

CASE No.

4845

Application,

Transcripts,

Small Exhibits

ETC.

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BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
CONFERENCE ROOM, STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

October 17, 1972

EXAMINER HEARING

IN THE MATTER OF:

Application of Western Oil
Producers, Inc. for compulsory
pooling and a non-standard
proration unit, Lea County,
New Mexico.

Case No. 4845

BEFORE: Richard L. Stamets,
Examiner.

TRANSCRIPT OF HEARING

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1 MR. STAMETS: Case 4845.

2 MR. HATCH: Case 4845: Application of Western Oil
3 Producers, Inc. for compulsory pooling and a non-standard
4 proration unit, Lea County, New Mexico.

5 MR. LOSEE: A. J. Losee, of Losee and Carson,
6 Artesia, appearing on behalf of the Applicant. I do not see
7 my protestant.

8 MR. STAMETS: Are there any other appearances in
9 this case?

10 (No response)

11 MR. STAMETS: Who did you expect to be against you?

12 MR. LOSEE: Bill Kastler, of Gulf.

13 MR. STAMETS: I haven't had any communication from
14 him saying that he would be late.

15 (Whereupon an off the record discussion was held.)

16 (Hearing continues.)

17 MR. STAMETS: We will temporarily continue Case
18 4845 until about ten o'clock.

19
20 (Whereupon Case 4845 was continued at 10:00 A.M.)

21 MR. STAMETS: At this time, we will return to Case
22 4845, and ask for additional appearances in that case.

23 MR. KASTLER: I am Bill Kastler from Midland, Texas,
24 appearing on behalf of Gulf Oil Corporation.

25 MR. STAMETS: Mr. Kastler, do you have any

1 witnesses?

2 MR. KASTLER: No, we do not.

3 * * * *

4 RAYMOND LAMB,

5 was called as a witness, and after being duly sworn, testified
6 as follows:

7 DIRECT EXAMINATION

8 BY MR. LOSEE:

9 Q Where do you live, what is your occupation?

10 A I am a geological engineer, and I live in Artesia,
11 New Mexico.

12 Q Have you previously testified before the Commission and
13 had your qualifications accepted?

14 A I have.

15 MR. LOSEE: Are Mr. Lamb's qualifications
16 acceptable, Mr. Examiner?

17 MR. STAMETS: They are.

18 Q (By Mr. Losee) Would you explain briefly the purpose
19 of this application?

20 A This application is to put together all interests in a
21 proration unit for the Osudo-Morrow Gas Pool at the
22 south end of the Osudo Pool by which we can continue
23 development on the south side of the pool. We have
24 obtained all of the interests with the exception of one.

25 Q And that is Gulf Oil Corporation?

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- 1 A That is correct.
- 2 Q And they have a 17.67 percent working interest in the
- 3 320-acre unit?
- 4 A That is correct.
- 5 Q And the other working interest owners are Wilson,
- 6 Wyoming, and Phillips?
- 7 A That is correct.
- 8 Q And they have entered into a farm-out agreement with
- 9 Western Oil Producers?
- 10 A That's right.
- 11 Q And the farm-out agreement requires that a well be
- 12 commenced by November 1st?
- 13 A 1972, that's correct.
- 14 Q Please refer to what has been marked as Exhibit One, and
- 15 explain what is shown by that exhibit.
- 16 A Exhibit One shows the original outline in red of the
- 17 North Wilson Unit which was designed to permit the
- 18 development of a deeper horizon below 5,200 feet, which
- 19 would include the Morrow and Devonian. The green line
- 20 is the existing boundary after retraction of the
- 21 original unit. There are now three gas wells producing
- 22 within the green area. The area outlined in brown is
- 23 the area in which we are discussing the 320-acre Morrow
- 24 gas proration unit.
- 25 Q Who has been the operator of the North Wilson Deep Unit?

1 A British American was the original operator, and drilled
2 the first two wells at which time Gulf acquired British
3 American and took over the operation of the unit from
4 that point forward.

5 Q And the area that is now not encompassed in the green
6 and has been eliminated from the unit was done so upon
7 the application of Gulf Oil Corporation as unit operator?

8 A That is correct.

9 Q And that includes the brown area we are discussing here?

10 A That is correct.

11 Q Please turn to what has been marked as Exhibit Two, and
12 explain what is shown by this exhibit.

13 A This exhibit is designed to give an idea of the proration
14 units and the type production that has been developed
15 on them. The map, unfortunately, does not extend to
16 one well to the north in Section 6 and which is
17 identified as the Mallard Well, which is part of the
18 Osudo-- the North Osudo Morrow. Commission records will
19 show that the North Osudo-Morrow is 640-acre spacing
20 the the North Wilson or South Osudo, specifically the
21 South Osudo, are 320-acre spacing proration units.

22 The areas in the assorted colors of blue, red,
23 yellow, and green are the now producing proration units
24 for Morrow gas in the North Wilson Deep Unit. The
25 orange ones are ones which are outside the area and are

1 not in the unit. The brown ones are in the area which
2 we are trying to unitize.

3 Now, I have designated certain wells with blue,
4 and those are profitable wells. Those circled in pink
5 are either marginal or dry holes, non-profitable wells.
6 There are some in the outer boundary which are in
7 dashed lines, and they show the area outside of the
8 Osudo trend and the type of production that is derived
9 from there. However, they are not included in the
10 averages. Just those in the Osudo and the North Osudo
11 have been considered.

12 Q Mr. Lamb, so that the Examiner understands, the orange
13 section is in the Osudo-Morrow?

14 A Yes.

15 Q And the blue, red, yellow and green are still within
16 the North Wilson Deep Unit?

17 A That is correct.

18 Q Now, although this case was advertised as a non-standard
19 unit, is it not correct that Section 5 is a long section
20 with four 160-acre tracts-- six 160-acre tracts?

21 A That's correct, that is a mile and half section.

22 Q And the north half of the section actually consists of
23 640 acres contained in sixteen lots?

24 A That's correct.

25 Q And your proposed well location is 3,300 feet from the

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- 1 south line and how many feet from the west line?
- 2 A Six hundred sixty feet from the west line.
- 3 Q How many wells on this exhibit are profitable in your
- 4 opinion?
- 5 A There are five which are profitable, which have made
- 6 money. These are the ones in Sections 17, 20, 30, 31,
- 7 and Section 5. These are the five wells that are
- 8 profitable in the Morrow.
- 9 Q And they are circled in blue?
- 10 A That's correct.
- 11 Q Now, how many marginal wells have been completed in the
- 12 Morrow?
- 13 A There are six marginal wells which were completed as
- 14 producers which will not make any money. As far as
- 15 operations are concerned, they will not return the
- 16 capital investment.
- 17 Q How many dry holes?
- 18 A There are five dry holes.
- 19 Q Now, the two wells immediately north of the proposed
- 20 proration unit, what are the names of those wells and
- 21 who is the operator?
- 22 A Well Number Two of the North Wilson Deep Unit is a
- 23 profitable operation and is now operated by Gulf. The
- 24 well to the north of that is the discovery well, or the
- 25 Number One Well, and it is operated by Gulf.

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- 1 Q And it is also a profitable well?
- 2 A Yes.
- 3 Q What is Gulf's interest in the North Wilson Number Two Well?
- 4 A I have a figure of 56.4 percent.
- 5 Q And what is their interest in the North Wilson Number One Well?
- 6 A It's 54.3 percent.
- 7 Q So actually Gulf has a larger interest in the North Wilson Number One and Two Wells than it does have in the proposed spacing unit for the Western Oil Producers' Well?
- 8 A Yes. Gulf's interest in the proposed well is 17.7 percent.
- 9 Q Mr. Lamb, do you have an opinion as to whether or not the North Wilson Number One and the North Wilson Number Two Wells are draining the same zones underlying the proposed proration unit?
- 10 A It is very difficult to tell the drainage. Let me explain this, first, the Number One Well originally had one zone perforated in the Morrow, and later a second zone was perforated. In the Number Two Well, there were five zones that were perforated. In the Phillips Well to the southeast, the Phillips Number Five, I think there were seven zones perforated. So on any zone
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1 that carries from well to well, there could easily
2 be some drainage, but for a well with five zones, like
3 the Number Two Well, it certainly could not drain zones
4 that do not exist under the Number One Well, so it is
5 difficult to tell. Surely there will be some drainage
6 from the north end of our proposed unit by the Gulf
7 Number Two.

8 Q The zones producing in the Gulf Number Two that are
9 underlying your spacing unit will be drained by the
10 Gulf Number Two?

11 A That is correct.

12 Q Please turn to what has been marked as Exhibit Number
13 Three, and explain what is shown on this exhibit.

14 A Exhibit Three is a tabulation of these wells which we
15 have identified in blue and pink circles, and they
16 number a total of sixteen. These are listed in the
17 order of accumulative production with the Gulf Number
18 Two North Wilson Deep having produced the greatest
19 amount of gas and condensate as of January 1st, 1972.

20 Then we come on down to the Hamen-Amerada Number
21 One at 4,753,000,000. Then we drop down to the Mallard
22 with 621,000,000, and with the present price of gas,
23 this cannot be a profitable operation in view of the
24 cost of the well.

25 Q The profit cut-off would be between wells five and six

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- 1 on this exhibit?
- 2 A That is correct. It can be noted on the large map that
- 3 the first five wells are in blue, and the other wells
- 4 are in pink, and they include the dry holes.
- 5 Q What is the percentage of wells that pay out as shown
- 6 on this map?
- 7 A Of the wells on the map, five out of sixteen or 31.25
- 8 percent of the wells will be profitable. This is an
- 9 unusually low figure for one exploratory well and the
- 10 rest of them being more or less development wells.
- 11 Q What is the percentage of dry holes of the wells drilled?
- 12 A The dry hole ratio percentage is 37.5 percent of the
- 13 wells, and those being marginal would be 31.25 percent.
- 14 Q What is the percentage of the wells that are either
- 15 dry holes or marginal and which will not return the
- 16 original investment?
- 17 A That percentage is 68.75 percent.
- 18 Q Please turn to what has been marked as Exhibit Four,
- 19 and explain what is shown on this exhibit.
- 20 A Exhibit Number Four is a listing of the profitable wells
- 21 immediately north of the proposed 320-acre tract,
- 22 showing the 1971 monthly production and the 1972
- 23 production through June of 1972. It shows the
- 24 accumulative production at the bottom. You will notice
- 25 that it differs from the previous tabulation in that

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- 1 it does not include the additional six month production
- 2 for 1972.
- 3 Q And these are the two blue wells just north of the
- 4 proposed spacing unit?
- 5 A That's correct.
- 6 Q Please turn to what has been marked as Exhibit Five, and
- 7 explain what is shown by this exhibit.
- 8 A Exhibit Five is a duplicate of the pay-out status of the
- 9 North Wilson Deep Number Three Well, which is slightly
- 10 northwest of the proposed location. In this particular
- 11 well, Wilson and Wyoming non-consented to the drilling
- 12 of this well on a 150 percent non-consent basis. As
- 13 of December, 1971, Wilson and Wyoming had \$435,855.48
- 14 yet to be recovered before they participated in the
- 15 income from the well. This was with a 150 percent
- 16 non-consent.
- 17 Q And this is actually listed as Well Number Seven in
- 18 your list of the sixteen development wells?
- 19 A That is correct.
- 20 Q And it confirms your statement that the wells from
- 21 Number Six on down will never recover the operator's
- 22 original investment?
- 23 A That's correct.
- 24 Q Is Gulf still furnishing you with a pay-out status on
- 25 this well?

1 A No, this was the last one we received. Since the
2 pay-out status was in such a condition, they felt it
3 would not be necessary to continue a pay-out status
4 report.

5 Q Now, Mr. Lamb, would you explain why Wilson and Wyoming
6 suffered a fifty percent penalty when they non-
7 participated?

8 A Well, the 150 percent non-consent clause was included
9 in the operating agreement and was agreed to by the
10 operators for the North Wilson Deep Unit. This was the
11 factor that was allied to that pay-out.

12 Q Now, with the exception of the initial exploratory well,
13 that being the North Wilson Number One, is it not true
14 that in all of the other four wells drilled in the
15 North Wilson Deep Unit that some of the working interest
16 owners non-consented and suffered a 150 percent penalty?

17 A This is correct. The original well was drilled by
18 the agreement arrangements. In Well Number Two, Amerada
19 non-consented on a 150 percent basis; in Well Number
20 Three, Wilson and Wyoming non-consented; in Well Number
21 Four, I am not actually positive that anyone non-
22 consented on that; but in Well Number Five, only Phillips
23 and Wilson participated in the drilling of that well.

24 Q So actually in the Wilson Number Two, and in the North
25 Wilson Unit Number Two, and the North Wilson Unit

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1 Number Five, the operator is receiving a fifty percent
2 risk penalty?

3 A That's right.

4 Q Please turn to what has been marked as Exhibit Six, and
5 explain what is shown by this data.

6 A Exhibit Six is the development interest pay-out and
7 the cost figures on the proposed well in the Osudo-
8 Morrow. The estimated cost, which is in my opinion
9 conservative, is \$274,195.00. The average rate of
10 production through the Morrow in this area should be
11 in the neighborhood of 2,500,000 MCF a day, with
12 varying amounts of condensate, but I have assumed an
13 average of thirty-five barrels of condensate per day.
14 I have estimated that the gas would sell for thirty
15 cents a thousand, and the condensate for \$3.20 a barrel.
16 With your operating expenses and direct charges of
17 7.4 percent, it would leave you with \$600.00 a day
18 income.

19 The pay-out on this well would be for 16.78 months.
20 In talking with Mr. Johnson of the First National Bank
21 of Artesia, he gave me the figures that the interest
22 would be eight percent, and it would not be declining,
23 it would be a direct interest rate. So applying that
24 interest rate, you would need a return of \$302.30, or
25 \$2,163.00 in 16.78 months to get your money back. Then

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1 applying the 125 percent non-consent clause, you would
 2 need to return before Gulf participated in the well
 3 \$34,274.00. So when you take the relationship of the
 4 non-consent clause to the cost of the well plus the
 5 interest, if you had applied 125 percent non-consent,
 6 your actual figure is only 113.43 percent if your
 7 money had any value in interest at all. In applying
 8 the same figure to 150 percent non-consent, your actual
 9 figure would be less than what is recited in the
 10 non-consent clause because you do have the value of the
 11 money and the interest it would earn.

12 Q Mr. Lamb, in summary of this exhibit, looking at the
 13 value of money today, and based upon your inquiry of the
 14 President of the First National Bank of Artesia, and
 15 a reasonable expectation for a profitable well, if you
 16 were to receive a 125 percent risk factor for the
 17 drilling of the well, the net return to the operator
 18 above his cost would only be 13.43 percent over nineteen
 19 months, is that correct?

20 A That's correct.

21 Q And applying the same calculation, if the risk factor
 22 were 150 percent, considering the value of money today,
 23 the return to the operator over twenty-three months
 24 would only be 36.11 percent over his costs?

25 A That's correct.

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1 Q Please turn to what has been marked as Exhibit Seven,
2 and explain what is shown by this exhibit.

3 A Exhibit Seven is a calculation for the cost of drilling
4 the proposed Morrow well. This exhibit was prepared
5 by Western Oil Producers, and I have checked it, and
6 I feel from my calculations that it is a conservative
7 figure.

8 I think the well can be drilled for that, and the
9 drilling cost is \$7.95 a foot to 11,600 feet. It also
10 includes the other normal expenditures such as the
11 casing, the services, the well log, and mudding.

12 Q Does this compare to the other wells recently drilled
13 in the area?

14 A Yes.

15 Q Mr. Lamb, do you have a recommendation to the Commission
16 for the services of the operator in supervising the
17 drilling of the well?

18 A I think that at the present time, the cost of operations
19 and supervision for drilling a well in this area, I
20 think the figure should be \$750.00 per well.

21 Q What about after the well has been placed on production,
22 do you have a recommendation as to the cost of
23 supervising the well?

24 A Yes, at the present cost of labor and so forth, that
25 figure would be \$125.00 per month.

1 Q Do you have a recommendation to the Commission as to
2 the risk factor that should be applied to the non-
3 consenting working interest owners in the proposed
4 drilling of this well?

5 A Well, with the type of production we have in here, it
6 is almost essential to the operator who is carrying
7 the non-consenting party that the figure should be
8 150 percent, which is the maximum required by law at
9 the present time.

10 Q In other words, cost plus fifty percent risk factor?

11 A That's right, and that would net you 136.11 percent
12 when you take into account the interest on your money.

13 Q Were Exhibits One through Seven prepared by you or
14 under your supervision?

15 A They were.

16 MR. LOSSE: I move for the introduction of Exhibits
17 One through Seven.

18 MR. STAMETS: Without objection, Exhibits One
19 through Seven will be admitted into evidence.

20 (Whereupon Applicant's Exhibits One through Seven
21 were admitted in evidence.)

22 MR. STAMETS: Does that conclude your direct
23 testimony?

24 MR. LOSSE: Yes.

25 MR. STAMETS: We will take about a fifteen minute

1 coffee break.

2 (Whereupon a recess was taken.)

3 (Hearing continues.)

4 MR. STAMETS: The hearing will come to order, please.

5 Are there any questions of this witness?

6 MR. KASTLER: Mr. Examiner, I have a question or
7 two, if you please.

8 MR. STAMETS: Yes, sir.

9 * * * *

10 CROSS EXAMINATION

11 BY MR. KASTLER:

12 Q Mr. Lamb, have you negotiated with Gulf for voluntary
13 pooling?

14 A Yes, I have discussed it with Mr. Griffith. We started
15 negotiating for a farm-out, and we got to the point of
16 realizing that this was not acceptable, and we suggested
17 a 150 percent non-consent.

18 Q Did Gulf make any counter-offers?

19 A Yes, Gulf suggested a 125 percent non-consent.

20 Q And Gulf has never made any further offer?

21 A No.

22 Q Have you made a further offer?

23 A I did ask, without authority from the people who were
24 drilling the well, but in the interest of trying to
25 see if there was common ground, I did ask about 137 1/2

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- 1 percent, and I got no for an answer on that from Gulf.
- 2 Q The contraction of the North Wilson Deep Unit which
- 3 you say was made by Gulf as unit operator, do you know
- 4 whether the contraction was required by law?
- 5 A There was a development clause in the agreement which
- 6 required the filing of a development program.
- 7 Q You testified as to the price of gas in your Exhibit
- 8 Number Six or Seven, do you recollect that price?
- 9 A Yes, it was thirty cents per thousand. There are a lot
- 10 of figures available for discussion concerning the
- 11 price of gas, and I took somewhat of a compromise figure.
- 12 I hear over the coffee table as much as forty cents,
- 13 but I do know of a gas contract for Devonian production
- 14 at a figure of thirty-three and a half cents per
- 15 thousand.
- 16 Q Do you anticipate you might get a better price than
- 17 thirty cents?
- 18 A I would assure everybody involved that we will make
- 19 every effort to get a better price because now is the
- 20 time.
- 21 Q You haven't yet contracted or negotiated to sell the
- 22 gas to any single purchaser?
- 23 A No.
- 24 Q What pipe lines are in that area?
- 25 A Phillips, Warren, Ll Paso all purchase in the immediate

1 area; Transwestern has a line to the north, but I
2 don't think they are taking any gas in the area at all.

3 Q Do you know who is connected with the Gulf Northwestern
4 Deep Unit Number Two?

5 A That is split screen in that Gulf is selling their gas
6 to Warren, and Phillips is selling their gas to Phillips,
7 and we have a balancing agreement where we could break
8 this down on an equitable basis.

9 Q There is no other interstate pipe line there, is there?

10 A Interstate?

11 Q Yes.

12 A Not in the immediate area that I know of that is taking
13 any gas there. There is an intrastate line over to the
14 east that belongs to Texaco, but it services one of the
15 utility plants west of Hobbs. But I know Texaco is not
16 taking any gas in the area at all.

17 Q Have you had any dry-hole offers for this well?

18 A Do you mean support?

19 Q Yes.

20 A Well, no, we haven't made any proposals to anyone in
21 that particular area.

22 Q Do you anticipate you might be able to obtain some if
23 you sought dry-hole contributions?

24 A Well, no, we hadn't anticipated getting any, so we
25 haven't made any effort to secure any.

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1 Q You haven't explored the possibility of getting dry-
2 hole contributions from intrastate or interstate gas
3 purchasers?

4 A No, no contact has been made. I do know that people
5 up here (indicating) after their well was completed
6 in the Devonian did make arrangements with El Paso, but
7 as far as making any arrangements down here (indicating),
8 none have been made.

9 Q Is there any acreage that would remain undeveloped, or
10 is there any undeveloped acreage offsetting your
11 proposed unit?

12 A Well, of course, if you deal with the Morrow, you deal
13 with your tongue in your cheek, but from the blue dots
14 on this map, it is very evident as to what we are
15 attempting to do, and that is to get on the line of the
16 Morrow channel sand development and carry it on down,
17 and we have an idea that eventually we can carry it
18 on down farther south if the well proves to be profitable.

19 Q You have not, however, sought or solicited any dry-
20 hole contributions?

21 A No. Under Case 4844, we originally had a program for
22 an optional well, for another well, including the
23 southeast of Section 6 and the northeast of Section 7,
24 but for various reasons, we have given up on that at
25 the present time because we felt one well at a time

1 would be sufficient.

2 Q Has the price of gas which you are seeking in this well
3 recently increased and made the marginal well or wells
4 that were regarded as marginal in the past more
5 attractive?

6 A Well, a well drilled now could be profitable under the
7 present price of gas, the figure I used of thirty cents
8 a thousand, where the wells indicated in pink are mostly
9 set at 14 3/4 cents. At thirty cents, it would bring
10 some of those wells up to a break-even basis.

11 Q Thank you, Mr. Lamb.

12 MR. KASTLER: That's all I have.

13 * * * *

14 REDIRECT EXAMINATION

15 BY MR. LOSEE:

16 Q Mr. Lamb, Mr. Kastler asked you about your negotiations
17 with Gulf to gain their participation. Did Gulf give
18 you any reason why they would not participate in
19 drilling this well?

20 A Well, they felt that a well at this point would
21 interfere with their drainage program on their Number
22 Two Well to the north, which they have a fifty-six
23 percent interest in.

24 MR. LOSEE: That's all.

25 * * * *

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CROSS EXAMINATION

BY MR. KASTLER:

Q How did you learn that Gulf felt this, Mr. Lamb?

A Well, I visited with both Mr. Griffith and Mr. Savage,
and this is the indication I had from that visit.

* * * *

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Lamb, are all of the gas wells that you have
circled on your Exhibit Number Two Morrow gas wells?

A Yes, they are all Morrow wells with the exception of
the "M" Well, which did go to the Devonian through the
Morrow.

Q The "M" Well?

A The blue square.

Q I see, the well located in the Northwest quarter of
Section 32?

A That's right. This same situation is true of the well
in Section 29. This well was drilled through the
Morrow to the Devonian and was found to have some water
in the Morrow.

Q Is that well completed in the Morrow or not?

A It is not completed, it is temporarily abandoned. It
did not make it as a Morrow well, and it did not make
it as a Devonian well.

- 1 Q There appears to be two different spacing patterns in
2 the Morrow, the north being 640 acres, and the south
3 being 320 acres. Are these two different pools?
- 4 A There was a hearing before the Commission brought by
5 Pan-American for 640-acre spacing for the area in the
6 north, and the area in the south remained at standard
7 320-acre spacing.
- 8 Q In your opinion, is there any actual difference between
9 the two pools?
- 10 A Well, when you look at the Morrow, I would say no.
- 11 Q I gathered from your testimony that you are looking
12 for Morrow channel sand?
- 13 A Yes, sir.
- 14 Q And these channel sands, are they easy or difficult to
15 predict?
- 16 A They are very difficult to predict, but in this
17 particular case, we have reasonable control with the
18 well to the west and the well to the east, and we are
19 hoping to get in between and get in the channel.
- 20 Q Referring you to Exhibit Number Seven, the A.F.E., you
21 indicated that this was a conservative figure, I take
22 it that you anticipate the actual cost will be somewhat
23 above this?
- 24 A Let me call your attention to the one figure that shows
25 seven-inch protective screen, this is necessary in

dearnley, meier & mc cormick

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1 some wells because of the necessity of carrying 10.8
2 and 10.9 mud into the Morrow, and in some cases, the
3 bone spring sand above will not support much hydrostatic
4 lead, and when the bone spring sand starts taking your
5 mud, then you have to run another string of pipe, and
6 the amount of money you spend depends on how much you
7 are willing to fight the bone spring sand. So these,
8 in my opinion, are conservative figures.

9 Q I believe your testimony on cross examination was that
10 if some of these producing wells that you have circled
11 with the pink coloring were getting thirty cents that
12 they might be commercial wells?

13 A Yes, it might come up. Of course, if you look at it
14 from the standpoint of the price going to forty-five
15 or fifty cents, it does change the picture some, but
16 you can also see they are not big money-makers.

17 Q You feel that the proposed well in Section 5 will
18 provide better drainage for the reservoir?

19 A Certainly, and it might continue the development
20 program to the south.

21 MR. STAMETS: Are there any additional questions
22 of the witness?

23 (No response)

24 MR. STAMETS: He may be excused.

25 (Witness excused.)

MR. STAMETS: Is there any additional testimony
statements?

MR. KASTLER: I have a short statement. Gulf, of
does not object to the limits or lines of the
unit, nor the fact that it is being force-pooled.
have no objection to the proposed operating costs,
believe they are reasonable. Our objection is only based
on the penalty to be assessed, and we are hoping that it
will be fixed at 125 percent on the grounds that 150 percent
is the limit that is available under present state law, and
that that figure is available in any rank wildcat. In recent
years, the gas scarcity has caused a greater impact on
drilling and has reduced the risks considerably, and we believe
if the operator had sought it, he would have found dry-hole
contribution money.

I think that's all we have to state.

MR. STAMETS: Mr. Losee?

MR. LOSEE: Mr. Examiner, three out of the four
cases you are going to hear today involve the question of
compulsory pooling. What Mr. Kastler says is correct, the
Legislature for one reason or another has established a
fifty percent risk factor, whereas in the industry, reality
makes that a minimum factor as exhibited by the North Wilson
operating agreement. In that, it was agreed among the
operators that there would be from fifty percent up to

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1 a two hundred percent penalty factor. This may be the
2 reason that three out of the four cases you have today
3 involve compulsory pooling, the penalty assessed for the
4 risk involved is not large enough to force an operator or
5 working interest owner to either farm out or participate in
6 the drilling of the well.

7 It seems obvious to me that the higher the risk
8 penalty, the more it is going to promote the development
9 of the oil and gas resources in New Mexico. To the contrary,
10 the lower the risk penalty, the more it is going to
11 discourage the development of these resources in New Mexico.
12 In this very case, if the operator does not receive a
13 reasonable risk factor, he may not be able to carry the
14 seventeen percent interest of Gulf.

15 Again, I would urge that the correlative rights
16 of the interest owners in this 320-acre section will not be
17 protected by a lower risk factor, and that waste is not
18 prevented by a lower risk factor. If the penalty is not high
19 enough and the operator cannot drill the well, the people
20 owning interest rights in the area are going to suffer, and
21 there is going to be gas not recovered. Now, the three
22 wells in the north, in the North Wilson Deep Unit area, in
23 every single case except for the initial well, a fifty
24 percent risk penalty is being paid by the interest owners.

25 The question of channeling the Morrow in

dearnley, meier & mc cormick report

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1 Southeastern New Mexico is a very tricky and risky
2 exploratory program. There are many operators who would
3 just as soon drill wildcats as try to offset the Morrow and
4 drill in the channel.

5 We think Exhibit Three shows less than one-third
6 chance of getting a pay-out, 31.25 percent. We think our
7 Exhibit Six, whether anybody wishes to discuss it or not,
8 is a fact of life, the cost of money and the value of money
9 in development in the oil and gas business. If a fifty
10 percent risk factor is given the operator, he will actually
11 only receive 36.37 percent when you consider the monies
12 advanced to carry Gulf. We think this is a case where the
13 risk factor should be fifty percent. Thank you.

14 MR. STAMETS: Any other statements?

15 (No response)

16 MR. STAMETS: The case will be taken under
17 advisement.

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dearnley, meier & mc cormick

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1 STATE OF NEW MEXICO)
2) SS
3 COUNTY OF BERNALILLO)

4 I, RICHARD E. MCCORMICK, a Certified Shorthand
5 Reporter, in and for the County of Bernalillo, State of New
6 Mexico, do hereby certify that the foregoing and attached
7 Transcript of Hearing before the New Mexico Oil Conservation
8 Commission was reported by me; and that the same is a true
9 and correct record of the said proceedings to the best of
10 my knowledge, skill and ability.

11 *Richard E. McCormick*
12
13 CERTIFIED SHORTHAND REPORTER
14
15
16
17
18
19
20
21

22 I have read the foregoing and certify that it is a true and correct
23 copy of the original as the same appears in my files.
24 Witness my hand and seal this 11th day of July 1972
25 *Richard E. McCormick* Reporter
New Mexico Oil Conservation Commission

I N D E XWITNESSPAGE

RAYMOND LAMB

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Redirect Examination by Mr. Losee	22
Cross Examination by Mr. Kastler	23
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E X H I B I T SAPPLICANT'SADMITTEDOFFERED

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dearnley, meier & mc cormick

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OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

October 30, 1972

GOVERNOR
BRUCE KING
CHAIRMAN

LAND COMMISSIONER
ALEX J. ARMJO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

Mr. A. J. Losee
Attorney at Law
Post Office Box 239
Artesia, New Mexico 88210

Re: Case No. 4845

Order No. R-4426

Applicant:

Western Oil Producers, Inc.

Dear Sir:

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

Very truly yours,

A handwritten signature in cursive script, appearing to read "A. L. Porter, Jr.", is written over the typed name.

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x

Artesia OCC

Aztec OCC

Other Mr. Bill Kastler

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 4845
Order No. R-4426

APPLICATION OF WESTERN OIL
PRODUCERS, INC. FOR COMPULSORY
POOLING AND A NON-STANDARD
PRORATION UNIT, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 17, 1972, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 27th day of October, 1972, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Western Oil Producers, Inc. seeks an order pooling all mineral interests in the Osudo-Morrow Gas Pool underlying Lots 11, 12, 13 and 14 and the SW/4 of Section 5, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, to form a 320-acre spacing unit to be dedicated to a well to be drilled 3300 feet from the South line and 660 feet from the West line of said Section 5.

(3) That the applicant has the right and proposes to drill a well to be located 3300 feet from the South line and 660 feet from the West line of said Section 5 in the Osudo-Morrow Gas Pool.

(4) That there are interest owners in the proposed non-standard proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said non-standard unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be

approved by pooling all mineral interests, whatever they may be, within said unit.

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

(7) 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.

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 40% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

(10) That following determination of reasonable well costs, any non-consenting working interest owner that 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.

(11) That \$125.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); 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.

(12) 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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Osudo-Morrow Gas Pool underlying Lots 11, 12, 13 and 14 and the SW/4 of Section 5, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled to form a 320-acre gas proration unit to be dedicated to a well to be located 3300 feet from the South line and 660 feet from the West line of said Section 5.

-3-

Case No. 4845

Order No. R-4426

(2) That Western Oil Producers, Inc. is hereby designated the operator of the subject well and unit.

(3) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs within 30 days following the date of this order.

(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 Commission 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 Commission and the Commission 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 Commission 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 that 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 operators his pro rata 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 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, 40% 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.

-4-

Case No. 4845
Order No. R-4426

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

(9) That \$125.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; 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.

(10) That 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.

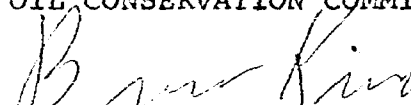
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow 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 Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


BRUCE KING, Chairman


ALEX J. ARMILLO, Member


A. L. PORTER, Jr., Member & Secretary

SEAL

dr/

RECEIVED

MAY 14 1976



NEW MEXICO
OIL CONSERVATION COMMISSION

State of New Mexico



TELEPHONE
505-827-2748

PHIL R. LUCERO
COMMISSIONER

Commissioner of Public Lands
May 13, 1976

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Wilson Oil Company and
Wyoming Oil Company
P. O. Box 1297
Santa Fe, New Mexico 87501

*File # 4845
Case*

Re: State of New Mexico Oil and Gas Lease No. B-9131-1 and L-4429-1
New Mexico Oil Conservation Commission Order No. R-4426

Gentlemen:

On October 27, 1972 the New Mexico Oil Conservation Commission issued their Order No. R-4426 forced pooling Lots 11, 12, 13 and 14 in Section 5, T-21S, R-35E covered by State of New Mexico Oil and Gas Lease No. B-9131-1 and the SW $\frac{1}{4}$ in Section 5, T-21S, R-35E covered by State of New Mexico Oil and Gas Lease No. L-4429-1 forming a 320.00 acre proration unit for the Osado-Morrow State Comm. Well No. 1 located in Lot 13 and operated by Western Oil Producers, Inc.

The last production reported to the New Mexico Oil Conservation Commission was February 1974, and there has been no production since that time. In view of no production from this well, this office no longer recognizes the New Mexico Oil Conservation Commissioner Forced Pooling Order No. R-4426.

Each of the above leases hereafter will be governed by it's own terms.

If you have any further questions, please advise.

Very truly yours,

Phil R. Lucero

Commissioner of Public Lands

Ray D. Graham
by: Ray D. Graham, Director
Oil and Gas Division

PRL:RDG:cw

cc: Western Oil Producers, Inc.
P. O. Box 2055
Roswell, New Mexico 88201

New Mexico Oil Conservation Commission ✓

Commissioner

cc: OCC Well Record File
Comm. File (Unit Division)
Lease File No. B-9131-1 & L-4429-1
Reading File
General Correspondence

DOCKET: EXAMINER HEARING - TUESDAY - OCTOBER 17, 1972

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Elvis A. Utz, Alternate Examiner:

- ALLOWABLE: (1) Consideration of the allowable production of gas for November, 1972, from seventeen prorated pools in Lea, Eddy, Roosevelt and Chaves Counties, New Mexico.
- (2) Consideration of the allowable production of gas from nine prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico for November, 1972.

CASE 4747: (Continued from the September 13, 1972, Examiner Hearing)

Application of Union Texas Petroleum, A Division of Allied Chemical Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests below the base of the Devonian formation underlying the N/2 of Section 33, Township 25 South, Range 37 East, Crosby Field, Lea County, New Mexico. Said acreage to be dedicated to its well to be located 1650 feet from the North line and 2310 feet from the East line of said Section 33. Also to be considered will be the costs of drilling said well, a charge for the risk involved, a provision for the allocation of actual operating costs, and the establishment of charges for supervision of said well.

CASE 4842: Application of Dalport Oil Corporation for amendment of pool rules, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of the special rules governing the Double L-Queen Associated Pool, Chaves County, New Mexico, to change the size of a standard gas well proration unit from 160 acres to 320 acres with the provision that said 320-acre units not be permitted to produce more gas than is presently permitted under 160-acre spacing.

CASE 4843: Application of Dalport Oil Corporation for designation of a special gas area and special rules therefor, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Southeast Chaves Queen Gas Area comprising all of Townships 12 and 13 South, Ranges 30 and 31 East, Township 14 South, Ranges 29, 30 and 31 East, and Township 15 South, Ranges 29 and 30 East.

Applicant further seeks the promulgation of special rules for said area including a provision for 320-acre spacing for gas wells, location of gas wells in conformance with the Southeast New Mexico 320-acre gas well location rules, and classification

Case 4843 continued from Page 1

of wells as gas wells at a gas-liquid ratio of 30,000 or more. Oil wells in said area would be governed by the statewide rules.

CASE 4844: Application of Western Oil Producers, Inc. for a non-standard gas spacing unit and unorthodox well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a non-standard spacing unit in the Osudo-Morrow Gas Pool comprising the W/2 SE/4 of Section 6, and the NE/4 of Section 7, Township 21 South, Range 35 East, Lea County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 330 feet from the South line and 1980 feet from the East line of said Section 6.

CASE 4845: Application of Western Oil Producers, Inc. for compulsory pooling and a non-standard proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Osudo-Morrow Gas Pool underlying Lots 11, 12, 13 and 14 and the SW/4 of Section 5, Township 21 South, Range 35 East, Lea County, New Mexico, to form a non-standard spacing unit to be dedicated to a well to be drilled 3300 feet from the South line and 660 feet from the West line of said Section 5.

Also to be considered will be the costs of drilling said well, a charge for the risk involved, a provision for the allocation of actual operating costs, and the establishment of charges for supervision of said well.

CASE 4846: Application of Universal Resources Corporation for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the N/2 of Section 16, Township 32 North, Range 12 West, Blanco Mesaverde Pool, San Juan County, New Mexico, to be dedicated to a well to be located at a standard location. Also to be considered will be the costs of drilling said well, a charge for the risk involved, a provision for the allocation of actual operating costs, and the establishment of charges for the supervision of said well.

CASE 4847: Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface of the ground down to and including the Morrow formation underlying the S/2 of Section 28, Township 21 South, Range 27 East, South Carlsbad Field, Eddy County, New Mexico, said acreage to be dedicated to applicant's Cawley "A" Well No. 1 to be drilled to the Morrow formation at a location 1980 feet from the South and West lines of said Section 28.

Also to be considered will be the costs of drilling said well, a charge for the risk involved, a provision for the allocation of

Case 4847 continued from Page 2

actual operating costs, and the establishment of charges for supervision of said well.

CASE 4720: (Reopened)

In the matter of the application of Rotary Oil & Gas Company for an unorthodox location and non-standard proration unit, Lea County, New Mexico, being reopened on the motion of Rotary Oil & Gas Company. Applicant, in the above-styled cause, seeks amendment of Order No. R-4318 which order established a non-standard proration unit in the Osudo-Devonian Gas Pool comprising the NE/4 of Section 32 and the NW/4 of Section 33, Township 20 South, Range 36 East, Lea County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 660 feet from the North line and 1980 feet from the East line of said Section 32. Applicant seeks removal of the ratable take and acreage factor assigned to the subject well by said Order No. R-4318.

CASE 4848: Southeastern New Mexico nomenclature case calling for an order for the creation, contraction and extension of certain pools in Lea County, New Mexico.

(a) Create a new pool in Lea County, New Mexico, classified as a gas pool for San Andres production and designated as the Hare-San Andres Gas Pool. The discovery well is Shell Oil Company, Turner No. 16 located in Unit M of Section 22, Township 21 South, Range 37 East, NMPM. Said pool described as:

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM
Section 22: SW/4

(b) Create a new pool in Lea County, New Mexico, classified as an oil pool for Wolfcamp production and designated as the Hightower-Wolfcamp Pool. The discovery well is Blackrock Oil Company, State CY No. 1 located in Unit M of Section 30, Township 12 South, Range 34 East, NMPM. Said pool described as:

TOWNSHIP 12 SOUTH, RANGE 34 EAST, NMPM
Section 30: SW/4

(c) Create a new pool in Lea County, New Mexico, classified as a gas pool for Atoka production and designated as the West Sombrero-Atoka Gas Pool. The discovery well is Thunderbird Oil Corporation, Bell "15" State No. 1 located in Unit L of Section 15, Township 16 South, Range 33 East, NMPM. Said pool described as:

TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM
Section 15: W/2

Case 4848 continued from page 3

(d) Contract the Arrowhead-Grayburg Pool in Lea County, New Mexico, by the deletion of the following described area:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 19: All
Section 20: W/2

(e) Contract the Eumont Gas Pool in Lea County, New Mexico, by the deletion of the following described area:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 20: W/2 NW/4 and NW/4 SW/4

(f) Extend the vertical limits of the Langlie Mattix Pool in Lea County, New Mexico, to include the Grayburg formation. Also, extend said Langlie Mattix Pool to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 20: W/2 NW/4 and NW/4 SW/4

(g) Contract the Bagley-Pennsylvanian Pool in Lea County, New Mexico, by the deletion of the following described area:

TOWNSHIP 11 SOUTH, RANGE 33 EAST, NMPM
Section 34: NW/4

(h) Extend the North Bagley-Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 11 SOUTH, RANGE 33 EAST, NMPM
Section 34: NW/4

(i) Extend the Blinebry Oil Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 36 EAST, NMPM
Section 25: SW/4

(j) Extend the Flying "M"-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 9 SOUTH, RANGE 33 EAST, NMPM
Section 8: E/2

(k) Extend the Fowler-Upper Paddock Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM
Section 15: NW/4
Section 22: S/2 and NW/4

- (l) Extend the North Lynch Yates-Seven Rivers Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 34 EAST, NMPM
Section 19: NE/4

- (m) Extend the Querecho Plains-Queen Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 32 EAST, NMPM
Section 27: S/2

- (n) Extend the North Skaggs-Drinkard Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 8: N/2 NW/4

- (o) Extend the Townsend-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM
Section 16: W/2

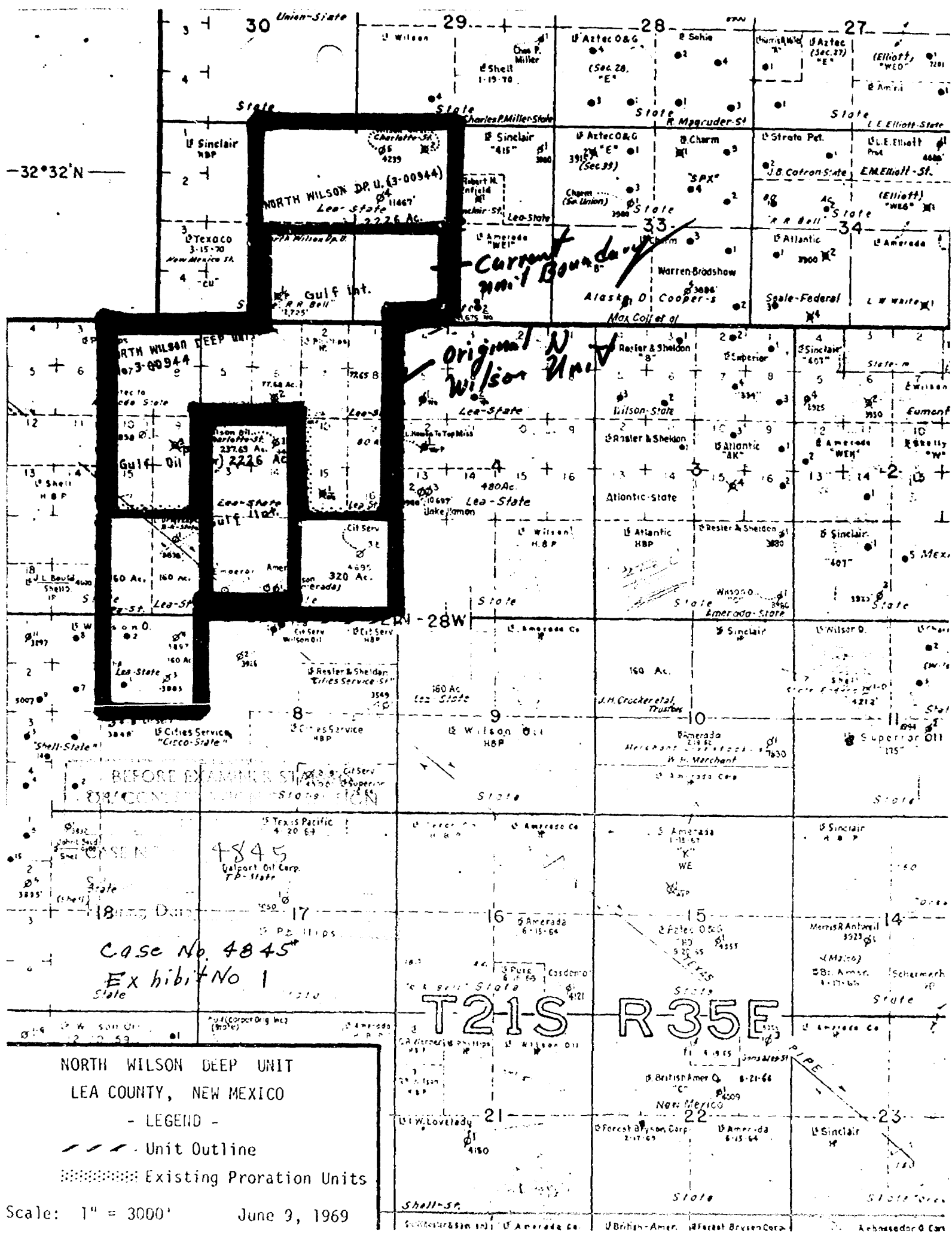
- (p) Extend the North Vacuum-Abo Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM
Section 1: SE/4

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM
Section 29: NW/4

- (q) Extend the Vada-Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 9 SOUTH, RANGE 34 EAST, NMPM
Section 7: NW/4



EXPLORATORY & DEVELOPMENT WELLS
OSUDO & NO. OSUDO - MORROW GAS
CUMULATIVE PRODUCTION TO 1-1-72

	<u>COMPANY</u>	<u>NO.</u>	<u>LOCATION</u>	<u>GAS MCF</u>	<u>OIL (BBLs.)</u>
1.	Gulf	#2 N.W.	5-21-35	11,849,247	137,396
2.	Hamon	#1 8913	20-20-36	7,863,676	74,863
3.	Gulf	#1 N.W.	31-20-36	6,285,181	29,956
4.	Hamon	#1 Union	30-20-36	5,184,687	29,334
5.	Hamon	#1 Amerada	17-20-36	4,753,844	74,379
6.	Mallard	#1 Alves	6-20-36	621,699	36,549
7.	Gulf	#3 N.W.	6-21-35	601,462	15,154
8.	W. States	#1 CC	19-20-36	578,749	6,311
9.	Texaco	#1 CV	36-20-35	53,905	550
10.	Texaco	#1 CU	31-20-36	9,420	0
11.	Phillips	#5 "J"	5-21-35	Dry	
12.	Gulf	#4 N.W.	32-20-36	Dry	
13.	Hamon	#1 State	4-21-35	Dry	
14.	Amerada	#1 WEI	32-20-36	Dry	
15.	Western	#1 Tansa	32-20-36	Dry	
16.	Western	#1 "J"	29-20-36	Dry	
	Sabine	#1 St.	26-20-35	Dry	
	Sabine	#2 St.	25-20-35	Dry	
	Texaco	#2 St.	25-20-35	Dry	

NOT PROFITABLE

Development - Dry or Marginal Well Ratio

Percentage of Wells to Pay out (5) - - - - - 31.25%
 Percentage of Wells - Dry (6) - - - - - 37.50%
 Percentage of Wells Marginal will not return
 investment (5) - - - - - 31.25%

100.00%

Percentage well dry or will not pay out original investment - - 68.75%

Case No. 4845
Exhibit No. 4

GAS & CONDENSATE PRODUCTION TABULATION
OSUDO-MORROW

Gulf Oil Corporation				
	N. Wilson #1		N. Wilson #2	
	Condensate	Gas	Condensate	Gas
	Bbls.	M.C.F.	Bbls.	M.C.F.
<u>1971</u>				
January		28,705	887	121,425
February		27,826	835	108,211
March	3	31,718	901	120,090
April		10,097	826	112,179
May		12,268	808	101,736
June		521	817	114,922
July		176	850	117,099
August	18	41,287	823	112,202
September	14	37,941	740	97,901
October	3	34,086	776	108,604
November		23,095	757	101,482
December		20,734	751	105,843
Total 1971	38	268,454	9,771	1,321,694
<u>1972</u>				
January	14	35,358	722	103,418
February	16	25,985	668	95,505
March	20	28,338	681	103,823
April	14	20,513	603	95,525
May	4	24,905	586	96,521
June	4	17,538	532	94,355
At 6-30-72	72	152,637	3,792	589,147
Cumulative to 6-30-72	30,028	6,437,818	141,288	12,438,664

BEFORE
OIL COM

4845

N. Raymond Lamb
August 22, 1972

Case No. 4845
Exhibit No. 5

GULF OIL COMPANY - U. S.
MIDLAND PRODUCTION DISTRICT
POST OFFICE BOX 1150
MIDLAND, TEXAS 79701

NORTH WILSON DEEP UNIT NO. 3 - CARRIED INTEREST PAYOUT

December, 1971

Drilling and Completion Cost	\$	
50% Non-Consent Penalty		
Lease Investment and Operating Cost		<u>167.27</u>
TOTAL COST		\$ <u>167.27</u>

Oil Revenue for December, 1971

<u>Bbls.</u>	<u>Value</u>	<u>Taxes</u>	<u>Royalty</u>	
0	0	0	0	<u>0</u>

Gas Revenue November, 1971

<u>MCF</u>	<u>Value</u>	<u>Taxes</u>	<u>Royalty</u>	
396	36.16	2.37	4.22	<u>29.57</u>

Expenditures in Excess of Revenue as of <u>November 30</u> , 1971	\$435,717.78
Expenditures in Excess of Revenue as of <u>December 31</u> , 1971	\$435,855.48*

* With 150% NON-CONSENT

Wilson's 1/2 of expenditures to payout @ 12.035%	PAYOUT WITHOUT 150% NON-Consent
Wyoming's 1/2 of expenditures to payout @ 12.035%	<u>\$290,570.03</u>

cc: Amerada Petroleum Corp.
P. O. Box 2040
Tulsa, Oklahoma 74101

Phillips Petroleum Co.
Bartlesville, Oklahoma 74003

BEFORE EXAMINER STAMP
OIL CONSERVATION DISTRICT

4845

DEVELOPMENT - INTEREST - PAY OUT - COSTS
PROPOSED WELL OSUDO MORROW
SEC. 5, T. 21S - R. 35E, LEA COUNTY, NEW MEXICO

Drilling and Completion Cost - - - - - \$274,195

Pay Out Schedule

a. Est. Production Rate

1. Gas - 2.5 million/day
2. Condensate - 35 bbls./day

b. Working Interest Income

Gas @ 30¢ per MCF.
Condensate @ 3.26 per bbl.

Gross Working Interest - \$648/day.

Operating Expense - 7.4%

Net Working Interest Income \$600/day.

c. Pay Out Period Base on "b"

Cost + Interest on Money - \$302,163 (16.78 Mos.)

125% Non-Consent on Cost - \$342,744

Relationship of Non-Consent 125% to Cost + Interest - 113.43%

150% Non-Consent on Cost - \$411,293

Relationship of Non-Consent 150% to Cost + Interest - 136.11%

d. 125% Non-Consent grants Operator a net 113.43% over 19 mos.

150% Non-Consent grants Operator 136.11% over 23 mos.

CASE NO. 4845
Exhibit No. 6

N. Raymond Lamb
10-14-72

Case 7845
Exhibit 7

WESTERN OIL PRODUCERS

Osudo Morrow State #1
Sec. 5-21S-35E, Lea County, New Mexico

AFE

Legal Fees		\$ 400
Survey Location		150
Roads and Location		2,500
Surface csg. 300' 12-3/4"	\$4.75/ft	1,425
Cmt. & Svcs.		1,000
Int. Csg. 5200' 9-5/8"	\$5.50/ft	28,600
Cmt. & Svcs.		2,500
Drilling 11,600'	\$7.95/ft	92,220
Rig time for three (3) DST's & logging		6,000
Three (3) DST's		4,000
Logging		4,500
Mud		30,000
Misc.		5,000
7" Protective csg. string, if necessary, & cementing		46,000
		<u>\$224,295</u>

COMPLETION COSTS

Casing Liner	4,500
Cmtg. & Svcs.	3,500
Packer	900
Tubing	17,000
Xmas Tree	5,500
Tank Battery	3,500
Stack Pack	7,500
Labor	2,500
Misc.	5,000
	<u>\$49,900</u>

Total AFE for Completed Well \$274,195

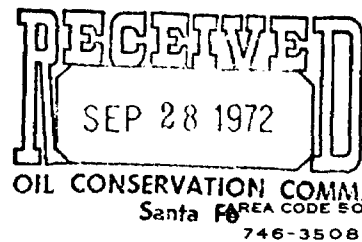
BEFORE EXAMINER OF DEEDS
OIL CONSOLIDATION ACT
7

Approved by: 4845

A. J. LOSEE
JOEL M. CARSON

LAW OFFICES
LOSEE & CARSON
300 AMERICAN HOME BUILDING
P. O. DRAWER 239
ARTESIA, NEW MEXICO 88210

27 September 1972



gms
Cores 4844 & 4845

Mr. George Hatch, Attorney
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear George:

In accordance with our telephone conversation of yesterday, I enclose three copies each of the Application of Western Oil Producers, Inc. for Compulsory Pooling, Osudo Morrow Gas Pool, Lea County, New Mexico, and Application of Western Oil Producers, Inc. for a Non-Standard Gas Spacing Unit, Osudo Morrow Pool, Lea County, New Mexico. It is my understanding that these cases will be set for hearing before an examiner on October 17, 1972.

Very truly yours,

LOSEE & CARSON


A. J. Losee

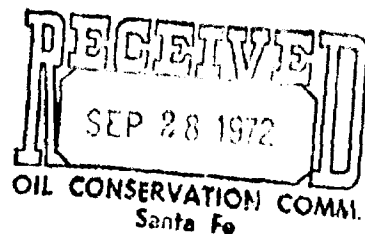
AJL:jw

Enclosures

cc: Western Oil Producers, Inc. w/enclosures
Mr. Raymond Lamb w/enclosures

DOCKET MAILED

10-5-72



BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF)
WESTERN OIL PRODUCERS, INC. FOR)
COMPULSORY POOLING, OSUDO MORROW)
GAS POOL, LEA COUNTY, NEW MEXICO)

Case No. 4945

APPLICATION

COMES WESTERN OIL PRODUCERS, INC., by its attorneys,
and in support hereof, respectfully states:

1. That, except as hereinafter noted, applicant is
the owner and operator of the entire working interest in the
Morrow formation underlying the following lands in Lea County,
New Mexico:

Township 21 South, Range 35 East, N.M.P.M.

Section 5: Lots 11, 12, 13 and 14, SW/4
containing 320 acres, more or less,
and proposes to drill its No. 1 well to test the Morrow forma-
tion at a location 3,300 feet from the South line and 660 feet
from the West line of said Section 5, and to dedicate the above
described 320 acres as a standard gas spacing unit for said well.

2. That Gulf Oil Corporation is the owner of an un-
divided 18.67% of the working interest within the proposed gas
spacing unit, and Gulf Oil Corporation has not agreed to pool
its interest with applicant.

3. That all mineral and royalty interests, whatever
they may be, in the Morrow formation underlying the above
described 320-acre standard gas spacing unit dedicated to
applicant's No. 1 well should be pooled to avoid the drilling

of unnecessary wells, to protect correlative rights and to afford the owner of each such interest the opportunity to recover or receive its just and fair share of the gas in said formation underlying said spacing unit.

WHEREFORE, applicant prays:

A. That this application be set for hearing before an examiner and that notice of said hearing be given as required by law.

B. That upon hearing, the Commission enter its order pooling all mineral and royalty interests, whatever they may be, in the Morrow formation underlying Lots 11, 12, 13 and 14, SW/4 of Section 5, Township 21 South, Range 35 East, N.M.P.M., Lea County, New Mexico, to form a 320-acre standard gas spacing unit to be dedicated to applicant's No. 1 well at a location 3,300 feet from the South line and 660 feet from the West line of said Section 5.

C. And for such other relief as may be just in the premises.

WESTERN OIL PRODUCERS, INC.

By: 

A. J. Losee for
Losee & Carson
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

DRAFT

GMH/dr

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 4845

Order No. R-4426

APPLICATION OF WESTERN OIL
PRODUCERS, INC. FOR COMPULSORY
POOLING AND A NON-STANDARD
PRORATION UNIT, LEA COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on October 17, 1972,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this day of October, 1972, the Commission,
a quorum being present, 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 Commission has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, Western Oil Producers, Inc.
seeks an order pooling all mineral interests in the Osudo-Morrow
Gas Pool underlying Lots 11, 12, 13 and 14 and the SW/4 of
Section 5, Township 21 South, Range 35 East, NMPM, Lea County,
New Mexico, to form a ~~non-standard~~ spacing unit to be dedicated
to a well to be drilled 3300 feet from the South line and 660
feet from the West line of said Section 5.

(3) That the applicant has the right ^{and purpose} to drill a well to be located 3300 feet from the South line and 660 feet from the West line of said Section 5 in the Osudo-Morrow Gas Pool.

(4) That there are interest owners in the proposed non-standard proration unit who have not agreed to pool their interests.

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

(6) That the applicants should be designated the operator of the subject well and unit.

(7) 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.

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 10% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

(10) That following determination of reasonable well costs, any non-consenting working interest owner that 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.

(11) That \$125.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); 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.

(10) That _____ per month should be fixed as a reasonable charge for supervision for the subject well; 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 is hereby 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.

(12) (11) 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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Osudo-Morrow Gas Pool underlying Lots 11, 12, 13 and 14 and the SW/4 of Section 5, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled to form a ³²⁰~~160~~-acre ~~non-standard~~ gas proration unit to be dedicated to a well to be located 3300 feet from the South line and 660 feet from the West line of said Section 5.

(2) That Western Oil Producers, Inc. is hereby designated the operator of the subject well and unit.

(3) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs within 30 days following the date of this order.

(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 Commission 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 Commission and the Commission has not objected within 45 ~~90~~ 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 ~~90~~-day period, the Commission 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 that

has paid his share of estimated costs in advance as provided above shall pay to the operators his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operators his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator, ~~the~~ ¹² 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 ~~60~~ 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, ~~40~~ ⁴⁰ % 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 ~~60~~ 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 \$125.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operator, ~~the~~ ¹² 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, ~~the~~ ¹² 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) That 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) That any well costs or charges which are to be paid out of production shall be withheld only from the working

-5-

~~CASE NO. 4072~~

~~Order NO. R-4275~~

interests' 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 be placed in escrow in ~~Sandoz~~ ^{San Juan} County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

BRUCE KING, Chairman

ALEX J. ARMIJO, Member

A. L. PORTER, Jr., Member & Secretary

S E A L

esr/

Jerry Loe

Compulsory Pooling

Western Oil Producers, Inc.
for Compulsory P

Oscoda - Marrow Has Pool

Lots 11, 12, 13, 14 and SW 1/4 of
Section 5, 21 S - 35 E

Well Loc. — 3300 FSL 660 FW

~~7750~~

320 acre unit

Gulf Oil Corp
is to be pooled

6 5 4 3	
7 8 9 10	
14 13 12 11	
SW 1/4	

360

480

480