

BASS ENTERPRISES PRODUCTION CO.

DIVISION PRODUCTION OFFICE

P. O. BOX 2760

MIDLAND, TEXAS 79702

March 19, 1981

800 VAUGHN BUILDING

(915) 684-5723

Re: Palmillo State No. 1  
Sec. 1, T19S, R28E,  
Eddy County, N.M.  
File: 400-WF

Oil Conservation Division  
P. O. Drawer DD  
Artesia, N.M. 88210

ATTN: W. A. Gressett

Dear Mr. Gressett:

As was discussed on several occasions, we are operating the Wolfcamp side of the Palmillo State No. 1 without the proper consent of the NMOCD. Rather than proceed in a manner that ignores the rules and regulations of the NMOCD, we have voluntarily shut in the well until proper approval to produce the well has been received. With varying degrees of success, we attempted to backtrack the chain of events which led to an allowable's being granted and the well's being put on line. I hope to explain our predicament in this letter and seek your counsel so that the situation may be remedied.

Attached is a tabulation showing the history of the well along with the daily production as determined by well tests. To briefly summarize the events, in August, 1980, Order R-6441 gave formal approval to dually complete the well in the Morrow and Wolfcamp. Work began in September, 1980, for installation of the wellbore equipment which was completed on October 9, 1980. A Morrow gas sales contract was made, and the Morrow side began producing on October 30, 1980. In November, 1980, we applied to the NMOCD and Commissioner of Public Lands in Santa Fe for compliance to Rules 309-B and 309-C concerning off-lease storage and commingling. The problem began here.

The land department of the Commissioner of Public Lands (Mr. Benito Lopez) approved our application and documented it by letter. However, as we found out later, this was only approval of the business lease, grazing lease, and right-of-way permit. The NMOCD (Mr. Dan Nutter) was holding our application pending approval from Public Lands. Through a telephone conversation, we notified him that Public Lands had approved it. His response was that we had verbal approval to start producing. He noted the date on the form (December 4, 1980) but, of course, he did not sign it until he had the written approval from Public Lands. To complicate matters, Mr. Ray Graham, Director of Oil & Gas Section, went into the hospital for an operation. Our application was "put on hold" in his office awaiting his return. In the meantime, we began producing.