIPMENT		
3190	INSTALLATION COSTS - SURFACE WELL EQUIPMENT	600	1,000
3210	TANK BATTERIES, SEPARATOR, HEATING TREATING AND SALES EQUIPMENT		30,000
3220	COMPRESSOR STATIONS		
3230	ELECTRICAL SYSTEMS AND TRANSMISSION LINES		
3240	BUILDINGS		
3250	LEASE LINES		1,000
3270	OTHER CONTROLLABLE SURFACE LEASE EQUIPMENT		
3280	NON-CONTROLLABLE SURFACE LEASE EQUIPMENT		
3290	INSTALLATION COSTS - SURFACE LEASE EQUIPMENT		8,000
3400	DRILLING AND/OR PRODUCTION PLATFORMS		
3800	L & W - NON OPERATED		
	TOTAL LEASE AND WELL EQUIPMENT	\$114,500	\$238,400
	TOTAL AFE COST ESTIMATE	\$554,900	\$281,100
			\$836,000

NON-OPERATORS APPROVAL

COMPANY _____

BY _____

TITLE _____ DATE _____



September 7, 1989

TXO Producing Corp.
900 Wilco Building
Midland, Texas 79701

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
ANADARKO	EXHIBIT NO. <u>3</u>
CASE NO. <u>9932</u>	

Attention: Ms. Carol M. Sledge

Re: Join/Farmout Commitment Letter
NW/4, SE/4 and E/2 SW/4
Section 33, Township 16 South,
Range 37 East, Lea County, New
Mexico, West Knowles Prospect

Gentlemen:

With reference to my yesterday phone conversation with TXO's Mr. John Cox, wherein he said TXO Producing Corp. (TXO) desires to examine our Lovington Area Strawn prospect on the referenced acreage (the Prospect) and requested Anadarko Petroleum Corporation's (Anadarko) prerequisite commitment letter, we submit for TXO's consideration this letter agreement. The parties hereby agree as follows:

- A. Anadarko hereby agrees to show TXO its seismic surveys and sub-surface maps related to the Prospect.
- B. TXO hereby agrees and commits its leasehold interest in the Prospect within thirty (30) days of the presentation by Anadarko to either join Anadarko in the drilling of the initial well, executing a mutually agreeable joint operating agreement covering the Prospect and designating Anadarko as operator, or farmout to Anadarko, executing a farmout agreement subject to the following terms:
 - 1. On or before one hundred fifty days from the date of the farmout agreement, Anadarko shall commence the drilling of a test well to evaluate the Strawn formation at an approximate depth of 12,000 feet;
 - 2. Commercial production in the test well shall earn Anadarko one hundred percent of TXO's leasehold interest in the proration unit from the surface to the stratigraphic equivalent of one hundred feet below total depth;

RECEIVED
SEP 10 1989
OIL CONSERVATION DIVISION

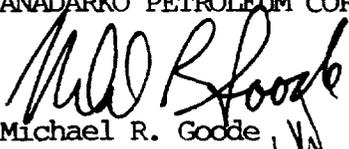
Page 2
Join/Farmout Commitment
Sec. 33, T16S, R37E
Lea Co., NM
9-7-89

3. TXO will reserve an overriding royalty interest equal to the difference between the Lessor's royalty and/or other burdens and twenty-six percent; and
4. Anadarko will continuously develop the prospect with not more than one hundred fifty days elapsing between the completion of one well and the commencement of another well. Failure to do so will result in the termination of Anadarko's rights as to the acreage in the prospect not included in a proration unit.

This letter agreement is executed in duplicate originals by Anadarko. TXO is requested to indicate its agreement by executing this letter in the space provided below and returning one original to me, retaining the other for your records.

Yours very truly,

ANADARKO PETROLEUM CORPORATION

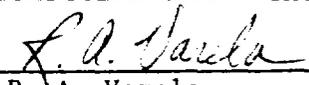

Michael R. Godde
Division Landman *W*

MRG:ls

Encl.

* AGREED TO AND ACCEPTED THIS 15th DAY OF SEPTEMBER, 1989.

~~TXO PRODUCING CORP.~~ TXO PRODUCTION CORP.

By: 
R. A. Varela
Title: Vice President and District Manager

*Subject to execution of that Conditional Letter of Acceptance dated September 13, 1989.

TXO

PRODUCTION CORP.

415 WEST WALL, SUITE 900
MIDLAND, TEXAS 79701-4468
(915) 682-7992

September 13, 1989

Anadarko Petroleum Corp.
P. O. Box 2497
Midland, Texas 79702

Attn: Michael R. Goode

RE: CONDITIONAL ACCEPTANCE OF THAT
JOINT/FARMOUT COMMITMENT LETTER
Dated September 7, 1989
Section 33, T-16-S, R-38-E
Lea County, New Mexico

Gentlemen:

TXO Production Corp. is in receipt of that letter dated September 7, 1989 from Anadarko regarding the above referenced matter. Conditionally, TXO shall execute the Letter Agreement based on Anadarko's agreement to the following amendments:

1. TXO Producing Corp. shall be TXO Production Corp.
2. In the remarks it incorrectly references the NW/4, SE/4 and E/2 SW/4 Section 33, T-16-S, R-37-E and it shall be understood and agreed that the acreage described is the NW/4, SE/4 and E/2 SW/4 Section 33, T-16-S, R-38-E.
- ** 3. Paragraph B #1, "ninety days" shall be inserted instead of "one hundred fifty days".
4. Also in Paragraph B #1, line 2 shall read as follows: "...farmout agreement, to be on TXO's Farmout form, Anadarko shall commence the drilling..."
5. Paragraph 4 shall be deleted in entirety with regard to continuous development.
- ~~6. A new Paragraph 4 shall be added and shall read as follows:
"Should TXO propose the drilling a well on the above described acreage, Anadarko Petroleum Corporation will agree to a reciprocal agreement with the same types of terms contained herein."~~

** "one hundred twenty days"

MRG
FW

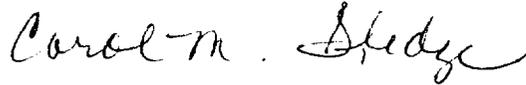
Anadarko Petroleum Corp.

-2-

September 13, 1989

This Conditional Acceptance and Letter Agreement is executed in duplicate originals by TXO. Please execute and return one (1) set of originals to TXO at once.

Very truly yours,



Carol M. Sledge, CPL
Landman

CMS/lc

AGREED TO AND ACCEPTED THIS 15th DAY OF September, 1989.

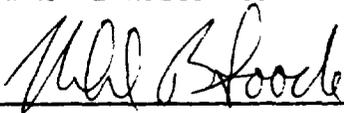
TXO PRODUCTION CORP.



R. A. Varela
Vice President and District Manager

AGREED TO AND ACCEPTED THIS 20TH DAY OF SEPT, 1989.

ANADARKO PETROLEUM CORP.



Anadarko

September 29, 1989

*per Tom Kellahan -
appl. to be filed Oct 10th
Tom (or Bill Cain)*

CERTIFIED MAIL

TXO Production Corp.
900 Wilco Building
Midland, TX 79701

Attention: Ms. Carol M. Sledge

Re: Anadarko J. Smith No. 1
E/2 NW/4 Section 33, T16S, R38E, Lea
County, New Mexico. West Knowles Prospect

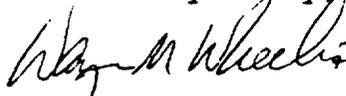
Gentlemen:

In my Wednesday phone conversation with Mr. John Cox of your office, it was shared that TXO has not decided to participate in the captioned well. Please be advised that if Anadarko does not have a commitment of your leasehold interest by October 9, we will take the necessary steps to compulsory pool your leasehold.

Again, we ask for your participation in our test of a 12,000 foot Strawn deviated exploratory test (located 2350' FWL and 2495' FNL in Section 33, T16S, R38E, Lea County, New Mexico). The estimated dry hole cost is \$554,900; the additional completion costs are an estimated \$281,000. The estimated total well costs are \$836,000. The well will encompass the E/2 NW/4 of Section 33. We propose execution of an AAPL Model Form 610-1982 joint operating agreement, including individual loss of title, 150%/400%/400% non-consent penalty, casing point election, \$25,000 expenditure limit, Article XV co-owner bankruptcy protection, 1984 COPAS, and gas balancing.

Previous Anadarko proposals, letters dated June 22, 1989 and September 7, 1989, have not committed your leasehold. The first was a 560 acre working interest proposal; the second, a proposal to join or farmout your leasehold subject to an Anadarko presentation of the prospect.

Yours very truly,



Wayne M. Wheelis
Senior Landman

WMW/jad
D5



March 20, 1990

TXO Production Corp.
415 W. Wall, Suite 900
Midland, TX 79701-4468

Attention: Mr. John P. Cox

Re: Farmout Agreement dated February 6, 1990.
TXO Lease #432,524-001 only as to E/2 NW/4
Section 33, T16S, R38E, Lea County, New
Mexico

Gentlemen:

Anadarko herewith returns the referenced farmout agreement, fully executed by Anadarko but subject to and conditioned upon TXO's acceptance of the modifications detailed below:

1. Section II, paragraph 1: The test well location is 2230' from the west line and 2440' from the north line of Section 33.
2. Section VIII, paragraph 2: This paragraph, referencing access by Assignor to any well drilled by operator within a one mile radius of the test well, is stricken in its entirety.
3. Sections IX and XII: The rights of Assignor to take over the well after notice of Operator's intent to abandon and the reassignment obligations of Operator if commercial production ceases are proportionately reduced to apply to said lease.

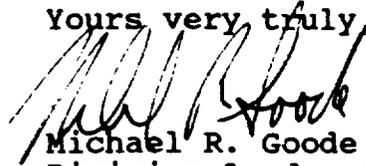
This farmout agreement is a junior contract to the operating agreement Anadarko Petroleum Corporation has with its partners for the drilling of the test well.

4. Section XIII: The preferential right to purchase production applies to said lease.
5. TXO Production Corp. agrees that this farmout agreement is timely executed and in full force and effect.

TXO Production Corp.
March 20, 1990
Page Two.

Duplicate originals of this letter are provided. Please indicate your acceptance of the provisions of this letter by having Mr. R. A. Varela execute and return one original to Anadarko at your earliest convenience.

Yours very truly,


Michael R. Goode
Division Landman *WMW*

WMW/MRG/jad

AGREED and ACCEPTED this _____ day of March, 1990.

TXO PRODUCTION CORP.

By: _____
R. A. Varela, Vice President

TXO

PRODUCTION CORP.

415 WEST WALL, SUITE 900
MIDLAND, TEXAS 79701-4468
(915) 682-7992
March 26, 1990

Anadarko Petroleum Corporation
P. O. Box 2497
Midland, TX 79702

Attn: Mr. Wayne Wheelis

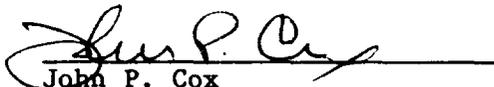
Re: Farmout Agreement
dated February 6, 1990
TXO Lease #432,524-001
as to E/2 NW/4
Section 33, T-16-s, R-38-E
Lea County, New Mexico

Gentlemen:

TXO Production Corp. agrees to amend the referenced Farmout Agreement as follows:

1. Section II, paragraph 1: The test well location is 2230' from the west line and 2440' FNL of Section 33.
2. Section IX: It is understood that in the event Assignor establishes commercial production pursuant to this paragraph only those rights of Operator not subject to a previous contract requiring reassignment shall revert to Assignor.
3. Sections IX and XII: It is agreed that Assignor's right to a reversionary interest in the farmout area for the test well shall only occur after all parties to any existing Operating Agreement have agreed to abandon said well.
4. Section XIII: The preferential right to purchase production applies to said lease.
5. Provided Anadarko signs and return this letter within five (5) days from the date hereof, TXO Production Corp. agrees that the February 6, 1990, Farmout Agreement has been timely executed.

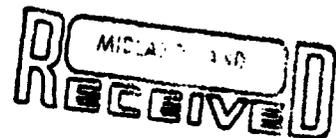
ASSIGNOR: TXO PRODUCTION CORP.


John P. Cox
District Land Manager

AGREED TO AND ACCEPTED THIS _____ DAY OF _____, 1990

ANADARKO PETROLEUM CORPORATION

BY: _____
Michael R. Goode
Division Landman



MAR 27 1990



April 5, 1990

CERTIFIED MAIL

TXO Production Corp.
415 W. Wall, Suite 900
Midland, TX 79701-4468

Attention: Mr. John P. Cox

Re: Anadarko J. Smith No. 1
E/2 NW/4 Section 33, T16S, R38E,
Lea County, New Mexico
Your Lease No. 432,524-001 covering
8.9063% undivided interest

Gentlemen:

Enclosed for your handling is Anadarko's AFE for the drilling of the captioned well. This AFE reflects your 8.9063% working interest. We invite you to join us in the well. This is the AFE that you will address in making your election to join or not join in the drilling of the well. You have been informed of our plans to drill this prospect for several months. It is our intention to proceed to force pool your interest under New Mexico statutes and, in that action, we will seek a reduced period of time for you to consider participation.

Three provisions of your farmout agreement are not customary in the industry practice and are unacceptable to Anadarko: 1) Section III, paragraph two - giving TXO access to derrick floor, test data and records of any Anadarko well drilled within a one mile radius of the test; 2) Section IX, part of paragraph one - committing Anadarko to a "reversion" option to TXO of all of Anadarko's rights in the test well and land upon our abandonment of the test; and 3) Section XII - committing Anadarko to a "reassignment" option to TXO of all of the well, unit and equipment, clear of any overrides or encumbrances on the lease, after commercial production ceases. Anadarko's March 20, 1990 letter conditionally accepts the farmout agreement subject to your acceptance of modifications detailed therein. The proposed modifications in your March 26, 1990 are inadequate.

These provisions go beyond the industry practice for a party farming out an undivided nine percent in one well and are not acceptable because of the complexity of the other trades we have for this well. We have a participating mineral interest owner that is joining us in a working interest unit and leasing an undivided part of its minerals. We also have

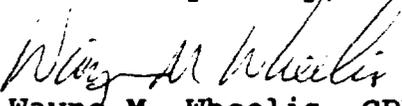
TXO Production Corp.
April 5, 1990
Page Two.

a farmout agreement from another leasehold interest owner. Your provisions are inconsistent with the maintenance of uniform interest provision in the A.A.P.L. Form 610 Model Form Operating Agreement, the standard industry operating agreement. Additionally, the mineral interest in this area is heavily divided. There are three separate and undivided tracts in Section 33. All of the mineral interest in one offset tract is controlled by Anadarko. We do not approve a contractual obligation to provide well information to an indifferent party.

Previously, Anadarko's letter, dated June 22, 1989, proposed to you a working interest unit. Our September 7, 1989 letter agreement committed you to join or farmout your leasehold for an Anadarko presentation of our prospect. Your September 13, 1989 letter conditionally accepts the September 7 Anadarko letter. The provision in 4. of your letter, stating that the farmout is to be on TXO's form, does not bind Anadarko to the provisions addressed in this letter because these provisions are not usual industry practice and these provisions were neither stated in your letter nor was your farmout agreement form attached to your September 13 letter.

If we elect to abandon operations, we would do so after exhausting all possible horizons. The chance that we would omit an opportunity to produce oil or gas is very slim. We are surprised at your insistence to include these particular farmout provisions, knowing that the chance for these provisions to play out is small.

Yours very truly,


Wayne M. Wheelis, CPL
Senior Landman

WMW/jad
Enclosure

cc: Campbell and Black PA
P. O. Box 2208
Santa Fe, NM 87504-2208
Attn: Mr. William F. Carr

wmletter-txo

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION OF
ANADARKO PETROLEUM CORPORATION
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

CASE NO. 9932

AFFIDAVIT

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
ANADARKO EXHIBIT NO.	<u>4</u>
CASE NO.	<u>9932</u>

STATE OF NEW MEXICO)
)ss.
COUNTY OF SANTA FE)

WILLIAM F. CARR, attorney in fact and authorized representative of Anadarko Petroleum Corporation, the Applicant herein, being first duly sworn, upon oath, states that the notice provisions of Rule 1207 of the New Mexico Oil Conservation Division have been complied with, that Applicant has caused to be conducted a good faith diligent effort to find the correct addresses of all interested persons entitled to receive notice as shown by Exhibit "A" attached hereto, and that pursuant to Rule 1207, notice has been given at the correct addresses provided by such rule.

William F. Carr
WILLIAM F. CARR

SUBSCRIBED AND SWORN to before me this 1st day of May, 1990.

Frankel J. Jense
Notary Public

My Commission Expires:

August 19, 1991

EXHIBIT A

TXO Production Corporation
900 Wilco Building
415 W. Wall Street
Midland, Texas 79701

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
WILLIAM P. SLATTERY
PATRICIA A. MATTHEWS

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

April 10, 1990

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TXO Production Corporation
900 Wilco Building
415 W. Wall Street
Midland, Texas 79701

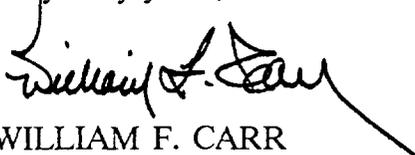
Re: Application of Anadarko Petroleum Corporation for Compulsory Pooling,
Lea County, New Mexico

Gentlemen:

This letter is to advise you that Anadarko Petroleum Corporation has filed an application with the New Mexico Oil Conservation Division seeking an order force pooling of all mineral interests in and under the SE/4 NW/4 of Section 33, Township 16 South, Range 38 East, N.M.P.M., Lea County, New Mexico. Anadarko Petroleum Corporation proposes to dedicate the referenced pooled unit to a well to be located at a previously approved unorthodox location in the SE/4 NW/4 of said Section 33.

This application has been set for hearing before a Division Examiner on May 2, 1990. You are not required to attend this hearing, but as an owner of an interest that may be subject to pooling, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Very truly yours,



WILLIAM F. CARR
ATTORNEY FOR ANADARKO PETROLEUM CORPORATION
WFC:mlh

P-106 678 066

RECEIPT FOR CERTIFIED MAIL

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

Sent to TXO Production Corp.	
Street and No 900 Wilco Bldg. 415 W. Wall Street	
P.O., State and ZIP Code Midland, Texas 79701	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date APR 10 1990	

PS Form 3800, June 1985

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.

Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent the card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes for additional service(s) requested.

1. Show to whom delivered, date, and addressee's address. 2. Restricted Delivery (Extra charge)

3. Article Addressed to:
TXO Production Corporation
900 Wilco Building
415 W. Wall Street
Midland, Texas 79701

4. Article Number
P-106-678-066

Type of Service:
 Registered
 Certified
 Express Mail
 Insured
 COD
 Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature - Address
 [Signature]

6. Signature - Agent

7. Date of Delivery
4-12

8. Addressee's Address (ONLY if requested and fee paid)
415 W Wall # 900

PS Form 3811, Mar. 1988 * U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT