

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

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 10067

EXAMINER HEARING

IN THE MATTER OF:

Application of Bird Creek Resources, Inc.,
for Compulsory Pooling, Eddy County,
New Mexico.

TRANSCRIPT OF PROCEEDINGS

BEFORE: JIM MORROW, EXAMINER

STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO
October 3, 1990

ORIGINAL

A P P E A R A N C E S

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

FOR THE DIVISION:

ROBERT G. STOVALL, ESQ.
Counsel to the Division
Post Office Box 2088
State Land Office Building
Santa Fe, N.M. 87504-2088

MICHAEL E. STOGNER
OCD Examiner/Engineer
Post Office Box 2088
State Land Office Building
Santa Fe, N.M. 87504-2088

FOR THE APPLICANT:

No Appearance

1 EXAMINER MORROW: Call Case 10067.

2 MR. STOVALL: Application of Bird Creek
3 Resources, Inc., for compulsory pooling, Eddy County,
4 New Mexico.

5 EXAMINER MORROW: Call for appearances in
6 this case.

7 All right. This case was heard on
8 September 5th also and continued until today for
9 notice purposes. It will be taken under advisement.

10 (Thereupon, the proceedings concluded.)

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

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

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Bird Creek Case 10067
Resources, Inc., for compulsory
pooling, Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO
September 5, 1990

ORIGINAL

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

A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL
 Attorney at Law
 Legal Counsel to the Divison
 State Land Office Building
 Santa Fe, New Mexico

FOR THE APPLICANT: KELLAHIN, KELLAHIN & AUBREY
 Attorneys at Law
 117 N. Guadalupe
 Santa Fe, New Mexico 87504
BY: W. THOMAS KELLAHIN, ESQ.

I N D E X

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

1 HEARING EXAMINER: This hearing will come
2 to order. Call next case, No. 10,067.

3 MR. STOVALL: Application of Bird Creek
4 Resources, Inc., for compulsory pooling, Eddy County,
5 New Mexico.

6 HEARING EXAMINER: Call for appearances.

7 MR. KELLAHIN: Mr. Examiner, I'm Tom
8 Kellahin of the Santa Fe law firm of Kellahin,
9 Kellahin & Aubrey, appearing to behalf of the
10 applicant, and I have two witnesses to be sworn.

11 HEARING EXAMINER: Are there any other
12 appearances? Will the witnesses please stand and be
13 sworn?

14 (Witnesses sworn.)

15 LAWRENCE W. ROBINETTE,
16 the witness herein, after having been first duly sworn
17 upon his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. KELLAHIN:

20 Q. Mr. Robinette, for the record, would you
21 please state your name and occupation, sir.

22 A. Lawrence W. Robinette. I'm a land
23 management consultant.

24 Q. Mr. Robinette, on prior occasions before
25 the Division, have you testified as a petroleum

1 landman on behalf of Bird Creek Resources, Inc.?

2 A. Yes, I have.

3 Q. Pursuant to your employment with that
4 company, have you made a study of and are you familiar
5 with the various mineral interest owners involved in
6 this compulsory pooling application?

7 A. Yes, I am.

8 Q. On behalf of that company, have you made an
9 effort to consolidate on a voluntary basis the working
10 interest owners for the drilling of the proposed well?

11 A. Yes, we have.

12 MR. KELLAHIN: We tender Mr. Robinette as
13 expert petroleum landman.

14 HEARING EXAMINER: Mr. Robinette is so
15 qualified.

16 Q. (BY MR. KELLAHIN) Mr. Robinette, to orient
17 the examiner as to what you're proposing to do, let me
18 have you turn in the package of exhibits that you have
19 before you and look at the structure map, if you will,
20 for simply reference. Ignore the structure for a
21 moment.

22 This grid that overlies the structure map
23 is on 40-acre tract grid?

24 A. Yes, it is.

25 Q. Identify for us where it is that you

1 propose to locate the subject well, and what is the
2 spacing unit for this well?

3 A. Yes. We propose to locate the subject well
4 in the southwest quarter of the southeast quarter of
5 Section 15, 23 South, 28 East, directly south of the
6 Yarbrow "A" Com gas well.

7 Q. The spacing for the test well is 40-acre
8 oil spacing. And the target formation is the
9 Delaware?

10 A. That's correct.

11 Q. What is your understanding of the working
12 interest owners involved in that 40-acre tract?

13 A. My understanding as to?

14 Q. Who are the principal working interest
15 involved for which have you not yet obtained
16 agreement?

17 A. CHL Energy, Inc., and Santa Fe Operating
18 Partners, L.P.

19 Q. Describe for us your first efforts to
20 obtain the voluntary joinder of CHL Energy, Inc., with
21 regards to the subject well.

22 A. Yes. We wrote CHL Energy, Inc., on July
23 the 2nd, requesting -- proposing the well and
24 requesting that they either participate or farm out
25 their interest in the southwest of the southeast.

1 Q. Is that represented by your Exhibit No. 1
2 to this hearing?

3 A. Yes, it is.

4 Q. What, if any, response have you had from
5 this company concerning their participation in this
6 case?

7 A. None.

8 Q. Have you had occasions to be forced to
9 compulsory pool their interest in other Delaware tests
10 that you have made in this development?

11 A. Yes.

12 Q. Approximate for the examiner what is their
13 percentage working interest as you understand it in
14 this spacing unit?

15 A. About 1.38 percent.

16 Q. Turn to Exhibit No. 2, Mr. Robinette.
17 Would you identify and describe what this is?

18 A. Yes. It's a letter also dated July 2 to
19 Santa Fe Energy Operating Partners, L.P., with the
20 proposal of the well and requesting that they
21 participate or farm out their interest.

22 Q. What is the status of your current efforts
23 to obtain Santa Fe Energy Operating Partnership's
24 commitment of their working interest on a voluntary
25 basis for this well?

1 A. I feel that Santa Fe, in all likelihood,
2 will participate. They just have not signed the AFE
3 or the operating agreement as of this time. They have
4 participated in all the other wells which have been
5 drilled in the east half of 15. But they just have
6 not responded at this point, but I believe they will
7 sign.

8 Q. For purposes then of the order, you propose
9 to leave them involved in this case and subject to
10 this order, but you anticipate they will eventually
11 sign?

12 A. That's correct.

13 Q. Let's turn now to -- at the time the
14 application was filed in addition to Santa Fe and CHL
15 Energy, there was Parker & Parsley that had not yet
16 committed their working interest to this well?

17 A. That's correct.

18 Q. As of now, Mr. Robinette, have they
19 committed their interest?

20 A. Yes, they have.

21 Q. How is that represented?

22 A. They have agreed to join in the drilling of
23 the well, and we have agreed that Parker & Parsley
24 will become the operator of the well after completion
25 of the test. We have a letter agreement dated August

1 13 with Parker & Parsley covering not only this well
2 but also their participation of a well in the
3 southeast-southeast.

4 Q. When we look at the Santa Fe Energy
5 Operating Partnership interest that is not yet
6 committed, the application indicates that was a
7 2.77800 percent working interest?

8 A. That's correct.

9 Q. Let me have you identify and describe, Mr.
10 Robinette, what is Exhibit No. 4.

11 A. This is a letter dated August 7 forwarding
12 a copy of the operating agreement and setting forth
13 the understanding with Parker & Parsley that they
14 would become operator of the unit after completion.

15 Q. Have you received any response from CHL
16 Energy, Inc., concerning that correspondence?

17 A. No, we have not.

18 Q. Would you identify and describe Exhibit No.
19 5?

20 A. Same letter, dated August 7, to Santa Fe
21 Energy Operating Partners, L.P., again forwarding the
22 operating agreement and setting out our understanding,
23 our agreement with Parker & Parsley.

24 Q. Have you furnished to the working interest
25 owners a proposed well cost estimate for the drilling

1 of this well?

2 A. Yes, we have.

3 Q. I show you what is marked as Exhibit No. 6,
4 Mr. Robinette. Would you identify and describe that
5 exhibit?

6 A. Yes. This is the AFE for the drilling of
7 the Delaware test in the southwest-southeast of
8 Section 15, 23 South, 28 East. Dry hole cost of
9 \$163,900 and a complete well cost of \$315,200.

10 Q. Can you formulate an opinion as to whether
11 or not these anticipated costs are fair and
12 reasonable?

13 A. Yes. We have drilled at this point ten
14 wells in this area and have a very good feel for the
15 cost. In fact, this AFE has been reduced. My
16 previous AFE, which \$321,500, due to our experience
17 with the cost of the drilling of these wells.

18 Q. Do you recommend to the examiner that he
19 adopt this AFE as a reasonable well cost to be charged
20 against any nonconsenting working interest owner's
21 share of the cost of the well?

22 A. Yes.

23 Q. Do you have a recommendation to the
24 examiner with regards to overhead charges to be
25 applied for the supervision of this well by the

1 operator?

2 A. Yes.

3 Q. Have you in the past utilized the Ernst &
4 Whinney and now the Ernst & Young average overhead
5 rates for the other forced pooling cases that you have
6 obtained for the Division in this case?

7 A. Yes, we have.

8 Q. Do you propose to the examiner that he
9 adopt those same rates for this?

10 A. Yes, we do.

11 Q. Can you approximate for us what the
12 overhead rates are?

13 A. We've use \$4,541 drilling well rate and
14 \$438 producing well rate.

15 Q. In your opinion, are those fair and
16 reasonable charges?

17 A. Yes, sir. I think that they're probably at
18 this point, as we've been using them for a while,
19 probably a little bit on the low side, if anything.

20 MR. KELLAHIN: That concludes my
21 examination of Mr. Robinette, Mr. Stogner. We would
22 move the introduction of his exhibits 1 through 6.

23 HEARING EXAMINER: Exhibits 1 through 6
24 will be admitted into evidence at this time.

25

CROSS-EXAMINATION

1 BY HEARING EXAMINER:

2 Q. Mr. Robinette what, is Santa Fe's interest
3 in this acreage?

4 A. 2.778 I believe was the figure.

5 Q. When I look at your application you filed
6 with us to bring this to hearing, you listed only two
7 parties, Parker & Parsley at the time and Santa Fe
8 Energy as the parties being force-pooled. There was
9 no mention of CHL. Are CHL's interests in here
10 somewhere?

11 A. Yes. What happened was, when I filed for
12 the hearing, I was using a status sheet indicating who
13 had signed and who had not. My secretary
14 inadvertently left CHL off of the list.

15 MR. KELLAHIN: What we propose to do, Mr.
16 Examiner, is to present the case, let you continue it
17 to the hearing on September 9, if you please, by which
18 time we will have satisfied the notice requirements.
19 We have supplemental notices out to CHL.

20 HEARING EXAMINER: You mean September
21 19th?

22 MR. KELLAHIN: I'm sorry, September 19, yes
23 sir.

24 HEARING EXAMINER: That's the one that's
25 going to be held over in the Highway Department

1 because this is going to be utilized?

2 MR. KELLAHIN: That's right.

3 MR. STOVALL: Make sure CHL knows about
4 that.

5 MR. KELLAHIN: Sure.

6 THE WITNESS: Be sure to let me know if
7 they show up. We haven't heard from them. This is at
8 least the fourth time we've pooled them, and we've
9 never had a response to date.

10 MR. STOVALL: Have you ever talked to them
11 verbally?

12 THE WITNESS: I've tried to call them and
13 left messages. Reached the office, no problem; left
14 messages for the gentleman to call me, and never has
15 returned the call. I can't explain why.

16 HEARING EXAMINER: Their office is in
17 Canada, is it not?

18 THE WITNESS: Yes, in Vancouver, that's
19 correct.

20 HEARING EXAMINER: That's a bilingual
21 country. Have you spoke to them --

22 THE WITNESS: Oh, yes, they speak very good
23 English. We've written innumerable times.

24 HEARING EXAMINER: How about in French?

25 THE WITNESS: They answer the phone in

1 English, but we have never had a return call. In
2 fact, I talked to the gentleman who originally owned
3 CHL Energy, and he expressed the same problem with
4 them. They bought the stock of this company several
5 years ago is what happened. The gentleman that
6 originally owned it is out of Midland. I have no idea
7 why we have never gotten a response from them, but we
8 haven't.

9 HEARING EXAMINER: I have no other
10 questions of Mr. Robinette at this time. Are there
11 any other questions of this witness?

12 MR. KELLAHIN: No, sir.

13 HEARING EXAMINER: He may be excused.

14 Mr. Kellahin?

15 MR. KELLAHIN: I'd like to call Mr.
16 Campbell at this time.

17 D. G. CAMPBELL,
18 the witness herein, after having been first duly sworn
19 upon his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. KELLAHIN:

22 Q. Mr. Campbell, for the record, would you
23 please state your name and occupation.

24 A. D. G. Campbell. I'm a geologist.

25 Q. Mr. Campbell, on prior occasions, have you

1 testified before the Division as a geologist?

2 A. Yes, I have.

3 Q. In fact, Mr. Campbell, you have testified
4 on behalf of Bird Creek in prior pooling cases that
5 have involved CHL's interest in this particular area?

6 A. Yes, I have.

7 MR. KELLAHIN: We tender Mr. Campbell as an
8 expert petroleum geologist.

9 HEARING EXAMINER: Mr. Campbell is so
10 qualified.

11 Q. (BY MR. KELLAHIN) Mr. Campbell, let me
12 have you turn, sir, to your structure map, which is
13 marked as Exhibit No. 7?

14 A. Um-hm.

15 Q. When we look at the proposed 40-acre
16 spacing unit for this new well, describe for us what
17 you conclude in terms of a geologic risk for that
18 well.

19 A. Sure. This is a map, a structure map
20 that's mapped on the top of the basal unit of the
21 Delaware sands, which are productive in this area, the
22 C Sand. And this location falls on a flat, very
23 flankal position of this downstructure. As you move
24 downstructure, you pick up water. And that's the risk
25 involved here is, one, having the sand, and, two,

1 picking up water as you move off structure. And we're
2 moving off approximately 20 feet here or 25 feet from
3 one of our productive wells.

4 Q. Turn now, sir, to your isopach, which is
5 Exhibit No. 8. Again, assess for us in terms of your
6 sand map what is the geologic risk involved in
7 drilling of this well at this spacing unit.

8 A. It's got a high risk here. Move down to
9 where you've got less than 40 feet of sand, and when
10 you go to 40 feet or less sand here, it does two
11 things. It either begins to tighten up and become
12 nonproductive or it becomes water-bearing, and that's
13 the risk we run here. Of course, the positive thing
14 is that it gets a little thicker, which is -- on the
15 thin side, it's thinning both east and west across the
16 bar.

17 Q. We're on the western flanks of this
18 Delaware oil production, are we not?

19 A. Right.

20 Q. There's an absence of significant well
21 control as we move within the spacing unit into the
22 west of the spacing unit?

23 A. Yes. Of course, all the drilling has been
24 done on the crest of the feature.

25 Q. In summary, Mr. Campbell, the Commission is

1 authorized in compulsory pooling cases to award the
2 operator out of future production a risk factor
3 penalty up to 200 percent. You're familiar with that
4 concept?

5 A. Yes, I am.

6 Q. In terms of that percentage, what is your
7 conclusion with regards to the risk that should be
8 applied for the drilling of this well?

9 A. I think this warrants the 200 percent.

10 MR. KELLAHIN: That concludes my
11 examination of Mr. Campbell, Mr. Stogner. We would
12 move the introduction of his Exhibits 7 and 8.

13 HEARING EXAMINER: Exhibits 7 and 8 will be
14 admitted into evidence.

15 CROSS-EXAMINATION

16 BY MR. STOGNER:

17 Q. Mr. Campbell, when I look at Exhibit 8,
18 which one of these wells are Bird Creek-operated wells
19 completed in this formation?

20 A. Well, the location we're talking about is
21 the southwest-northeast, and if you come diagonally
22 northeast in the northeast-southwest of 15, we operate
23 that well.

24 Q. That's the one marked 66?

25 A. Yeah, 66 feet, the Caviness-Paine 1.

1 Q. Was that the first well in this?

2 A. No. The first well we drilled in here
3 would be diagonally over in 14, which would be in the
4 southeast-northwest of 14, which underneath it, it
5 says, Carrasco 14 1. That's the first well we
6 drilled.

7 Q. With a big 77 there?

8 A. A big 77 there, and that was more luck than
9 skill probably, but it did turn out that way.

10 Q. There's quite a few other wells also north;
11 oh, that appears to be the north half of the northwest
12 quarter and the north half of the northeast quarter of
13 14 and 15 respectfully. There's a line of wells. Is
14 that also Delaware producers?

15 A. Yes. For example, the one that says
16 Teledyne #1 under it, 60, and then coming west? Yes,
17 those are all those basal Delaware sand producers.

18 Q. Is there an average production rate on
19 these wells from this pool, or do they fluctuate quite
20 a bit?

21 A. Are you asking the allowable rate?

22 Q. Not the allowable rate; the actual
23 production, or are you producing the allowable?

24 A. Oh, yeah, we're producing the allowable in
25 here. The allowable is 142 barrels, and they're

1 productive, if that's your question.

2 Q. Let me rephrase it. Are there any
3 producing under the allowable?

4 A. Yes. Turn down in 22, the one that says
5 Ingalls Unit, 54 above it, which is 54 feet of pay,
6 that well makes 8 barrels a day.

7 Come just to the southeast of that, and it
8 says Jasso #1, 72 feet, that's an Amoco well, and it
9 makes approximately 61 barrels of oil and
10 approximately 60 barrels of water a day.

11 Q. How long have these wells been producing
12 their allowable, the ones up north?

13 A. The first well that we drilled was the
14 Carrasco #1. It started on production on September 20
15 of last year, has consistently produced its
16 allowable.

17 CROSS-EXAMINATION

18 BY MR. STOVALL:

19 Q. Let me ask you just out of interest, what
20 do you think the range of potential capabilities of
21 these wells is? If they were not limited by
22 allowable, how much would you think the paying wells
23 could produce?

24 A. I've thought about that, and speaking in
25 the interest of most efficient rate, in that veneer or

1 vernacular, probably 225, 250. I wouldn't want to
2 produce mine as even with that.

3 Q. But you think they could produce
4 efficiently without causing waste in the 200 to 225,
5 250 range?

6 A. Yes. Some of them could. Certainly, the
7 ones I've cited you, the lower ones, the ones you get
8 the good frac on, yeah, you could make that.

9 HEARING EXAMINER: What's the drive
10 mechanism in this reservoir, do you know?

11 THE WITNESS: It's primarily -- it's gas
12 and water combination, and part of this area, it's
13 water, and part it's solution.

14 HEARING EXAMINER: I have no other
15 questions of Mr. Campbell. Are there any other
16 questions of this witness?

17 Mr. Robinette, I do have a question for
18 you.

19 THE WITNESS: He left.

20 HEARING EXAMINER: Never mind.

21 MR. KELLAHIN: Perhaps I can answer it for
22 you. If not, we'll get him for you.

23 HEARING EXAMINER: Mr. Kellahin, the
24 operations are going to change to Parker & Parsley at
25 point of completion; is that correct?

1 MR. KELLAHIN: I will have to find out what
2 the arrangements are.

3 MR. STOVALL: Let's look at the letter
4 here.

5 HEARING EXAMINER: Exhibit No. 3, looks
6 like about the fourth line from the bottom, "Parker &
7 Parsley as Successor Operator after the well has been
8 completed."

9 MR. KELLAHIN: For purposes of the pooling
10 order, I propose that we leave Bird Creek as the
11 operator because, in fact, they will drill the well.

12 MR. KELLAHIN: That change of operatorship
13 wouldn't actually affect the pooling order, would it?

14 MR. KELLAHIN: No, sir, it shouldn't.

15 HEARING EXAMINER: That would be done with
16 a C-104, change of operator?

17 MR. KELLAHIN: Yes, sir.

18 HEARING EXAMINER: Is there anything
19 further in Case 10,067?

20 MR. KELLAHIN: Except to continue it to the
21 September 19th hearing.

22 HEARING EXAMINER: For notice purposes?

23 MR. KELLAHIN: Yes, sir.

24 HEARING EXAMINER: Case No. 10,067 will be
25 continued to the Examiner's Hearing scheduled at the

1 Highway Department on Cerrillos Road September 19,
2 1990.

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

I do hereby certify that the foregoing is
a correct record of the proceedings in
the examiner hearing of Case No. 10067
heard by me on 5 September 1990.

Michael E. [Signature], Examiner
Oil Conservation Division



Bird Creek Resources, Inc.

1412 S. Boston, Suite 550
Tulsa, Oklahoma 74119
(918) 582-7713

July 2, 1990

SEARCHED	INDEXED
SERIALIZED	FILED
BIRD CREEK	
10067	

CHL Energy, Inc.
c/o Queencliff Management
1241 Homer Street
Vancouver, British Columbia V6Z9

Re: West Loving Prospect
Proposed 6,300' Delaware Test
SW/4 SE/4, Section 15-23S-28E
Eddy County, New Mexico

Gentlemen:

This is to advise that Bird Creek Resources, Inc. hereby formally proposes the drilling of a 6,300' Delaware test at a legal location in the SW/4 SE/4 of Section 15-23S-28E, Eddy County, New Mexico. In this regard, please find enclosed two (2) copies of our AFE.

If you desire to participate in this test, please execute one copy of the AFE and forward to this office.

If you do not desire to participate, we hereby offer to take a farmout of your interest on the following basis:

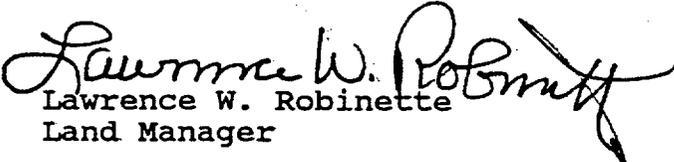
1. On or before December 1, 1990, Bird Creek Resources, Inc. shall commence or cause to be commenced the actual drilling of a 6,300' Delaware test at a legal location in the SW/4 SE/4 of Section 15-23S-28E, Eddy County, New Mexico.
2. Upon completion of the initial test as a well capable of producing oil and/or gas in commercial quantities, farmoutor shall assign to Bird Creek all of its interest in the SW/4 SE/4 of Section 15 from the surface down to 100 feet below the stratigraphic equivalent of the total depth drilled or to the base of the Delaware formation, whichever is the lesser.
3. Farmoutor shall reserve an overriding royalty interest equal to the difference between the existing leasehold burdens and 25%. At payout of the test well, said override shall be convertible to a proportionately reduced 25% working interest.

4. Bird Creek shall furnish all geological and well information on any well drilled on the farmout acreage.
5. The proration unit shall be covered by mutually acceptable a Joint Operating Agreement.

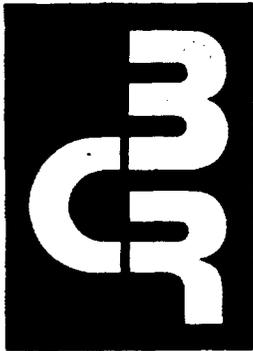
We are requesting that you reply within 30 days from the date of this letter after which time it will be necessary for us to schedule a force pooling hearing so that this operation may be commenced on schedule.

If you have any questions or require further information in this regard, please do not hesitate to contact me.

Sincerely,


Lawrence W. Robinette
Land Manager

Enclosures



Bird Creek Resources, Inc.

1412 S. Boston, Suite 550
Tulsa, Oklahoma 74119
(918) 582-7713

July 2, 1990

BIRD CREEK RESOURCES, INC.	
OFFICE OF OPERATIONS	
<u>BIRD CREEK</u>	EXHIBIT NO. <u>2</u>
CASE NO.	<u>10067</u>

Santa Fe Energy Operating Partners, L.P.
500 W. Illinois
Fifth Floor
Midland, TX 79702

Attention: Mr. Vernon Dyer

Re: West Loving Prospect
Proposed 6,300' Delaware Test
SW/4 SE/4, Section 15-23S-28E
Eddy County, New Mexico

Gentlemen:

This is to advise that Bird Creek Resources, Inc. hereby formally proposes the drilling of a 6,300' Delaware test at a legal location in the SW/4 SE/4 of Section 15-23S-28E, Eddy County, New Mexico. In this regard, please find enclosed two (2) copies of our AFE.

If you desire to participate in this test, please execute one copy of the AFE and forward to this office.

If you do not desire to participate, we hereby offer to take a farmout of your interest on the following basis:

1. On or before December 1, 1990, Bird Creek Resources, Inc. shall commence or cause to be commenced the actual drilling of a 6,300' Delaware test at a legal location in the SW/4 SE/4 of Section 15-23S-28E, Eddy County, New Mexico.
2. Upon completion of the initial test as a well capable of producing oil and/or gas in commercial quantities, farmoutor shall assign to Bird Creek all of its interest in the SW/4 SE/4 of Section 15 from the surface down to 100 feet below the stratigraphic equivalent of the total depth drilled or to the base of the Delaware formation, whichever is the lesser.

3. Farmoutor shall reserve an overriding royalty interest equal to the difference between the existing leasehold burdens and 25%. At payout of the test well, said override shall be convertible to a proportionately reduced 25% working interest.
4. Bird Creek shall furnish all geological and well information on any well drilled on the farmout acreage.
5. The proration unit shall be covered by mutually acceptable a Joint Operating Agreement.

We are requesting that you reply within 30 days from the date of this letter after which time it will be necessary for us to schedule a force pooling hearing so that this operation may be commenced on schedule.

If you have any questions or require further information in this regard, please do not hesitate to contact me.

Sincerely,


Lawrence W. Robinette
Land Manager

Enclosures



PARKER & PARSLEY
PETROLEUM COMPANY

P. O. Box 3178 Midland, Texas 79702-3178
300 West Illinois, Suite 103 (915) 683-4766

August 13, 1990

Bird Creek Resources, Inc.
1412 S. Boston, Suite 550
Tulsa, OK 74119

Attention: Mr. Lawrence W. Robinette,
Land Manager

Re: H-504-008 - Caviness-Paine #2 & #3
SE/4 SE/4 & SW/4 SE/4 Sec. 15,
T-23-S, R-28-E
Eddy County, New Mexico

Gentlemen:

Enclosed please find the following:

1. Executed Joint Operating Agreement for the Caviness-Paine #2 covering the SE/4 SE/4 of Section 15;
2. Our check payable to Bird Creek in the amount of \$81,958.10 which is payment for Parker & Parsley's share of estimated dryhole costs on the Caviness-Paine #2; and
3. Two approved "Authority For Expenditures" for the captioned wells.

In summary of our agreement discussed during our telephone conversation on August 2, 1990; (i) Bird Creek will bill Parker & Parsley for its share of the completion costs should Parker & Parsley elect to participate in the completion of the Caviness-Paine #2, (ii) Bird Creek and Parker & Parsley will execute a mutually acceptable Joint Operating Agreement for the Caviness-Paine #3 well which will provide, through amendment of Article V.B.1&2, resignation of Bird Creek as Operator and selection of **Parker & Parsley as Successor Operator after the well has been completed**; and (iii) Bird Creek will assume CHL Energy's non-consent interest and will pay all costs associated with the compulsory pooling hearing if such hearing was precipitated solely by CHL Energy's non-consent election.

SEARCHED	INDEXED
SERIALIZED	FILED
BIRD CREEK	
FILE NO. 3	
10067	

Bird Creek Resources, Inc.
August 13, 1990
Page 2

If the above correctly represents the terms of our agreement please acknowledge same by signing this letter in the space provided below and return to my attention at your earliest convenience.

Very truly yours,

PARKER & PARSLEY PETROLEUM COMPANY

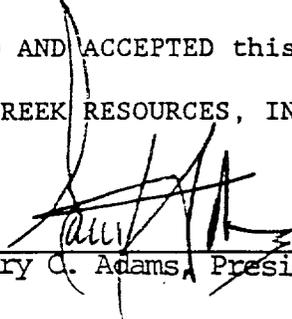


Steven K. Owen
Senior Landman
Drilling and Production Division

SKO/cb

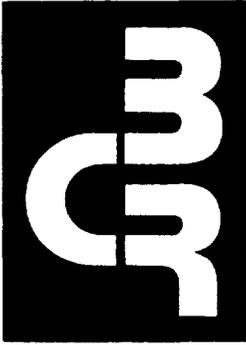
AGREED AND ACCEPTED this 16th day of August, 1990.

BIRD CREEK RESOURCES, INC.

By: 

Gary C. Adams, President

Lur



Bird Creek Resources, Inc.

1412 S. Boston, Suite 550
Tulsa, Oklahoma 74119
(918) 582-7713

August 7, 1990

CHL Energy, Inc.
c/o Queencliff Management
1241 Homer Street
Vancouver, British Columbia V6Z2Y9

Re: West Loving Prospect
Caviness-Paine #3
SW/4 SE/4, Section 15-23S-28E
Eddy County, New Mexico

Gentlemen:

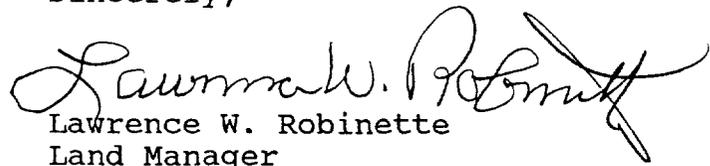
Please find enclosed a copy of that certain Operating Agreement dated August 3, 1990 along with an extra signature page thereto.

Please note that in accordance with an understanding reached with Parker & Parsley that Parker & Parsley will become Operator **after** the initial well is drilled and completed (see Article XV, Other Provisions). During drilling and through completion, Bird Creek shall be Operator and shall bill all working interest owners for all costs through completion.

If this instrument meets with your approval, please execute it, have it attested or witnessed as appropriate and return the extra signature page to this office for our files.

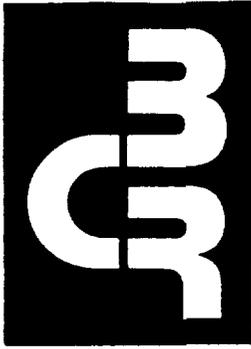
If you have any questions in this regard, please do not hesitate to contact me.

Sincerely,


Lawrence W. Robinette
Land Manager

Enclosure

SEARCHED	INDEXED
SERIALIZED	FILED
BIRD CREEK	EMERSON 4
10067	



Bird Creek Resources, Inc.

1412 S. Boston, Suite 550
Tulsa, Oklahoma 74119
(918) 582-7713

August 7, 1990

Santa Fe Energy Operating Partners, L.P.
500 W. Illinois
Fifth Floor
Midland, TX 79702
Attn: Vernon Dyer

Re: West Loving Prospect
Caviness-Paine #3
SW/4 SE/4, Section 15-23S-28E
Eddy County, New Mexico

Gentlemen:

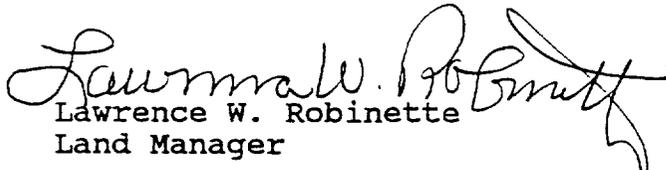
Please find enclosed a copy of that certain Operating Agreement dated August 3, 1990 along with an extra signature page thereto.

Please note that in accordance with an understanding reached with Parker & Parsley that Parker & Parsley will become Operator **after** the initial well is drilled and completed (see Article XV, Other Provisions). During drilling and through completion, Bird Creek shall be Operator and shall bill all working interest owners for all costs through completion.

If this instrument meets with your approval, please execute it, have it attested or witnessed as appropriate and return the extra signature page to this office for our files.

If you have any questions in this regard, please do not hesitate to contact me.

Sincerely,


Lawrence W. Robinette
Land Manager

Enclosure

SEARCHED	INDEXED
SERIALIZED	FILED
BIRD CREEK	DATE AUG 10 1990
OFFICE	NO. 5
FILE NO.	10067

WELL COST ESTIMATE

6,300' Delaware Test, SW/4 SE/4, Section 15-23S-28E
Eddy County, New Mexico

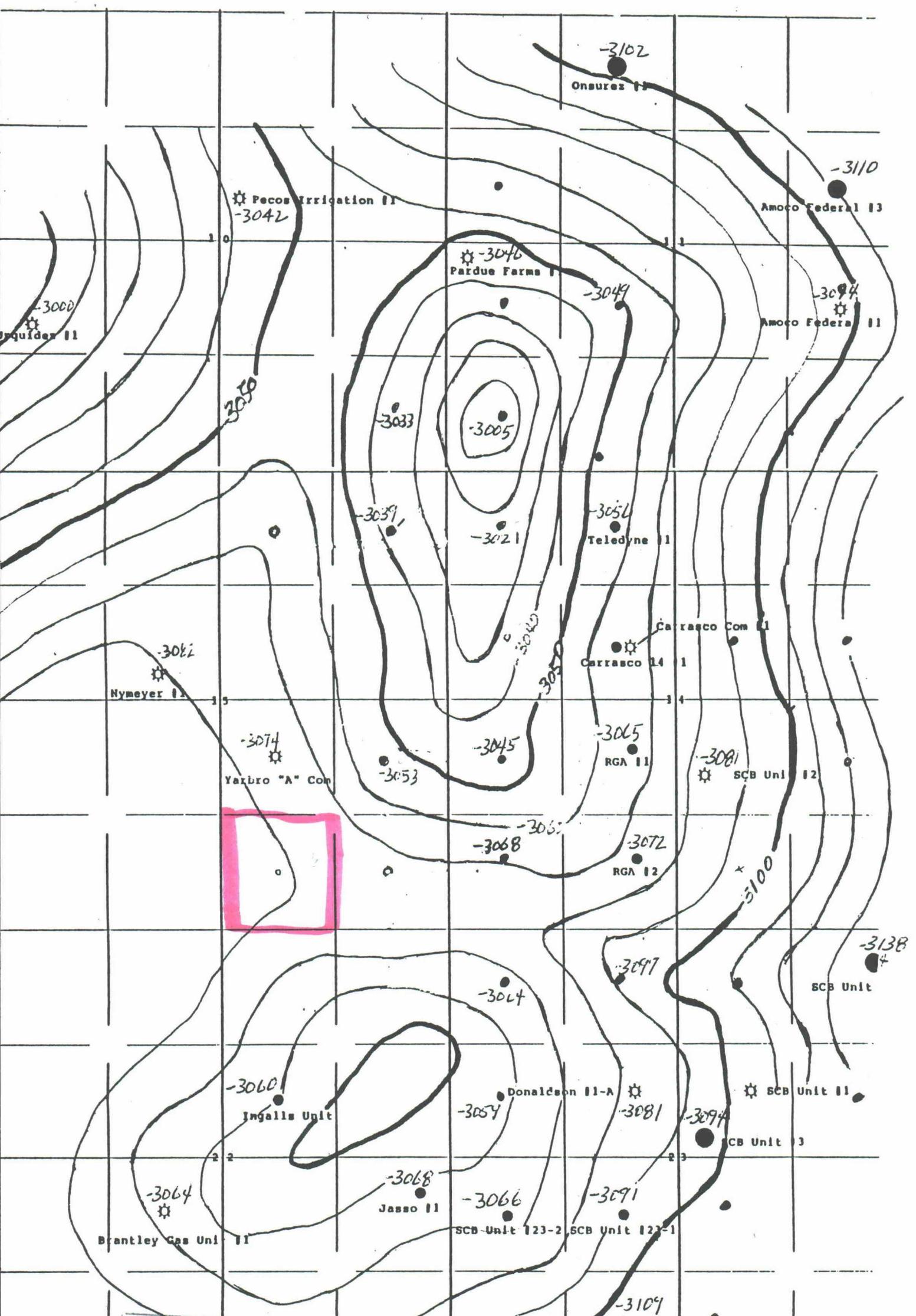
	<u>Producer</u>	<u>Dry Hole</u>
<u>Tangible Well Cost</u>		
Tubulars - 500' 8-5/8 @ \$ 9.20/ft	\$ 4,600	\$ 4,600
6,300' 5-1/2 @ \$ 5.50/ft	34,700	-
6,300' 2-7/8 @ \$ 3.00/ft	18,900	-
Transportation and hauling	4,000	4,000
Wellhead Assembly	5,000	1,500
Subsurface Equipment	4,000	-
Separation Facilities	4,000	-
Tanks	15,000	-
Flow Lines	3,000	-
Pumping Unit & Compressor	-	-
Other Equipment	<u>2,000</u>	-
<hr/> Total Tangibles	\$ 95,200	\$ <u>10,100</u>
<u>Intangible Well Cost</u>		
Permits, Surveys	\$ 2,000	\$ 2,000
Location, Road & Damages	12,000	12,000
Contract Drilling---6300 @ \$12/ft	69,300	69,300
3 days @ \$4300/day	12,000	8,000
Bits	1,000	1,000
Completion Unit 5 days @ \$1200/day	6,000	-
Cementing	20,000	4,000
Drilling Fluids	10,000	10,000
Fuel and Water	1,000	1,000
Supplies	1,000	500
Mud Logging	2,000	2,000
Wireline Service - Logging	8,000	8,000
Perforating	3,000	-
Formation Treating	22,000	-
Transportation and Hauling	5,000	2,000
Rentals and Miscellaneous	5,000	3,000
Contract Labor	6,000	3,000
Direct Supervision	6,000	5,000
Engineering Supervision	3,000	3,000
Geological Supervision	2,000	2,000
Insurance and Tax	1,000	1,000
Overhead	3,600	3,000
Contingencies	<u>20,000</u>	<u>14,000</u>
Total Intangibles	<u>\$220,900</u>	<u>\$153,800</u>
TOTAL	\$315,200	\$163,900

COMPANY _____

BY: _____

DATE: _____

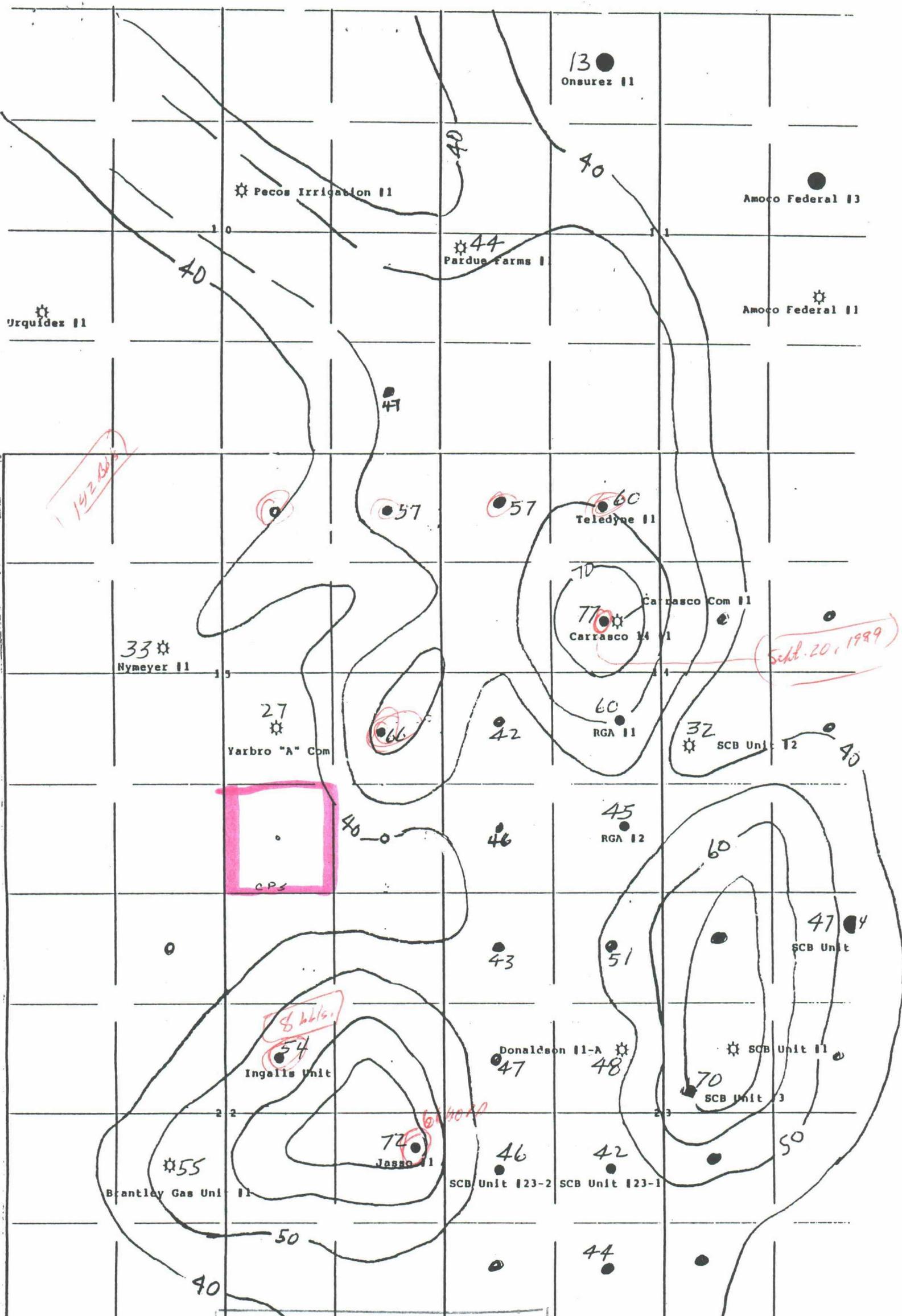
BIRD CREEK 6
10067



BEFORE EXAMINER STOGNER
 OIL CONSERVATION DIVISION
 BIRD CREEK
 EXHIBIT NO. 7
10067

STRUCTURE MAP
 Datum: Top Delaware sand 'C'
 CI = 10 ft.
 28 Aug. 90
 TEN

- ☼ Morrow/Atoka Gas Wells
- Bone Springs Oil Wells
- Delaware Oil Wells
- Proposed Locations



BEFORE EXAMINER STOGNER

OIL CONSERVATION DIVISION
 BIRD CREEK EXHIBIT NO. 8
 CASE NO. 10067

ISO PACH
 Delaware C-D Sands
 CI = 10 ft
 28 Aug 90

- ⊗ Morrow/Atoka Gas Wells
- Bone Springs Oil Wells
- Delaware Oil Wells
- Proposed Locations