

CLEROY INC.

512 MAYO BUILDING  
TULSA, OKLAHOMA 74103  
(918) 587-1342

October 16, 1985

Mr. Gilbert Quintana

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

Re: Case No. 8719  
Compulsory Pooling  
E/2 NE/4 4-17S-37E  
Lea County, New Mexico

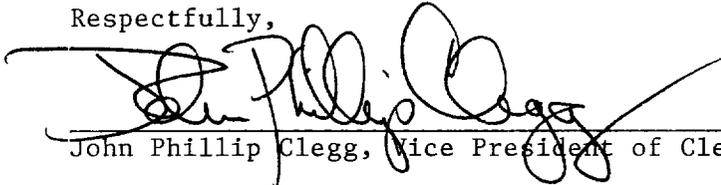
Dear Mr. Quintana:

On October 9th TXO and Pennzoil appeared before you seeking operations of a proposed well to be drilled to the Strawn formation in the captioned tract. Each company, however, proposed radically different well sites: TXO proposed to drill its well 2,310'FNL and 660'FEL; Pennzoil proposed as its wellsite a location 660'FNL and 810'FEL.

As owner of a 2.0833% mineral interest in the described tract, my company urges you to favorably consider the proposed TXO location. Chief among our reasons for our request is the presence of a Pennzoil well in the North of the Southeast Quarter of Section 4 which we believe may prejudice Pennzoil against the proposed TXO location and which we believe is draining our mineral property. We strongly feel that, in the absence of overwhelming geological evidence to the contrary, a location drilled further north than the proposed TXO location would not protect our rights as a mineral owner and would therefore be damaging to us.

Thank you very much for your consideration in this matter.

Respectfully,

  
John Phillip Clegg, Vice President of Cleroy Inc.

Jason Kellahin  
W. Thomas Kellahin  
Karen Aubrey

KELLAHIN and KELLAHIN  
*Attorneys at Law*  
El Patio - 117 North Guadalupe  
Post Office Box 2265  
Santa Fe, New Mexico 87504-2265

Telephone 982-4285  
Area Code 505

October 21, 1985

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OCT 21 1985  
OIL CONSERVATION DIVISION

Mr. Gilbert Quintana  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

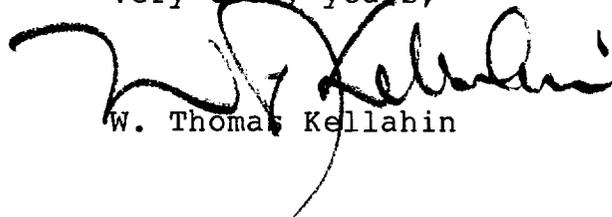
"Hand Delivered"

Re: NMOCD Case 8727  
NMOCD Case 8719

Dear Mr. Quintana:

On behalf of Pennzoil Company, please find enclosed for your consideration a proposed order for entry in the above referenced cases which you heard at the hearing held on October 17, 1985.

Very truly yours,



W. Thomas Kellahin

WTK:ca  
Enc.

cc: Greg Hair  
Pennzoil Company  
P. O. Box 1828  
Midland, Texas 79701

David Vandiver  
Dickerson Law Firm  
P. O. Box 239  
Artesia, New Mexico 88210

ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

THE APPLICATION OF PENNZOIL  
COMPANY FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

CASE NO. 8727

THE APPLICATION OF TXO  
PRODUCTION CORPORATION FOR  
COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

CASE NO. 8719

PENNZOIL'S PROPOSED  
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 9, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this \_\_\_ day of October, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That in Case 8727, PENNZOIL seeks compulsory pooling of all mineral interest owners in the Strawn formation underlying the E/2NE/4 of Section 4, T17S, R37E, NMPM, Lea County, New Mexico.

Case No. 8727  
Case No. 8719

(3) That in Case 8719, TXO seeks compulsory pooling of all mineral interest owners from the surface to the base of the Strawn formation underlying the E/2NE/4 or in the alternative the SE/4NE/4 of Section 4, T17S, R37E, NMPM, Lea County, New Mexico.

(4) That Cases 8727 and 8719 were consolidated for hearing.

(5) On September 11, 1985, the Division heard Case 8696 which was an application by Pennzoil to establish a new Strawn Oil Pool spaced on 80-acre spacing and approve a discovery oil allowable for its Viersen Well No. 1 located in Unit I of Section 4, T17S, R37E, NMPM.

(6) That while both Pennzoil and TXO support 80-acre spacing for the Shipp-Strawn Pool and both seek the same spacing unit, there is a dispute over the location of the well to be drilled in the Shipp-Strawn Pool north of the discovery well.

(7) Pennzoil has proposed a location in Unit A of Section 4 for its Shipp #2 Well, while TXO has proposed a location in Unit H of Section 4 for its Grisso #1 well.

(8) That the plan of development proposed by Pennzoil for the Shipp-Strawn Oil Pool would place wells in either the NE/4 or the SW/4 of the governmental quarter section.

(9) Pennzoil will commence the Viersen #2 well in Unit O of Section 4.

(10) Pennzoil further has applied for a Pooling order for its Shipp #1 well to be located in Unit G of Section 4 and to dedicate the W/2NE/4 to that well.

(11) TXO has executed the Pennzoil AFE for the Shipp #1 Well and has approved the location and drilling of that well.

(12) Pennzoil's proposed location for the Shipp #2 well would lead to the orderly development of the Pool on 80-acre spacing patterns and would place the pool wells at uniform distances from each other to maximize the efficient development and drainage of the pool.

(13) TXO's proposed location for its Grisso #1 Well would result in defacto 40-acre spacing and could result in the drilling of an unnecessary well.

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(14) That TXO's geological evidence, upon which it attempts to justify its location, is speculative and contrary to the substantial evidence presented by Pennzoil.

(15) Pennzoil's geological evidence is based upon seismic data which has been confirmed with actual wellbore data from the Viersen #1 Well and by engineering calculations that demonstrate that the reservoir characteristics are consistent with Pennzoil's interpretation of the location and orientation of the pool.

(16) That the plan of development and well locations proposed by Pennzoil is the pattern more closely orientated to the reservoir.

(17) That Pennzoil has 48.52% of the working interests committed to its operations of the unit and an additional 16.89% in support of the Pennzoil location.

(18) That TXO has about 6% of the working interest committed to its operations of the unit and an additional 12.4% in support of the TXO location.

(19) That the NE/4 of Section 4 has working interest owners that are undivided and common for that quarter section but which are in some instances different or have different percentage interests to the working interest ownership for the SE/4 of said Section 4.

(20) That because the working interests in the NE/4 are not identical nor have identical percentage interests to the working interest ownerships for the SE/4 and to protect the correlative rights of both sets of owners, the possibility of drainage from the NE/4 by the Viersen #1 (discovery well), should be minimized by postponing production on the discovery oil allowable until the Shipp #2 Well in the E/2NE/4 has been drilled and completed.

(21) Based upon current available geologic and engineering evidence, the TXO location would disrupt orderly development, may result in the drilling of an unnecessary well and cause waste.

(22) That the Pennzoil proposed location is the preferred location and is consistent with current geologic and seismic data.

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Case No. 8719

(23) That Pennzoil should drill and complete its Shipp #1 well in the W/2NE/4 and thereafter give all working interest owners in the E/2NE/4 an opportunity to review the new data before being subject to the penalty portions of this order.

(24) That after completion of the Shipp #1 well, but not later than February 1, 1986, Pennzoil should commence the Shipp #2 well.

(25) In the event the data obtained from the drilling and completion of the Shipp #2 well is substantial inconsistent with Pennzoil's interpretation of the location and orientation of the Shipp Strawn reservoir, then TXO may reopen the subject case for entry of such further and other orders as may be necessary to protect correlative rights and prevent waste.

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

(27) That Pennzoil should be designated the operator of the subject well and unit.

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

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

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

(31) That following determination of reasonable well costs, any non-consenting working interest owner who

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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.

(32) That \$5500.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling and that \$550.00 per month should be fixed as a reasonable charge for supervision while producing; that this charge should be adjusted annually based upon the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers; that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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.

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

(34) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before the expiration of 120 days from the effective date of this order, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests in the Strawn Formation underlying the E/2NE/4 of Section 4, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 80-acre spacing and proration unit dedicated to the Shipp #2 well.

PROVIDED HOWEVER, that the operator of said unit shall commence the said well on or before the expiration of 120 days after the effective date of this order, or upon completion of the Shipp #1 Well, whichever is later, and shall thereafter continue the drilling of said well with due diligence.

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PROVIDED FURTHER, that in the event said operator does not commence the re-entry of said well on or before the expiration of 120 days after the effective date of this order, Order (1) of this order shall become 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 completed, or abandoned, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That PENNZOIL is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and after the completion of the Shipp #1 well in Unit G of Section 4 and within 90 days prior to commencing said well, the operator shall furnish the Division and each know working interest owner in the subject unit, an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

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

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

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his pro rate 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.

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

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

(9) That \$5500.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$550.00 per month is hereby fixed as a reasonable charge for supervision while producing, provided that this rate shall be adjusted on the first day of January of each year following the effective date of this order; that the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceeding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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

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operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That the production of the discovery oil allowable approved for the Viersen #1 well, located in Unit I of Section 4, by Order R-\_\_\_\_\_, is hereby postponed and shall be produced within the two year period commencing with the completion of the Shipp #2 well located in Unit A of Section 4.

(14) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

RICHARD L. STAMETS  
Director

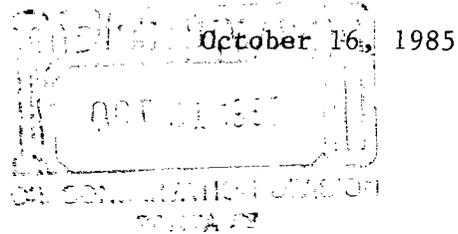
# LANROY INC.

512 MAYO BUILDING  
TULSA, OKLAHOMA 74103  
(918) 587-1342

Mr. Gilbert Quintana

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

Re: Case No. 8719  
Compulsory Pooling  
E/2 NE/4 4-17S-37E  
Lea County, New Mexico



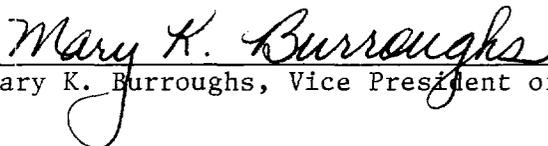
Dear Mr. Quintana:

On October 9th TXO and Pennzoil appeared before you seeking operations of a proposed well to be drilled to the Strawn formation in the captioned tract. Each company, however, had proposed radically different well sites: TXO proposed to drill its well 2,310'FNL and 660'FEL; Pennzoil proposed as its wellsite a location 660'FNL and 810'FEL.

As owner of a 2.0833% mineral interest in the described tract, my company urges you to favorably consider the proposed TXO location. Chief among our reasons for our request is the presence of a Pennzoil well in the North of the Southeast Quarter of Section 4 which we believe may prejudice Pennzoil against the proposed TXO location and which we believe is draining our mineral property. We strongly feel that, in the absence of overwhelming geological evidence to the contrary, a location drilled further north than the proposed TXO location would not protect our rights as a mineral owner and would therefore be damaging to us.

Thank you very much for your consideration of this matter.

Respectfully,

  
\_\_\_\_\_  
Mary K. Burroughs, Vice President of Lanroy Inc.

November 1, 1985

Mr. R. L. Stamets, Director  
Energy and Minerals Department  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Oil Conservation Division Case No. 8719 and 8727  
Examiner Hearing of October 9, 1985  
TXO Production Corp. Grisso No. 1 Well  
Township 17 South, Range 37 East, N.M.P.M.  
Section 4: E/2 NE/4  
Lea County, New Mexico

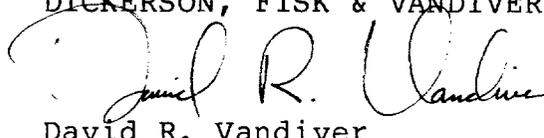
Dear Mr. Stamets:

On behalf of TXO Production Corp., enclosed please find a proposed Order of the Division for entry in the above referenced cases, which were consolidated at the October 9, 1985 examiner hearing. The proposed Order is being submitted in lieu of the Order we submitted to Mr. Quintana with our letter of October 18.

Please let us know if you have any questions about this matter.

Very truly yours,

DICKERSON, FISK & VANDIVER



David R. Vandiver

DRV:paf  
Enclosure

cc: Mr. Jeff Bourgeois  
Mr. W. Thomas Kellahin  
Mr. Max Coll  
Mr. Kenneth Bateman

October 18, 1985

Mr. Gilbert P. Quintana, Examiner  
Energy and Minerals Department  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Oil Conservation Division Case #8719  
Examiner Hearing of October 9, 1985  
TXO Production Corp. Grisso No. 1 Well  
Township 17 South, Range 37 East, NMPM  
Section 4: E/2 NE/4  
Lea County, New Mexico

Dear Mr. Quintana:

As we discussed on October 10, 1985, at the close of the above hearing, we have prepared and herewith enclose a proposed Order of the Division in Case No. 8719.

At the October 10th hearing, you indicated that the application of TXO Production Corp. in this case may not be approved until Pennzoil Company has drilled its B. E. Shipp Estate No. 1 Well, which will be located in SW/4 NE/4 Section 4. You will recall from the testimony at the hearing that the Pennzoil Company Viersen No. 1 Well, located in NE/4 SE/4 Section 4, is causing drainage from E/2 NE/4 Section 4. In the event the enclosed Order is entered by the Division following the drilling and completion of the Pennzoil B. E. Shipp Estate No. 1 Well, then TXO Production Corp. requests that the Division enter an order requiring Pennzoil Company to shut-in its Viersen No. 1 Well, without the necessity of a rehearing, until such time as TXO has had an opportunity to drill its Grisso No. 1 Well.

Mr. Gilbert P. Quintana, Examiner  
-2-

October 18, 1985

Please let us know if you have any questions about this matter.

Very truly yours,

DICKERSON, FISK & VANDIVER

  
David R. Vandiver

DRV:pvm  
Enclosure

cc w/enclosure: Mr. Jeff Bourgeois  
Mr. W. Thomas Kellahin  
Mr. Max Coll  
Mr. Kenneth Bateman

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 8719  
Order No. R-

APPLICATION OF TXO PRODUCTION  
CORP. FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on October 10, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this \_\_\_\_\_ day of October, 1985, 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, TXO Production Corp., seeks an order pooling all mineral interests from the surface to the top of the Strawn formation underlying SE/4 NE/4 Section 4, Township 17 South, Range 37 East, N.M.P.M., and pooling all mineral interests from the top of the Strawn formation to the base of the Strawn formation underlying E/2 NE/4 Section 4, Township 17 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

(3) The applicant has the right to drill and proposes to drill the Grisso Well No. 1 and complete it at a standard location thereon.

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

(5) 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 completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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

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

(8) Evidence presented was insufficient to justify a maximum risk penalty factor of 200%.

(9) 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 100 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(10) 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.

(11) 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.

(12) \$5,374.00 per month while drilling and \$538.00 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.

(13) 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.

(14) Upon the failure of the operator of said pooled unit to drill the well to which said unit is dedicated on or before February 1, 1986, the order pooling said unit should become null and void and of no effect whatsoever.

(15) 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.

(16) 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.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Strawn formation, underlying E/2 NE/4 Section 4, Township 17 South, Range 37 East, N.M.P.M., Lea County, New Mexico, are hereby pooled to form a standard 80-acre spacing and proration unit to be dedicated to a well to be drilled and completed at a standard location thereon, and all mineral interests, whatever they may be, from the surface to the top of the Strawn formation, underlying SE/4 NE/4 Section 4, Township 17 South, Range 37 East, N.M.P.M., Lea County, New Mexico, are hereby pooled to form a standard 40-acre spacing and proration unit to be dedicated to a well to be drilled and completed at a standard location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of February, 1986, and shall thereafter continue the drilling operations on said well with due diligence to a depth sufficient to test the Strawn formation;

PROVIDED FURTHER THAT, in the event said operator does not drill said well on or before the 1st day of February, 1986, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown; and

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director

and show cause why Order (1) of this order should not be rescinded.

(2) TXO Production Corp. 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 the 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.

(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.

(B) As a charge for the risk involved in the drilling of the well, 100 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) \$5,374.00 per month while drilling and \$538.00 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 unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) 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 immediately 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.

(14) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary

-6-

Case No. 8719

Order No. R-

agreement of all parties subject to the force pooling provisions of this order.

(15) 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

R. L. STAMETS  
Director

S E A L

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

THE APPLICATION OF TXO PRODUCTION  
CORP. FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

CASE NO. 8719  
ORDER NO. R- \_\_\_\_\_

THE APPLICATION OF PENNZOIL  
COMPANY FOR COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

CASE NO. 8727  
ORDER NO. R- \_\_\_\_\_

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9:00 A.M. on October 9, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this \_\_\_\_\_ day of November, 1985, 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) In case No. 8719, the applicant, TXO Production Corp., seeks an order pooling all mineral interests from the surface to the top of the Strawn formation underlying SE/4 NE/4 Section 4, Township 17 South, Range 37 East, N.M.P.M., and pooling all mineral interests from the top of the Strawn formation to the base of the Strawn formation underlying E/2 NE/4 Section 4, or in the alternative SE/4 NE/4 Section 4, Township 17 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

(3) In case No. 8727, the applicant, Pennzoil Company, seeks compulsory pooling of all mineral interests in the Strawn formation underlying E/2 NE/4 Section 4, Township 17 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

Cases Nos. 8719 and 8727

Orders Nos. R-\_\_\_\_\_ and R-\_\_\_\_\_

(4) Cases Nos. 8719 and 8727 were consolidated for hearing.

(5) On September 11, 1985, the Division heard case No. 8696, which was an application by Pennzoil to establish a new Strawn oil pool, to be known as the Shipp-Strawn Pool, providing for 80-acre spacing and proration units, and to approve a discovery oil allowable for Pennzoil's Vierson No. 1 Well, located in Unit I of Section 4, Township 17 South, Range 37 East, N.M.P.M. At the hearing on September 11, Pennzoil sought the establishment of the special pool rules for a temporary period of one year in order to obtain additional information as to whether the 80-acre spacing and proration units will be appropriate for the pool.

(6) Both TXO and Pennzoil seek to drill a Strawn oil well in E/2 NE/4 Section 4, but there is a dispute over the location of the proposed well.

(7) Pennzoil proposes to drill its Shipp No. 2 Well in Unit A of Section 4, to be located 660 feet from the North line and 810 feet from the East line of Section 4. TXO proposes to drill its Grisso No. 1 Well in Unit H of Section 4 at a location which is 2,310 feet from the North line and 660 feet from the East line of Section 4.

(8) Pennzoil has drilled its Vierson No. 1 Well in Unit I of Section 4, which is located 2,130 feet from the South line and 660 feet from the East line of Section 4.

(9) The location for TXO's proposed Grisso No. 1 Well is approximately 840 feet from Pennzoil's Vierson No. 1 Well, while Pennzoil's proposed Shipp No. 2 Well will be located approximately 2,500 feet from the Vierson No. 1 Well.

(10) The uncontroverted evidence presented at the hearing in this case established that Pennzoil's Vierson No. 1 Well is currently draining oil underlying E/2 NE/4 Section 4.

(11) TXO's proposed Grisso No. 1 Well is necessary to drain the reservoir underlying E/2 NE/4 Section 4, and if the well is not drilled, a portion of the oil in the Strawn formation underlying said lands will not be recovered, resulting in economic waste.

(12) The evidence presented in this case and Case No. 8696 on the proposed Shipp-Strawn Pool indicates that the productive Strawn reservoirs consist of small, isolated porosity pods.

(13) The location of TXO's proposed Grisso No. 1 Well is based upon the best available geological evidence, as established by the log in Pennzoil's Vierson No. 1 Well.

(14) Pennzoil's interpretation of the seismic data introduced as evidence in this case attempts to establish a separate Strawn reservoir in NE/4 NE/4 Section 4. If Pennzoil is later able to establish that the separate reservoir exists, based upon evidence subsequently obtained through the drilling of its Shipp No. 1 Well, to be located in SW/4 NE/4 Section 4, then a separate well could be drilled in NE/4 NE/4 Section 4, regardless of the special pool rules establishing 80-acre spacing units.

(15) There is no well control for Pennzoil's proposed Shipp No. 2 Well, to be located in NE/4 NE/4, and the location for such well is based upon seismic data which is extremely interpretive and speculative. Said Shipp well is also projected toward a separate Strawn reservoir from that encountered in the Vierson No. 1 Well. The seismic data presented by Pennzoil at the hearing confirms that TXO's proposed location is the optimum location for the Strawn well to be drilled in E/2 NE/4 Section 4, insofar as the reservoir discovered in the Vierson No. 1 Well is concerned.

(16) The proposed location of TXO's Grisso No. 1 Well is the best location for defining the limits of the Shipp-Strawn Pool, presents the least risk to the owners of working interests in E/2 NE/4, is necessary for the efficient and orderly development of the Shipp-Strawn Pool, and is necessary to fully and efficiently drain the oil in the Strawn formation underlying E/2 NE/4 Section 4.

(17) The location proposed by Pennzoil for its Shipp No. 2 Well in NE/4 NE/4 Section 4 is based upon speculation and conjecture, would augment the risk to the owners of working interests in E/2 NE/4, and may result in the drilling of an unnecessary well, causing economic waste to the working interest owners.

(18) None of the owners of mineral interests in NE/4 Section 4 own any mineral interest in SE/4 Section 4, the mineral ownership of such quarter sections being totally separate.

(19) Pennzoil owns approximately 94% working interest in E/2 SE/4 Section 4, and approximately 37% working interest in E/2 NE/4 Section 4.

(20) The only other working interest owner committed to Pennzoil's proposed location is The Superior Oil Company, which

Cases Nos. 8719 and 8727  
Orders Nos. R-\_\_\_\_\_ and R-\_\_\_\_\_

owns approximately 6% working interest in E/2 SE/4 Section 4. Pennzoil and Superior are the only parties owning working interests in both E/2 NE/4 and E/2 SE/4 Section 4.

(21) Pennzoil proposes to drill its Waldren No. 1 Well in SW/4 NW/4 Section 3, directly offsetting the proposed location of TXO's proposed Grisso No. 1 Well, in SE/4 NE/4 Section 4. Pennzoil owns over 90% of the working interest in SW/4 NW/4 of said Section 3.

(22) The location of Pennzoil's proposed Shipp No. 2 Well is based primarily upon the desire to drain the oil underlying E/2 NE/4 from wells located on acreage in which Pennzoil owns a larger working interest, and not on sound geologic data and the prudent, orderly and efficient development of the Shipp-Strawn Pool.

(23) Approval of Pennzoil's location for its proposed Shipp No. 2 Well, rather than TXO's proposed Grisso No. 1 Well, would have the result of impairing the correlative rights of the owners of mineral interests and working interests in E/2 NE/4 Section 4.

(24) TXO has the right to drill its proposed Grisso No. 1 Well in order to recover its just and fair share of the oil underlying E/2 NE/4 and to protect the correlative rights of the other interest owners in said unit.

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

(26) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste, and to afford 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 completion resulting from this order, the application of TXO Production Corp. should be approved by pooling all mineral interests, whatever they may be, within said unit.

(27) That TXO Production Corp. should be designated the operator of the subject well and unit.

(28) 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.

(29) Evidence presented was insufficient to justify a maximum risk penalty factor of 200%.

(30) 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 100 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(31) 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.

(32) 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.

(33) \$5,374.00 per month while drilling and \$538.00 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.

(34) 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.

(35) Upon the failure of the operator of said pooled unit to drill the well to which said unit is dedicated on or before February 1, 1986, the order pooling said unit should become null and void and of no effect whatsoever.

(36) 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.

(37) 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.

Cases Nos. 8719 and 8727  
Orders Nos. R-\_\_\_\_\_ and R-\_\_\_\_\_

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Strawn formation, underlying E/2 NE/4 Section 4, Township 17 South, Range 37 East, N.M.P.M., Lea County, New Mexico, are hereby pooled to form a standard 80-acre spacing and proration unit to be dedicated to a well to be drilled and completed at a standard location thereon, and all mineral interests, whatever they may be, from the surface to the top of the Strawn formation, underlying SE/4 NE/4 Section 4, Township 17 South, Range 37 East, N.M.P.M., Lea County, New Mexico, are hereby pooled to form a standard 40-acre spacing and proration unit to be dedicated to a well to be drilled and completed at a standard location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 1st day of February, 1986, and shall thereafter continue the drilling operations on said well with due diligence to a depth sufficient to test the Strawn formation;

PROVIDED FURTHER THAT, in the event said operator does not drill said well on or before the 1st day of February, 1986, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown; and

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) TXO Production Corp. 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 the 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.

(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.

(B) As a charge for the risk involved in the drilling of the well, 100 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) \$5,374.00 per month while drilling and \$538.00 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 author-

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Cases Nos. 8719 and 8727

Orders Nos. R-\_\_\_\_\_ and R-\_\_\_\_\_

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

(11) 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 immediately 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.

(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) 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

R. L. STAMETS  
Director

S E A L

**PENNZOIL COMPANY**  
WESTERN DIVISION

MIDLAND DISTRICT BRIERCROFT SAVINGS BUILDING • (915) 682-7316  
MAILING ADDRESS: P. O. DRAWER 1828 MIDLAND, TEXAS 79702-1828

November 4, 1985

CERTIFIED MAIL

WORKING INTEREST OWNERS  
(Address List Attached)

Re: B. E. Shipp Estate No. 1  
W/2 NE/4 of Section 4,  
T-17-S, R-37-E  
Lea County, New Mexico

Case 8728  
Quintana

Gentlemen:

By letter dated August 30, 1985, Pennzoil proposed to drill an 11,500' Strawn test at a legal location 1980' FNL & 1980' FEL of Section 4, T-17-S, R-37-E, Lea County, New Mexico. As of the date of this letter, you have not elected to participate as to your interest in the drilling of the proposed well. Accordingly, we have enclosed the following:

1. State of New Mexico Oil Conservation Division Order No. R-8067, effective November 1, 1985, which pools all mineral interests in the Strawn formation underlying the W/2 NE/4 of Section 4, T-17-S, R-37-E.
2. An itemized schedule of estimated well costs for the B. E. Shipp Estate No. 1 well.

In accordance with the enclosed order, please make your election to either participate or go non-consent in the drilling of the subject well, within thirty days of receipt of this notice. If you elect to participate, please return a signed copy of the AFE and signature page to the Operating Agreement previously submitted to you.

Should you have any questions, feel free to contact the undersigned.

Very truly yours,

  
Greg Davis  
Landman

GD/dv

Enclosures

cc: Mr. Richard L. Stamets  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, NM 87504

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November 4, 1985

WORKING INTEREST OWNERS  
W/2 NE/4 of Section 4, T-17-S, R-37-E  
Lea County, New Mexico

TEXACO PRODUCING INC.  
P. O. Box 3109  
Midland, TX 79702  
ATTN: Tom Bryla

SOHIO PETROLEUM COMPANY  
Two Lincoln Centre  
5420 LBJ Freeway  
Suite #1000/LB03  
Dallas, TX 75240  
ATTN: Steve T. Soule

MAX W. COLL II  
P. O. Box EE  
Santa Fe, NM 87502

JAMES N. COLL, CHARLES H. COLL  
& JON F. COLL  
P. O. Box 1818  
Roswell, NM 88201

JACK D. HIGHTOWER  
P. O. Box 11227  
Midland, TX 79702



MIDLAND DISTRICT, BRIERCROFT SAVINGS BUILDING • (915) 682-7316  
MAILING ADDRESS: P. O. DRAWER 1828 MIDLAND, TEXAS 79702-1828

November 4, 1985

CERTIFIED MAIL

Coates Energy Trust  
& Elizabeth H. Maddux  
P. O. Box 171717  
San Antonio, TX 78217

Sun Exploration & Production Co.  
Sun Tower  
ClayDesta Plaza  
No. 24 Smith Road, Suite 600  
Midland, TX 79705  
ATTN: Douglas A. Noah

Osborne Heirs Company  
P. O. Box 17968  
San Antonio, TX 78286  
ATTN: Red Houser

W. B. Osborne Oil & Gas Oper.  
P. O. Box 8-C  
San Antonio, TX 78286  
ATTN: Mel Thetford

Re: B. E. Shipp Estate No. 1  
W/2 NE/4 of Section 4,  
T-17-S, R-37-E  
B. E. Shipp Estate No. 2  
E/2 NE/4 of Section 4,  
T-17-S, R-37-E  
Lea County, New Mexico

Gentlemen:

Pennzoil Company plans to drill two (2) 11,500' Strawn tests at legal locations in the NE/4 of Section 4, T-17-S, R-37-E. The first well to be drilled is the B. E. Shipp Estate No. 1 located 1980' FNL & 1980' FEL of Section 4, T-17-S, R-37-E. The next well to be drilled is the B. E. Shipp Estate No. 2 located 660' FNL & 810' FEL of Section 4, T-17-S, R-37-E. We hope to spud the No. 1 well within the next week. Our proposed AFE's and Operating Agreements are enclosed for your review. A revised Exhibit "A" will be forwarded in the near future.

Your interest in the NE/4 of Section 4, T-17-S, R-37-E is of a contractual nature and is pursuant to that certain East Lovington Contract dated August 22, 1950, by and among Tide Water Associated Oil Company, as Operator, and The Atlantic Refining Company, Shell Oil Company and Sinclair Oil & Gas Company as Non-Operators. The ownership is as follows:

Texaco Producing Inc.	4.02315%
Atlantic Richfield Company	3.40939%
Shell Western E&P, Inc.	1.33698%
Sun Exploration & Production Co.	.22530%
Coates Energy Trust & Elizabeth H. Maddux	.16748%
Osborne Heirs Company	.10013%
W. B. Osborne Oil & Gas Operations	.05007%
	<u>9.3125%</u>

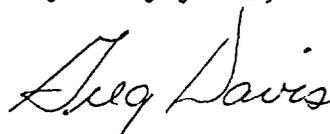
On October 9, 1985, Pennzoil went before the Oil Conservation Division of New Mexico seeking separate orders pooling all mineral interests underlying the W/2 NE/4 and E/2 NE/4 of Section 4, T-17-S, R-37-E. TXO Production Corp. also made application to pool the E/2 NE/4 of Section 4 for the drilling of their proposed Grisso No. 1 well located 2310' FNL & 660' FEL of Section 4, T-17-S, R-37-E. As you can see, Pennzoil and TXO do not agree on locations for a well in the E/2 NE/4, but TXO has agreed to participate in our Shipp No. 1 well. Copies of the applications and Order No. R-8067, which pools the W/2 NE/4 of Section 4, T-17-S, R-37-E, are enclosed for your review.

In accordance with the enclosed order, please make your election to either participate or go non-consent in the drilling of the B. E. Shipp Estate No. 1 well, within thirty days of receipt of this notice. If you elect to participate, please return a signed copy of the AFE and signature page to the Operating Agreement.

We also ask that you consider participating in our proposed B. E. Shipp No. 2 well. We hope to have an order from the OCD covering the E/2 NE/4 of Section 4, T-17-S, R-37-E, in the near future.

Should you have any questions, feel free to contact the undersigned.

Very truly yours,



Greg Davis  
Landman

GD/dv

Enclosures

cc: Mr. Richard L. Stamets  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, NM 87504

December 23, 1985

Mr. R. L. Stamets, Director  
Energy and Minerals Department  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Oil Conservation Division Cases Nos. 8719 and 8727  
Examiner Hearing of October 9, 1985  
TXO Production Corp. Grisso No. 1 Well  
Township 17 South, Range 37 East, N.M.P.M.  
Section 4: E/2 NE/4  
Lea County, New Mexico

Dear Mr. Stamets:

The above referenced cases were heard on October 9, 1985, before Examiner Gilbert P. Quintana. The cases, which were consolidated for hearing, involve the applications of TXO Production Corp. and Pennzoil Company for compulsory pooling of the captioned lands. Following the hearing, the cases were taken under advisement. At the request of Mr. Quintana, counsel for TXO and Pennzoil submitted proposed Orders of the Division in order to expedite the resolution of the cases. The Division has not entered an order in these cases as of the date of this letter.

The Pennzoil Vierson No. 1 Well, located in NE/4 SE/4 Section 4, is the discovery well for the Shipp-Strawn pool, as established in Case No. 8696. The uncontroverted evidence presented at the October 9 hearing established that the Vierson No. 1 Well is currently draining oil underlying E/2 NE/4 Section 4. The Vierson No. 1 has a discovery allowable, and TXO believes that the well is producing the allowable. Since the date of the October 9 hearing, other Strawn wells have been drilled in Section 4, one of which is located in SW/4 NE/4 Section 4. TXO believes that these subsequent wells will increase the drainage of the oil underlying E/2 NE/4 Section 4.

In light of the foregoing facts, TXO's correlative rights in E/2 NE/4 Section 4 are in jeopardy. TXO cannot drill its well without the entry of an order in this case, and drainage from E/2 NE/4 will continue until TXO is allowed to drill its well.

Mr. R. L. Stamets  
December 23, 1985  
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TXO respectfully requests the Division to issue an order in this case at its earliest opportunity. If the Division needs any additional information from the parties, we will be happy to submit it.

Thank you for considering this request.

Very truly yours,

DICKERSON, FISK & VANDIVER

A handwritten signature in cursive script, appearing to read "David R. Vandiver". The signature is written in dark ink and is positioned over the printed name below it.

David R. Vandiver

DRV:paf

cc: Mr. Jeff Bourgeois  
Mr. W. Thomas Kellahin

Jason Kellahin  
W. Thomas Kellahin  
Karen Aubrey

KELLAHIN and KELLAHIN  
*Attorneys at Law*  
El Patio - 117 North Guadalupe  
Post Office Box 2265  
Santa Fe, New Mexico 87504-2265

Telephone 982-4285  
Area Code 505

December 31, 1985

Mr. Richard L. Stamets  
Oil Conservation Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

*Case file  
Bill*

Re: NMOCD Case 8719 and 8727  
Pennzoil Ship #2 Well  
TXO Grisso No. 1 Well

Dear Mr. Stamets:

I have received a copy of a letter dated December 23, 1985, to you from Mr. Vandiver on behalf of TXO Production Corporation requesting that the Division expedite a decision in the two cases in which Pennzoil and TXO both seek to pool the other party.

On behalf of Pennzoil Company I too wish to urge a resolution of these cases. However, I also wish to remind the Division that we disagree with TXO's contention that the Viersen #1 well is adversely affecting the correlative rights of TXO. We would hope that you would consider the record as a whole and not simply rely upon Mr. Vandiver's statements about draining which were taken out of context and hardly represent an objective and complete picture of the issues.

For example, Mr. Vandiver fails to tell you that owners in the NE/4 in which TXO has approximately 6.1% interest are receiving the benefits from the Pennzoil Shipp #1 Well located in the W/2NE/4 which will drain the SE/4 owners.

Mr. Vandiver fails to tell you that granting of TXO's proposed location will result in defacto 40-acre spacing in a pool that the Division, Pennzoil, TXO and everyone else agrees ought to be drilled, developed, and spaced on 80-acres.

KELLAHIN and KELLAHIN

Mr. Richard L. Stamets  
December 31, 1985  
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We believe that the wells drilled and proposed by Pennzoil for both the owners of the NE/4 and SE/4 of this section are located to establish fair drainage and counter-drainage between wells and are located to maximize development on 80-acre spacing. Approval of Pennzoil's application in this case will conform to the Division's conservation practices and will protect correlative rights. The approval of TXO's application will simply resort to an abandonment of conservation practices and be a vote for the Rule of Capture.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin

WTK:ca

cc: David R. Vandiver, Esq.  
Dickerson, Fisk & Vandiver  
Seventh & Mahone, Suite E  
Artesia, New Mexico 88210

Mr. Paul Bruce  
Pennzoil Company  
P. O. Box 1828  
Midland, Texas 79701