

November 13, 1985

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

Case 8783

Re: Sprinkle Federal No. 4 Well
Township 18 South, Range 32 East, NMPM
Section 26: SE/4 NW/4
Lea County, New Mexico

Gentlemen:

Enclosed for filing, please find three copies of the Application of TXO Production Corp. for Compulsory Pooling, Lea County, New Mexico.

We ask that this matter be set for hearing before an Examiner at the Examiner Hearing on December 18, 1985, and that we be furnished with a docket of said hearing.

Thank you.

Very truly yours,

DICKERSON, FISK & VANDIVER

David R. Vandiver
David R. Vandiver

DRV:paf
Enclosures

cc w/enclosure: Mr. Jeff Bourgeois

December 13, 1985

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

Re: OCD Case Nos. 8755 and 8783
Sprinkle No. 3 and No. 4 Wells
Lea County, New Mexico

Gentlemen:

Enclosed for filing, please find a Motion requesting that the captioned cases be heard by the Commission under Rule 1216.

Thank you.

Sincerely yours,

DICKERSON, FISK & VANDIVER



Chad Dickerson

CD:pvm
Enclosure

cc w/enclosure: Mr. Jeff Bourgeois
Mr. Mark Tisdale
Mr. W. Thomas Kellahin

December 5, 1985

Case 8783

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

Re: Sprinkle Federal No. 4 Well
Township 18 South, Range 32 East, NMPM
Section 26: SE/4 NW/4
Lea County, New Mexico

Gentlemen:

In connection with the Application of TXO Production Corp. for Compulsory Pooling, Lea County, New Mexico, we enclose herewith an Affidavit of Mailing reflecting the mailing of true copies of the Application to Joseph S. Sprinkle and Lewis Burleson.

Thank you.

Very truly yours,

DICKERSON, FISK & VANDIVER


David R. Vandiver

DRV:pvm
Enclosure

cc w/enclosure: Mr. Jeff Bourgeois

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

January 13, 1986

RECEIVED
JAN 1
OIL CONSERVATION DIVISION

Mr. Michael E. Stogner
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

"Hand Delivered"

Re: NMOCD Case 8755
NMOCD Case 8783

Dear Mr. Stogner:

On behalf of Joseph Sprinkle, please find enclosed for your consideration a proposed order for entry in the above referenced cases which you heard at the hearing held on November 21, 1985, and January 9, 1986.

Very truly yours,


W. Thomas Kellahin

WTK:ca
Enc.

cc: Joseph Sprinkle
P. O. Box 6483
Denver, Colorado 80206

Chad Dickerson, Esq.
Attorney at Law
Seventh & Mahone, Suite 3
Artesia, New Mexico 88210

Mr. William McCoy
922 Old Taos Highway
Santa Fe, New Mexico 87501

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 CORPORATION
FOR COMPULSORY POOLING,
SPRINKLE #3 WELL,
LEA COUNTY, NEW MEXICO.

CASE NO. 8755

THE APPLICATION OF TXO
PRODUCTION CORPORATION FOR
COMPULSORY POOLING,
SPRINKLE #4 WELL,
LEA COUNTY, NEW MEXICO.

CASE NO. 8783

JOSEPH SPRINKLE PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cases came on for hearing at 9 a.m. on November 21, 1985, and January 9, 1986, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ___ day of January, 1986, 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.

Case No. 8755
Case No. 8783

(2) That in Case 8755, TXO Production Corporation (TXO) seeks compulsory pooling of certain mineral interest owners, including Joseph Sprinkle (Sprinkle) for the Bone Springs production underlying the SW/4NW/4 of Section 26, T18S, R32E, Lea County, New Mexico, to which to dedicate the Sprinkle #3 well.

(3) That in Case 8783, TXO seeks compulsory pooling of certain mineral interest owners, including Sprinkle for the Bone Springs production underlying the SE/4NW/4 of Section 26, T18S, R32E, Lea County, New Mexico to which to dedicate the Sprinkle #4 well.

(4) That TXO has already drilled and is producing from the Bone Springs formation the Sprinkle #1 in Unit D and the Sprinkle #2 in Unit C of said Section.

(5) That TXO authorized the drilling of eight Bone Springs wells in the N/2 of said Section 26 based upon current geological and engineering data available to TXO.

(6) That TXO's applications in these cases are opposed by Joseph Sprinkle who owns an undivided 31.25% interest in the NW/4 of said Section 26.

(7) That TXO has recommended a risk factor penalty of 180% for the Sprinkle # 3 and # 4 wells.

(8) That Sprinkle's engineering witness recommended a 25% risk factor.

(9) That TXO's engineer testified that there was a 75% chance of success for these development wells.

(10) That imposition of a 180% risk factor against the Sprinkle interest is calculated to result in a penalty of \$285,419 which is punitive in nature and amount and is in excess of the amount necessary in order to compensate the applicant for the risk of a non-commercial well.

(11) That a risk factor penalty of 25% per well is more reasonable in terms of the risk involved taking into consideration all of the engineering and geological testimony and should be adopted by the Division in this case.

(12) That the industry standards for overhead costs for a producing well and a drilling well as set forth in

Case No. 8755
Case No. 8783

the Ernst & Whinney 1985 Survey for wells of this depth are \$3,753 drilling rate per month and \$392 producing well rate per month.

(13) That the applicant has failed to provide sufficient evidence to show that its requested rates of \$5,374 and \$538 are fair and reasonable and therefore its requested rates should not be used in this case.

(14) That Sprinkle seeks the inclusion in this order of provisions that will allow the two subject wells to be drilled consecutively and which will also require TXO to disclose drilling, completion, and production information on the Sprinkle #1 and #2 wells prior to commencing the #3 well and thereafter the information from the #3 well prior to commencing the #4 well in order to protect Sprinkle's correlative rights.

(15) That TXO seeks the entry of the pooling order for the Sprinkle #3 well so that it can commence said well prior to March 19, 1986, thereby fulfilling its continuous drilling obligations but has not opposed Sprinkle's request for data or the drilling of the wells consecutively.

(16) That the Division should enter a common order for both wells and adopt a procedure for these wells requiring consecutive drilling and prior disclosure of certain data by TXO.

(17) That TXO has proposed \$615,550 as the AFE costs for the Sprinkle #3 and #4 well while at the same time using an AFE of \$496,900 for the Burleson Federal #3 well, in Unit G of Section 26.

(18) That the AFE costs for the Sprinkle #3 and #4 wells should not exceed those of Burleson Federal #3 well at \$496,900.

(19) 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.

(20) That TXO should be designated the operator of the subject well and unit.

Case No. 8755

Case No. 8783

(21) 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.

(22) 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 25 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(23) 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.

(24) 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.

(25) That upon the failure of the operator of either of said pooled units 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 Bone Springs formation underlying the SW/4NW/4 of Section 26, T18S, R32E, Lea County, New Mexico are hereby pooled to form a standard 40-acre spacing and proration unit dedicated to the Sprinkle #3 well.

PROVIDED HOWEVER, that the operator of said unit shall within 60 days prior to commencing said well, shall furnish the Division and each known working interest owner in the subject well the following:

- (a) An itemized schedule of estimated well costs not to exceed the actual costs of the Burleson #3 well;
- (b) Daily production reports for the Sprinkle #1 and #2 well current to the date of said notice; and

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Case No. 8783

(c) All bottom hole pressure tests and information from the Sprinkle #1 and #2 wells.

(2) That within 30 days from the date the data set forth in order paragraph (1) 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.

(3) That all mineral interests in the Bone Springs formation underlying the SE/4NW/4 of Section 26, T18S, R32E, Lea County, New Mexico are hereby pooled to form a standard 40-acre spacing and proration unit dedicated to the Sprinkle #4 well;

PROVIDED HOWEVER, that the operator of said unit shall, after completion of the Sprinkle #3 well and within 60 days prior to commencing said Sprinkle #4 well, furnish the Division and each known working interest owner in the subject well the following:

(a) An itemized schedule of estimated well costs not to exceed the actual costs of the Burleson #3 well in Unit G of Section 26;

(b) the following data from the Sprinkle #3 well:

1. Daily Drilling and Completion Reports.
2. Initial Bottom Hole Pressure Survey.
3. Initial Gas Oil Ratio Test.
4. Initial Gas Analysis.
5. Initial Formation Water Analysis.
6. Computer Processed Log.
7. Reservoir Fluid Analysis.
8. Daily Production Reports.
9. Subsequent Bottom Hole Pressure Tests.
10. Subsequent Production Tests.
11. Mudlog Report.
12. Dipmeter.
13. Division of Working Interest and Net Revenue Interest.

(4) That within 30 days from the date the data set forth in order paragraph (3) is furnished to him, any non-consenting working interest owner shall have the right to

Case No. 8755
Case No. 8783

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 should each 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 this order should not be rescinded.

(6) That TXO is hereby designated the operator of the subject wells and units.

(7) That the operator shall furnish the Division and each known working interest owner an accounting of oil and gas sales to date with gross and net values and an itemized schedule of actual well costs within 90 days following completion of each 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.

(8) 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 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.

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

(a) the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and

(b) as a charge for the risk involved in the drilling of the well, 25 percent of the pro rata

Case No. 8755

Case No. 8783

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.

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

(11) That \$3753.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$392.00 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 operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) 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.

(13) 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.

Case No. 8755

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(14) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in an interest bearing escrow account in Lea 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.

(15) 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

TXO PRODUCTION CORP.
900 WILCO BUILDING
MIDLAND, TEXAS 79701
915/682-7992

January 14, 1986

Mr. Michael E. Stogner
Energy and Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 87501

M.S.

Re: Oil Conservation Division
Cases #8755 and 8783
Examiner Hearing of
January 9, 1986

Dear Mr. Stogner:

In my recent testimony, in the above referenced cases heard before you on January 9, 1986, I testified that TXO had not offered more favorable farmout terms to parties other than Joseph S. Sprinkle "in the immediate area". It was my understanding that what Mr. Kellahin meant by "the immediate area" was the N/2 of Section 26, T-18-S, R-32-E, Lea County, New Mexico. I would like to clarify this matter and state for the record that in the general area, TXO has made other and varying offers to leasehold owners in an attempt to increase its acreage position; however, the farmout offer made to Mr. Sprinkle was identical to the farmout offers made to all parties in the N/2 of Section 26, T-18-S, R-32-E, Lea County, New Mexico.

Please be advised of the foregoing as I do not want any of my testimony to be perceived as misleading.

Thank you for your attention in this matter.

Very truly yours,

Jeff Bourgeois
Jeff Bourgeois
Landman

JB/dp

cc: Chad Dickerson
7th & Mahone, Suite E
Artesia, NM 88210

W. Thomas Kellahin
P. O. Box 2265
Santa Fe, NM 87504-2265



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
 OIL CONSERVATION DIVISION

TONEY ANAYA
 GOVERNOR

January 23, 1986

POST OFFICE BOX 2088
 STATE LAND OFFICE BUILDING
 SANTA FE, NEW MEXICO 87501
 (505) 827-5800

Mr. Chad Dickerson
 Dickerson, Fisk & Vandiver
 Attorneys at Law
 Seventh and Mahone, Suite E
 Artesia, New Mexico 88210

Re: CASE NO. 8783
 ORDER NO. R-8136

Applicant:
TXO Production Corporation

Dear Sir:

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

Sincerely,

R. L. STAMETS
 Director

RLS/fd

Copy of order also sent to:

Hobbs OCD x
 Artesia OCD x
 Aztec OCD _____

Other Thomas Kellahin

TXO PRODUCTION CORP.
900 WILCO BUILDING
MIDLAND, TEXAS 79701
915/682-7992

January 30, 1986

CERTIFIED MAIL

Mr. Joseph S. Sprinkle
P. O. Box 6483
Denver, CO 80206

Re: Oil Conservation Division
Case #8783
Order #R-8136
Sprinkle Federal #4 well
T-18-S, R-32-E
Section 26: SE/4 NW/4
Lea County, New Mexico

Dear Mr. Sprinkle:

Enclosed please find the following:

1. Copy of the Order of the Division in the above referenced case.
2. Copy of TXO's Authority for Expenditure for the drilling of the Sprinkle Federal #4 well.

In accordance with the Order of the Division in Case #8783, TXO Production Corp. is hereby offering you the right to participate in the drilling of this well in lieu of paying your share of reasonable well costs out of production. Should you elect not to pay your share of reasonable well costs, please be advised that your interest will also be subject to the charge for the risk involved in the drilling of this well as set out in order #R-8136.

Therefore, if within 30 days from the receipt of the enclosed AFE, you have not paid your proportionate share of estimated well costs, TXO will account for your interest as being pooled by the Order of the Division, Order #R-8136 and your interest shall be subject to all the terms and provisions contained in said order.

Also enclosed is an extra copy of the Order of the Division, Order #R-8135, which was, I believe, inadvertently left out of the enclosures attached to my letter dated January 27, 1986.

Mr. Joseph S. Sprinkle
January 30, 1986
Page Two

Should you have any questions or like to discuss this matter further, please do not hesitate to contact me. Thank you for you attention to this matter.

Very truly yours,

Jeff Bourgeois
Landman

JB/sf

cc: State of New Mexico
Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 81501
Attn: Mr. R. L. Stamets

TXO PRODUCTION CORP.
900 WILCO BUILDING
MIDLAND, TEXAS 79701
915/682-7992

January 30, 1986

CERTIFIED MAIL

Mr. Lewis B. Burleson
P. O. Box 2479
Midland, TX 79702

M.S.

Re: Oil Conservation Division
Case #8783
Order #R-8136
Sprinkle Federal #4 well
T-18-S, R-32-E
Section 26: SE/4 NW/4
Lea County, New Mexico

Dear Mr. Burleson:

Enclosed please find the following:

1. Copy of the Order of the Division in the above referenced case.
2. Copy of TXO's Authority for Expenditure for the drilling of the Sprinkle Federal #4 well.

In accordance with the Order of the Division in Case #8783, TXO Production Corp. is hereby offering you the right to participate in the drilling of this well in lieu of paying your share of reasonable well costs out of production. Should you elect not to pay your share of reasonable well costs, please be advised that your interest will also be subject to the charge for the risk involved in the drilling of this well as set out in order #R-8136.

Therefore, if within 30 days from the receipt of the enclosed AFE, you have not paid your proportionate share of estimated well costs, TXO will account for your interest as being pooled by the Order of the Division, Order #R-8136 and your interest shall be subject to all the terms and provisions contained in said order.

Also enclosed is an extra copy of the Order of the Division, Order #R-8135, which was, I believe, inadvertently left out of the enclosures attached to my letter dated January 27, 1986.

Mr. Lewis B. Burleson
January 30, 1986
Page Two

Should you have any questions or like to discuss this matter further, please do not hesitate to contact me. Thank you for your attention to this matter.

Very truly yours,

Jeff Bourgeois
Landman

JB/sf

cc: State of New Mexico
Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 81501
Attn: Mr. R. L. Stamets



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

March 4, 1986

POST OFFICE BOX 2088
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SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. Thomas Kellahin
Kellahin & Kellahin
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico

Re: CASE NO. 8783
ORDER NO. R-8136-A

Applicant:

TXO Production Corporation

Dear Sir:

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

Sincerely,

R. L. STAMETS
Director

RLS/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Chad Dickerson