

CASE NO.

7478

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey
James B. Grant

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July 23, 1982

Mr. Joe D. Ramey
OIL CONSERVATION DIVISION
Post Office Box 2088
Santa Fe, New Mexico 87501

HAND DELIVERED

Re: Division Case 7478
Order R-6903
Applicant: Julian Ard
Compulsory Pooling Case

JUL 23 1982

Dear Mr. Ramey:

On behalf of Nortex Gas & Oil Company, we hereby
apply to the New Mexico Oil Conservation Division for
an amendment to Division Order R-6903 as follows:

On Paragraph (4) Page 4, of the Order, by deleting
the words:

"following resolution of an appeal
(filed August 24, 1981) before the
Board of Land Appeals of the
Department of Interior,"...."

and by substituting the words:

"following final adjudication or
settlement, which ever comes sooner,
of the disputed ownership of the oil
and gas minerals underlying the subject
tract,"...."

Nortex Gas & Oil Company states the following as
justification for its request.

1. That the NE/4NE/4 of Section 23, included as part
of the proration unit subject to the referenced compulsory
pooling order, is subject to a federal oil and gas lease which
has been assigned to Nortex Oil & Gas Company.

Mr. Joe D. Ramey
OIL CONSERVATION DIVISION
July 23, 1982
Page Two

2. The BLM approved assignment was contested and resulted in an appeal to the Board of Land Appeals of the Department of Interior as recited in Division Order R-6903.

3. That a final resolution was entered by the Board of Land Appeals on June 24, 1982, which failed to resolve the question of ownership of the minerals underlying this tract.

4. Nortex Gas & Oil Company desires to participate in the subject well to be drilled pursuant to Division Order R-6903 but is unable to do so until the ownership of this tract has been finally adjudicated or settled.

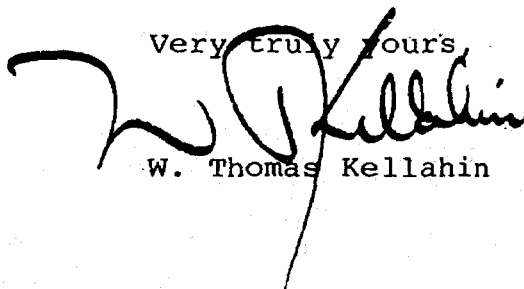
5. As setforth in the transcript of the Division Hearing in Case 7478, it was anticipated that the Board of Land Appeals decision would result in a resolution of the ownership of the working interest for this tract and thus allow the prevailing party to elect to participate in the subject well.

6. Based upon the assumption setforth in paragraph 3 above, Division Order R-6903 setforth a method to allow the prevailing non-consenting working interest owner to make an election concerning participation in this well.

7. However, the Board of Land Appeals Decision entered on June 24, 1982, failed to resolve the question of ownership of the working interest underlying this tract and compels those interest owners to seek an adjudication of this issue in the District Court.

Accordingly, we would appreciate the Division Order being amended as requested.

Very truly yours,



W. Thomas Kellahin

WTK/rb

cc: Mr. Robert Bledso, Esq.
Mr. Ernie Padilla, Esq.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 February 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Julian Ard for
compulsory pooling and unortho-
dox location, Lea County, New
Mexico.

CASE
7478

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Ernest L. Padilla, Esq.
P. O. Box 2523
Santa Fe, New Mexico 87501

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I N D E X

DANIEL F. SECKER

Direct Examination by Mr. Padilla 3

E X H I B I T S

Applicant Exhibit One, Application	5
Applicant Exhibit Two, Plat	6
Applicant Exhibit Three, Plat	8
Applicant Exhibit Four, AFE	13

1
2 MR. NUTTER: We'll call next Case Number
3 7478.

4 MR. PEARCE: Application of Julian Ard
5 for compulsory pooling and an unorthodox location, Lea
6 County, New Mexico.

7 MR. PADILLA: Mr. Examiner, Ernest L.
8 Padilla, Santa Fe, New Mexico, for the applicant in this
9 case.

10 I have one witness who needs to be
11 sworn.

12
13 (Witness sworn.)

14
15 DANIEL F. SECKER
16 being called as a witness and being duly sworn upon his oath,
17 testified as follows, to-wit:

18
19 DIRECT EXAMINATION

20 BY MR. PADILLA:

21 Q Mr. Secker, for the record would you
22 please state your name and where you reside?

23 A My name is Daniel F. Secker and I re-
24 side in Midland, Texas.

25 Q How do you spell your last name, Mr.

1
2 Secker?

3 A. S-E-C-K-E-R.

4 Q Mr. Secker, what is your connection with
5 Julian Ard, the applicant in this case?

6 A. I'm representing Julian Ard as a landman.

7 Q Mr. Secker, would you tell us what your
8 educational background and work experience in the oil and gas
9 industry is?

10 A. I received a BA degree from the Citadel,
11 a military college of South Carolina, in political science
12 and pre-law.

13 I've been involved in the oil and gas
14 industry since 1970 as a landman for Atlantic Richfield, as
15 a District Landman for Southland Royalty Company, and I have
16 been an independent landman for the past six years.

17 I'm a certified petroleum landman.

18 Q Mr. Secker, are you familiar with the
19 purpose of today's hearing?

20 A. Yes, sir, with the unorthodox location
21 as well as compulsory pooling.

22 MR. PADILLA: Mr. Examiner, are the wit-
23 ness' qualifications as an expert landman acceptable?

24 MR. NUTTER: Yes, they are.

25 Q Mr. Secker, would you tell us what the --

1
2 what the nature of today's hearing is? What does the appli-
3 cant seek with this case?

4 A. We're asking for an unorthodox location
5 for a 13,500 foot Morrow test, to be located 1980 feet from
6 the north line, 2310 feet from the east line of Section 23,
7 Township 20 South, Range 33 East.

8 We're also asking for compulsory pooling
9 for a 320-acre drilling unit to be comprised of the east
10 half of Section 23.

11 Q. Mr. Secker, let me hand you what has
12 been marked as Exhibit Number One. Would you please tell us
13 what it is and what it contains?

14 A. Exhibit One is an application with the
15 Department of the Interior, application to drill, and this
16 is our application for the drilling of a 13,000 foot Morrow
17 test at the location previously stated.

18 Q. Mr. Secker, does that indicate a spud
19 date for the proposed well?

20 A. The date, I don't believe is on this
21 particular exhibit; however, we have a KGS lease. It ex-
22 pires March the 1st of 1983 and we anticipate the drilling
23 of the well over the expiration date.

24 Q. So in other words, you have a short
25 term lease, is that correct?

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A. Yes, we do.

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Q. Now, Mr. Secker, I hand you what has been marked as Exhibit Number Two. Would you tell us now what that is and what it contains?

6

7

8

9

A. Exhibit Two is a location plat filed with the State of New Mexico that shows the location also previously submitted that also names Julian Ard, the person whom I represent, to be the operator.

10

11

Q. What -- what acreage would be dedicated to the well?

12

13

A. The acreage dedicated would be 320 acres comprised of all of the east half of Section 23.

14

15

Q. Of that acreage, which is controlled by whatever means by the applicant, Julian Ard?

16

17

A. 280 acres out of the 320 is controlled by Julian Ard, either by farmout or ownership.

18

19

20

I might state at this time that the 280 acres is owned jointly by Supron, who owns 80 percent; Julian Ard, 10 percent; Ed Hudson, 10 percent.

21

22

23

24

Supron, who is currently the operator, is farming out to Julian Ard for the drilling of the test. Julian Ard will participate with his percentage; Ed Hudson will participate with his percentage.

25

We have filed, or we're currently getting

1

2

execution today of a designation of operator from Supron,

3

naming Julian Ard as operator of the test well.

4

MR. NUTTER: Did you say Supron is farming out to Ard?

6

A. Yes.

7

MR. NUTTER: Then he will control, including the farmout, 90 percent of the 280 acres?

9

A. Yes, sir.

10

MR. NUTTER: Okay, how about the other remaining 40?

12

A. The other remaining 40 is owned by Mortex Oil Company, Oil and Gas Company, I believe, out of Midland.

15

MR. NUTTER: Is that a divided or undivided interest in the 320?

17

A. The ownership of Mortex?

18

MR. NUTTER: Yes, sir.

19

A. It's divided interest. They own --

20

MR. NUTTER: And where is it?

21

A. It's the northeast quarter of the northeast quarter.

23

MR. NUTTER: Okay.

24

A. The lease, if I might elaborate, was

25

drawn under simultaneous filing in March of 1980, and there

1
2 has been subsequently assigned to Nortex Oil Company of Mid-
3 land full ownership of the lease.

4 There has been an appeal filed on that
5 lease. In checking with the BLM they have relayed to me that
6 the title is in Nortex.

7 I have discussed with Nortex the commun-
8 itization of their lease into our unit and they have relayed
9 to me that they would participate in the well if it were not
10 for the appeal being filed on the lease, and as such, they
11 would pay their proportionate share of the well cost.

12 They have indicated to me that they
13 would be willing to execute a letter agreement stating that
14 they will pay their well cost subject to the removal of the
15 appeal.

16 MR. NUTTER: Okay. Now your little
17 plat here, Exhibit Three, which we haven't got to yet, shows
18 Energy Group of America owning that 40 acres.

19 A. Yes, sir. That's where the appeal comes
20 forth.

21 Apparently, as I understand the case, I
22 am not fully cognizant of all of the facts regarding the
23 appeal, but my understanding is that the lease was purchased
24 by a gentleman, I believe, by the name of Gordon C. McDonough,
25 from the winners of the simultaneous filing. He at that time,

1
2 and I understand this was back sometime in 1980, he sold the
3 lease to Petroleum Resources.

4 Apparently Petroleum Resources was under
5 review by the BLM, and I'm not certain what the situation
6 was. I understand it was possibly a sole interest. I've
7 forgotten exactly what the terminology is, but it was sole
8 party in interest examination, I think, that they were under.

9 They requested that the assignment into
10 them be withdrawn, which it was.

11 Then it's my understanding that Gordon
12 McDonough sold the lease to Nortox under an assignment, and
13 the assignment was approved by the BLM.

14 It's my understanding that the appeal
15 is filed by Petro Resources.

16 That's my familiarity with that parti-
17 cular situation.

18 MR. NUTTER: You don't mean Petro Re-
19 sources, you mean Energy Group of America.

20 A. I'm not quite certain. The map shows
21 Energy Group of America. Talking with the BLM they tell me
22 that it's Petro Resources.

23 There was also at one time a letter on
24 file with the BLM concerning Getty Oil Company, which was
25 also withdrawn.

1
2 So I'm afraid I can't answer your ques-
3 tion.

4 MR. NUTTER: But this -- this assignment,
5 either Energy Group of America or to Petro Resources, and
6 also to Nortex, was made by McDonough, who wasn't the original
7 recipient of the lease in the drawing. He bought it from the
8 original recipient.

9 A. That's my understanding, and that may
10 not be correct.

11 MR. NUTTER: Now do you know if that
12 original recipient, do you know his name?

13 A. No, sir, I don't.

14 MR. NUTTER: And does he carry any
15 override into this thing, or anything?

16 A. I would presume that he does but I'm
17 not familiar with it.

18 MR. NUTTER: I think somewhere along the
19 line in this record we're going to have to have the names
20 of everybody who is concerned with this.

21 A. According to the BLM, the owner of the
22 lease is Nortex. As to any overrides that may exist, I'm
23 not familiar with them.

24 Q Mr. Secker, nonetheless, the BLM takes
25 the position that there is a lease on the acres, is that cor-

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2

rect?

3

A. Yes.

4

Q. And covers the northeast quarter of the

5

northeast quarter of 23. Is that also correct?

6

A. That's correct.

7

MR. PADILLA: Mr. Examiner, I think we can try to get you that information as quickly as possible following the hearing.

10

MR. NUTTER: Okay.

11

Q. Mr. Secker, Julian Ard, you've indicated

12

has been designated the operator by the other working interests in the area?

13

14

A. That is correct.

15

Q. And desires to be the working interest

16

or the operator under an order issued by the Oil Conservation Division?

17

18

A. That is correct.

19

Q. Mr. Secker, as to the unorthodox portion

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of the case, would you tell us something about that? Why

21

was that well location chosen instead of a standard location?

22

A. According to the geology, that appears

23

to be the optimum location for a Morrow test, according to

24

the geologist that prepared the information.

25

Q. Now looking at the Exhibit Number Three,

1
2 would you tell us where any other Morrow wells are located
3 in the area that you know of?

4 A. On Exhibit Three the nearest producing
5 Morrow well is to the north, and I believe it's off of your
6 map, and my information states that that would be the Grace
7 Petroleum Smith Ranch Federal, which is located in the south-
8 west quarter -- I'm sorry, in the northwest quarter of Section
9 11.

10 My understanding also is that there is
11 an abandoned Morrow producer, which does show on your map,
12 which appears in the northeast quarter of the northwest quar-
13 ter of Section 14, being labeled there as the ARCO Arc. That
14 is abandoned in the Morrow, as to my understanding.

15 Other wells in the area that were taken
16 down to the Morrow, to the east approximately a mile and
17 three-quarters from our location is the Cities Service --
18 it's the Cities Service Government something -- and it was
19 carried to a depth of 15,187. It was dry in the Morrow.

20 To the north -- I'm sorry, to the south-
21 west of our location is the Amoco 1-Y, located in Section 27,
22 which I believe was dry in the Morrow but was an Atoka dis-
23 covery.

24 Q. Now, Mr. Secker, have you -- do you know
25 of any communications between the applicant and the operator

1
2 to the test in the west half of Section 23 concerning the
3 unorthodox location?

4 A. Yes, I do. There were negotiations be-
5 tween Mr. Julian Ard and the Bass Company out of Ft. Worth,
6 who owns acreage immediately to the west.

7 We had initially contacted them for the
8 formation of a drilling unit that would be comprised of all
9 of Section 23. They at that time elected not to either part-
10 icipate in a well with us or farm out to us for the Morrow
11 test.

12 They did, however, offer \$2.00 a foot
13 dry hole money for our test, test well over in the east half
14 of Section 23.

15 Q A test at the location where you propose
16 to drill the well, is that --

17 A. Yes, I believe that to be correct.
18 These negotiations were carried on by Mr. Ard in Ft. Worth.

19 Q Mr. Secker, let me hand you now what has
20 been marked as Exhibit Number Four. Would you tell us what
21 that is and what it contains?

22 A. Exhibit Number Four is an AFE for the
23 drilling of the subject well, wherein we have a total dry
24 hole cost for the 13,500 foot Morrow well of being \$1,121,030.
25 Completed cost of the well, \$1,607,499.

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2 Q Do you have any figures as to the over-
3 head production costs for a drilling and a completed well?

4 A In the operating agreement that we intend
5 to use should this be force pooled, or compulsory pooled,
6 we anticipate using a drilling well rate of \$3500 and a pro-
7 ducing well rate of \$350, which I believe is well within the
8 industry average. If anything, it's probably below.

9 Q Mr. Secker, do you have anything else
10 in support -- to say in support of this application?

11 A The only remarks that I have, as far as
12 the compulsory unit, would be my discussions that I have
13 relayed earlier in my testimony, as to the position that
14 Nortex would take, wherein they said that they would be in-
15 terested in participating with a well, paying their propor-
16 tionate share, if it were not for the appeal that is now on
17 record with the BLM.

18 Q Do you have a drilling committed to
19 commence a well prior to termination of your lease?

20 A Yes, we do.

21 Q And when would you propose to start
22 drilling? I think you've already mentioned that.

23 A Yes, we propose drilling the well on
24 or before the expiration of our lease, which is March the
25 1st of '81.

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Q Assuming that we can get the information that the Examiner requires or has alerted us to, do you request early consideration of this application so that you may proceed with the drilling?

A Yes, by all means.

MR. PADILLA: Mr. Examiner, I have nothing else and we offer Exhibits One through Four.

MR. NUTTER: Exhibits One through Four will be admitted in evidence.

Now, Mr. Padilla, you haven't presented any testimony here today relative to any risk factor.

You're not seeking a risk factor, I assume.

MR. PADILLA: We are, Mr. Examiner. I would be happy to ask a question, which I forgot to ask him.

Mr. Secker, in light of the location of the well, and the depth of the well, what information can you give us concerning the risk factor as a penalty for carrying the interest of the northeast quarter -- the northeast quarter northeast quarter?

MR. SECKER: In view of the geologic data that we have presented --

MR. NUTTER: You haven't presented any geologic data.

1
2 MR. SECKER: The geologic discussion as
3 to proximity of wells.

4 MR. NUTTER: That's not geology; that's
5 geography.

6 MR. SECKER: Well, geography, then, if
7 you please. It is rank wildcat. We feel that a penalty
8 provision of 200 percent would be more than adequate.

9 MR. NUTTER: Now, have any arrangements
10 been made, you said that Nortex had said they would be willing
11 to participate were it not for this appeal of the title,
12 have they indicated anything about being willing to put up
13 the money in advance, assuming that they're going to get the
14 title and then have it rebated back to them if they don't
15 get the title?

16 A. They have discussed that. We haven't
17 gone into depth on it.

18 MR. NUTTER: And that wouldn't be sub-
19 ject to any penalty, would it?

20 A. That's right. If a penalty were imposed,
21 I think that probably a 200 percent penalty would be more than
22 adequate; however, should Nortex elect to go under a letter
23 agreement with us and escrow the monies as to their propor-
24 tionate share, we would have no objection.

25 MR. NUTTER: And they are an operating

1
2 company, are they not?

3 A. Yes, sir, they are.

4 MR. NUTTER: They have some money in the
5 bank, presumably.

6 A. Yes, sir. My understanding is that they
7 are a division of Northern Natural Gas.

8 MR. NUTTER: I see.

9 MR. PADILLA: Mr. Examiner, maybe I
10 could ask one more question.

11 Mr. Secker, the BLM at this point cannot
12 approve a communitization agreement, is that correct, involving
13 Nortex and Julian Ard?

14 A. Well --

15 MR. PADILLA: Because of the contest of
16 the lease?

17 A. Well, Nortex will not execute the com-
18 munitization agreement until the appeal is settled. That's
19 why we asked for a compulsory pooling.

20 We are interested in expediting this
21 inasmuch as we have early lease expiration.

22 And in discussing the matter with Nortex
23 we have mentioned to them that we would like to pool it under
24 a regular communitization agreement, if possible.

25 They relayed to us their problem with

1
2 the appeal. Therefor we chose to go before the board.

3 MR. NUTTER: Okay, off the record a
4 minute, Sally.

5
6 (There followed a discussion
7 off the record.)

8
9 MR. NUTTER: Okay, back on the record.
10 Mr. Padilla, in light of the testimony here today regarding
11 Nortex and the possibility that they may participate and the
12 possibility of a letter agreement excrowing their share of
13 drilling costs, wuld it be reasonable for an order entered
14 by the Division to make special provision for Nortex in the
15 event that they should participate in a nonparticipating
16 manner that we just discussed?

17 MR. PADILLA: We think that would be
18 reasonable, Mr. Examiner.

19 MR. NUTTER: Mr. Padilla, could you pre-
20 pare paragraphs for the compulsory pooling order that we
21 could insert in such an order?

22 MR. PADILLA: Yes, sir, I can.

23 MR. NUTTER: Okay.

24 Mr. Secker, I notice -- now you stated
25 that the reason the well was being drilled at a location 1980

1
2 and 2310 was because of geological purposes; however, I look
3 at your Exhibit Three and it looks like there's a dry hole
4 drilled right at the site where a standard location would be
5 in that 40-acre tract, isn't there?

6 A. Yes, sir, there's a shallow location
7 there.

8 MR. NUTTER: So you'd have to move off
9 that, maybe move to the west of it.

10 A. Yes, sir. From what I understand in
11 discussing the matter with our geologist, the optimum location
12 would be west of that old dry hole; therefor, we're asking
13 for --

14 MR. NUTTER: Since they had to move,
15 they moved to the west.

16 A. Yes, sir.

17 MR. NUTTER: Okay. Are there any fur-
18 ther questions of Mr. Secker? He may be excused.

19 Do you have anything further, Mr. Padilla?

20 MR. PADILLA: Nothing further.

21 MR. NUTTER: Does anyone have anything
22 they wish to offer in Case Number 7478?

23 We'll take the case under advisement
24 and the hearing is adjourned.

25 (Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is a complete and correct transcript of the proceedings in the examination hearing of Case No. 7478 heard by me on 2/3 1982.

[Signature] Examiner
Oil Conservation Division



BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

February 15, 1982

Mr. Ernest L. Padilla
Attorney at Law
P. O. Box 2523
Santa Fe, New Mexico 87502

Re: CASE NO. 7478
ORDER NO. R-6903

Applicant:

Julian Ard

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD	<u>x</u>
Artesia OCD	<u>x</u>
Aztec OCD	

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7478
Order No. R-6903

APPLICATION OF JULIAN ARD FOR
COMPULSORY POOLING AND AN UNORTHODOX
LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on February 3, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 15th day of February, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Julian Ard, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a well at an unorthodox location 1980 feet from the North line and 2310 feet from the East line of said Section 23.
- (4) That there are interest owners in the proposed 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 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.

-2-

Case No. 7478
Order No. R-6903

(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 who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well, provided however, that with respect to the NE/4 NE/4 of said Section 23, any working interest owner who has not consented to voluntary pooling by reason of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior should be afforded an opportunity to pay his share of reasonable estimated or actual well costs in lieu of paying his share of such costs out of production following resolution of said appeal.

(9) 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.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$3500.00 per month while drilling and \$350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(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.

-3-

Case No. 7478
Order No. R-6903

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before June 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 1980 feet from the North line and 2310 feet from the East line of said Section 23.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of June, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of June, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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

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

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) 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, provided however, that with respect to the NE/4 NE/4 of Section 23, any non-consenting working interest

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Case No. 7478
Order No. R-6903

owner may, within thirty (30) days following resolution of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior, pay his proportionate share of estimated or actual well costs, and nothing herein shall be construed to prevent or hinder any agreement or arrangement between the operator and any such working-interest owner respecting payment, escrow, or other provision for accounting of said proportionate share.

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

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

(7) 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, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him or, with respect to the NE/4 NE/4 of

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Case No. 7478
Order No. R-6903

Section 23, within thirty (30) days from the date of resolution of the appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior.

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

(9) That \$3500.00 per month while drilling and \$350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) 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 interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

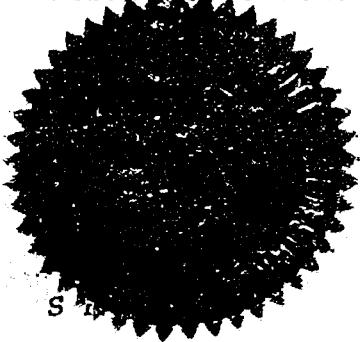
(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address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

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

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Case No. 7478
Order No. R-6903

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



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY
Director

ERNEST L. PADILLA
ATTORNEY AND COUNSELOR AT LAW

P.O. Box 2523
Santa Fe, New Mexico 87501
(505) 988-7577

February 8, 1982

Mr. Dan Nutter
Hearing Examiner
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

*Rec'd
2/8/82
Jm*

Re: Case No. 7478 - February 3, 1982 docket

Dear Mr. Nutter:

In accordance with your request I have made a search of the Bureau of Land Management oil and gas records to ascertain the ownership of the NE/4NE/4 of Section 23, Township 20S, Range 33E, Lea County, New Mexico. In this regard I am enclosing a copy of the appropriate Serial Register page which shows record title and operating rights ownership in federal oil and gas lease NM 39156. I believe that the data presented therein speaks for itself and in fact answers some of your inquiries at the hearing.

In checking other sources of information at the BLM, I learned also that Gordon McDonagh retained a 6/25% override in making his assignment to Nortex Oil and Gas Company.

In addition, the appeal to the Board of Land Appeals involves the approval by the BLM of Mr. McDonagh's withdrawal of an earlier purported assignment to Petrol Resources Corporation. Evidently Mr. McDonagh's withdrawal, prior to receiving any consideration from Petrol Resources, was prompted by an investigation of Petrol Resources and Energy Group of America by the BLM. Apparently in this and other lease transactions, the officers of both of these corporations were the same thus violating certain earlier disclosures which had been made to the BLM.

The BLM currently recognizes Nortex as the lessee of record, and BLM staffers view the chance of success of the appeal as remote.

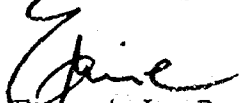
Mr. Dan Nutter

- 2 -

February 8, 1982

I am also enclosing proposed changes to the Division's usual compulsory pooling order in order to allow Nortex an opportunity to voluntarily participate in wells costs pending a resolution of the above-mentioned appeal before the Board of Land Appeals.

Very truly yours,



Ernest L. Padilla

ELP:pfm

cc: Mr. David Secker

PROPOSED CHANGES

rec'd 2/8/82
JSU

(1) New Finding (8)

(8) That with respect to the NE/4NE/4 of said Section 23, and working interest owner who has not consented to voluntary pooling by reason of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior should be afforded an opportunity to pay his share of reasonable estimated or actual well costs in lieu of paying his share of such costs out of production following resolution of said appeal.

(2) Current findings 8-13 renumbered as per the attached sample order.

(3) New Ordering ¶ (5)

(5) That, with respect to the NE/4NE/4 of Section 23, any non-consenting working interest owner may, within thirty (30) days following resolution of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior, pay his proportionate share of estimated or actual well costs, and nothing herein shall be construed to prevent or hinder any agreement or arrangement between the operator and any such working-interest owner respecting payment, escrow, or other provision for accounting of said proportionate share.

(4) Addition to the end of ¶ 8(B) (drop the period and add a comma in lieu thereof):

"or, with respect to the NE/4NE/4 of Section 23, within thirty (30) days from the date of resolution of the appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior."

(5) Renumber current ordering paragraphs 5-13 as indicated in the attached sample order.

PROPOSED CHANGES

rec'd 2/8/82
[Signature]

(1) New Finding (8)

(8) That with respect to the NE/4NE/4 of said Section 23, and working interest owner who has not consented to voluntary pooling by reason of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior should be afforded an opportunity to pay his share of reasonable estimated or actual well costs in lieu of paying his share of such costs out of production following resolution of said appeal.

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PROPOSED CHANGES

rec'd 2/8/82
[Signature]

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SERIAL REGISTER PAGE

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Legal Reference OG (n.c.) - Act of 2-25-1920, as amended	File Code 3112-A	Serial Number NM 39156
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Name and Mailing Address McDonagh, Gordon C., c/o Energy Group of America Inc., Lock Box T, Roseland, NJ--07068 Nortex Gas & Oil Co., 403 Wall Towers W., Midland, TX 79701
--

*Rec'd 2/8/82
Jou*

Description of Land T. 20 S., R. 33 E., NMPM Sec. 23: NE $\frac{1}{4}$ NE $\frac{1}{4}$ 24: NE $\frac{1}{4}$, W $\frac{1}{2}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$
--

Acres: 560.00

DATE OF ACTION	ACTION TAKEN
11/14/1979	Simultaneous filing at 10:00 a.m. Drew No. 1. mcs
EEB, 15 1980	License issued effective <u>MAR 1 1980</u> <i>llf</i>
7/22/1981	Asgn from Gordon C. McDonagh to Nortex Gas & Oil Co. of an undivided 100% int. Apvd. eff. 8/1/1981. ep
9/10/81	Appeal Filed 8/24/81. mbs

UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. TYPE OF WORK DRILL <input checked="" type="checkbox"/> DEEPEN <input type="checkbox"/> PLUG BACK <input type="checkbox"/>		5. LEASE DESIGNATION AND SERIAL NO. <u>11M-23701</u>
b. TYPE OF WELL OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> OTHER <input type="checkbox"/>		6. IF INDIAN, ALLOTTEE OR TRIBE NAME
2. NAME OF OPERATOR <u>Julian Ard</u>		7. UNIT AGREEMENT NAME
3. ADDRESS OF OPERATOR <u>P. O. Box 17360, Fort Worth, TX 76102</u>		8. FARM OR LEASE NAME <u>South Teas Federal</u>
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)* At surface <u>1980' FNL & 2310' FEL of SEC. 23, T20S, R33E</u> At proposed prod. zone <u>Same</u>		9. WELL NO. <u>1</u>
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE* <u>Approx. 15 miles from Buckeye, NM</u>		10. FIELD AND POOL, OR WILDCAT <u>Wildcat</u>
15. DISTANCE FROM PROPOSED* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any) <u>1980'</u>		11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA <u>Sec. 23, T20S, R33E</u>
16. NO. OF ACRES IN LEASE <u>280</u>		12. COUNTY OR PARISH <u>Lea</u>
17. NO. OF ACRES ASSIGNED TO THIS WELL <u>320</u>		13. STATE <u>New Mexico</u>
18. DISTANCE FROM PROPOSED LOCATION* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. <u>13,500'</u>		20. ROTARY OR CABLE TOOLS <u>Rotary</u>
21. ELEVATIONS (Show whether DF, RT, GR, etc.) <u>3617' GR</u>		22. APPROX. DATE WORK WILL START* <u>As Soon As Possible</u>

23. PROPOSED CASING AND CEMENTING PROGRAM				
SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2"	13 3/8"	48#	600'	(1) 640 Sks Class C Cement
12 1/4"	8 5/8"	32#	5000'	See Reverse & Exhibit "E"
7 7/8"	5 1/2"	20#		
7 7/8"	5 1/2"	17#	13500'	

Mud Program: See Exhibit "G"

BOP Program: See Exhibit "D"

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

1. SIGNED Julian Ard TITLE Owner DATE 1-28-82
(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____

APPROVED BY _____ TITLE _____ DATE _____
CONDITIONS OF APPROVAL, IF ANY:

*See Instructions On Reverse Side

All distances must be from the outer boundaries of the Section.

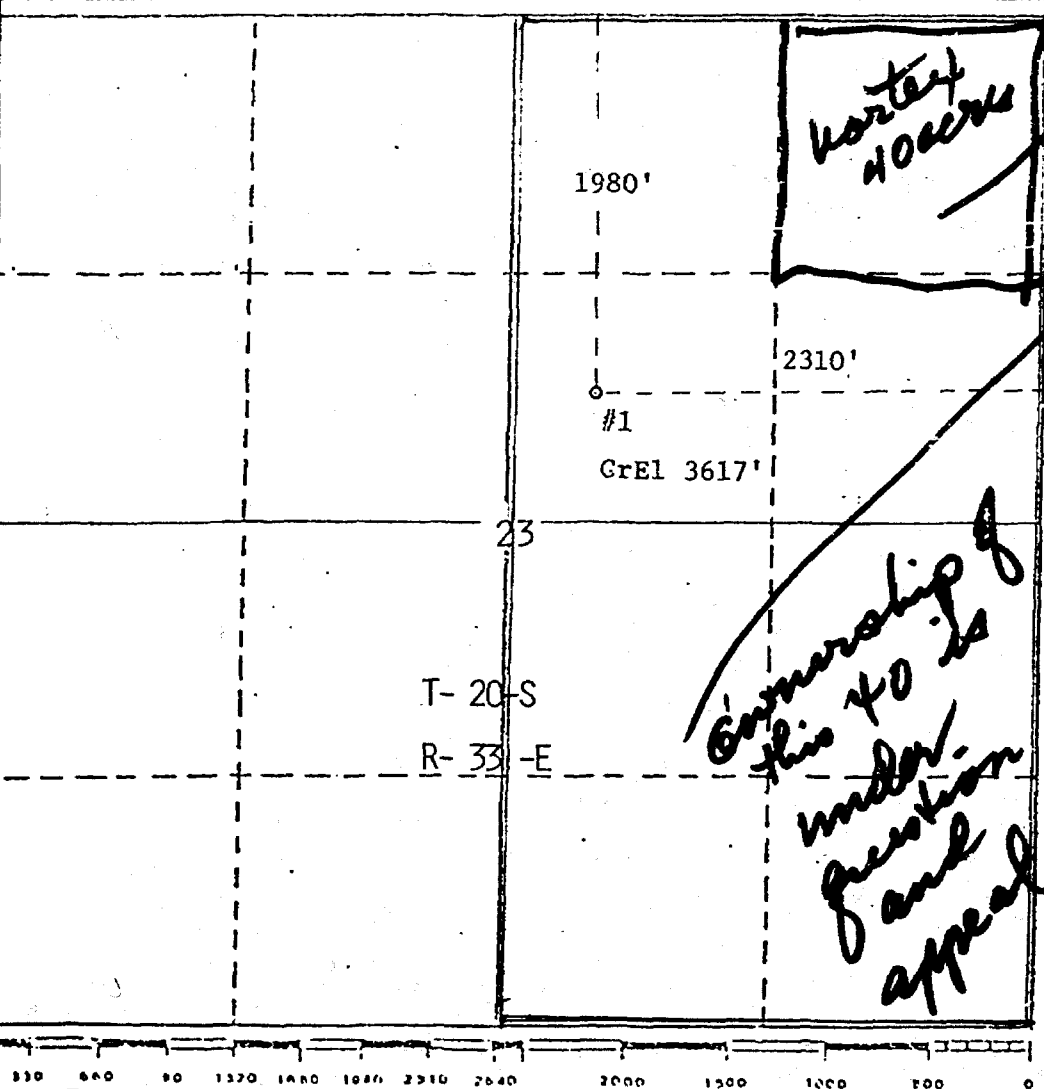
Lessee JULIAN ARD OIL COMPANY			Lease SOUTH TEAS FEDERAL		Well No. 1
Well Letter G	Section 23	Township 20S	Range 33E	County LEA	
Actual Footage Location of Well:					
1980 feet from the NORTH		line and 2310 feet from the EAST		line	
Ground Level Elev. 3617'	Producing Formation MORROW		Pool WILDCAT		Dedicated Acreage: 320 Acres

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty). Supron Energy Corp.-W.I. 70%, Edward R. Hudson-W.I. 8.75%, Julian Ard W.I. 8.75%, Nortex-W.I. 12.50%
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☒ Yes ☐ No If answer is "yes," type of consolidation Force -Pooling

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Division.



CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Name
Julian Ard

Position
Owner

Company
Julian Ard

Date
1-28-82

I hereby certify that the education shown on this plat and the field notes are true and correct and that I am under supervision, and that the same is true and correct to the best of my knowledge and belief.



Date Surveyed
1/28/82
Registered Professional Engineer and/or Land Surveyor

W.D. WATSON, JR

Certificate No.
3959

*Supron 80%
Ard 10%
Ed Hudson 10% } of the 280*
*Supron is farming out to Ard
and designating Ard as opv. Ex 2*

US 3200 M. Anderson 2 1 01 1000	US 3201 M. Anderson 2 1 01 1000	US 3202 M. Anderson 2 1 01 1000	US 3203 M. Anderson 2 1 01 1000	US 3204 M. Anderson 2 1 01 1000	US 3205 M. Anderson 2 1 01 1000	US 3206 M. Anderson 2 1 01 1000	US 3207 M. Anderson 2 1 01 1000	US 3208 M. Anderson 2 1 01 1000	US 3209 M. Anderson 2 1 01 1000	US 3210 M. Anderson 2 1 01 1000	US 3211 M. Anderson 2 1 01 1000	US 3212 M. Anderson 2 1 01 1000	US 3213 M. Anderson 2 1 01 1000	US 3214 M. Anderson 2 1 01 1000	US 3215 M. Anderson 2 1 01 1000	US 3216 M. Anderson 2 1 01 1000	US 3217 M. Anderson 2 1 01 1000	US 3218 M. Anderson 2 1 01 1000	US 3219 M. Anderson 2 1 01 1000	US 3220 M. Anderson 2 1 01 1000	US 3221 M. Anderson 2 1 01 1000	US 3222 M. Anderson 2 1 01 1000	US 3223 M. Anderson 2 1 01 1000	US 3224 M. Anderson 2 1 01 1000	US 3225 M. Anderson 2 1 01 1000	US 3226 M. Anderson 2 1 01 1000	US 3227 M. Anderson 2 1 01 1000	US 3228 M. Anderson 2 1 01 1000	US 3229 M. Anderson 2 1 01 1000	US 3230 M. 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Anderson 2 1 01 1000	US 3262 M. Anderson 2 1 01 1000	US 3263 M. Anderson 2 1 01 1000	US 3264 M. Anderson 2 1 01 1000	US 3265 M. Anderson 2 1 01 1000	US 3266 M. Anderson 2 1 01 1000	US 3267 M. Anderson 2 1 01 1000	US 3268 M. Anderson 2 1 01 1000	US 3269 M. Anderson 2 1 01 1000	US 3270 M. Anderson 2 1 01 1000	US 3271 M. Anderson 2 1 01 1000	US 3272 M. Anderson 2 1 01 1000	US 3273 M. Anderson 2 1 01 1000	US 3274 M. Anderson 2 1 01 1000	US 3275 M. Anderson 2 1 01 1000	US 3276 M. Anderson 2 1 01 1000	US 3277 M. Anderson 2 1 01 1000	US 3278 M. Anderson 2 1 01 1000	US 3279 M. Anderson 2 1 01 1000	US 3280 M. Anderson 2 1 01 1000	US 3281 M. Anderson 2 1 01 1000	US 3282 M. Anderson 2 1 01 1000	US 3283 M. Anderson 2 1 01 1000	US 3284 M. Anderson 2 1 01 1000	US 3285 M. Anderson 2 1 01 1000	US 3286 M. Anderson 2 1 01 1000	US 3287 M. Anderson 2 1 01 1000	US 3288 M. Anderson 2 1 01 1000	US 3289 M. Anderson 2 1 01 1000	US 3290 M. Anderson 2 1 01 1000	US 3291 M. Anderson 2 1 01 1000	US 3292 M. 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ESTIMATED AFE

DATE 1-25-82LEASE
NAME SOUTH-TEAS-FEDERALWELL
NO. 1PROPOSED
DEPTH 13,500' - 13,800'WELL
LOCATION Section 23, T20S, R33ECOUNTY LeaSTATE New MexicoACREAGE COSTS

Lease costs.....	\$ 15,000.00
Geoscience.....	7,000.00
Legal.....	1,800.00
Miscellaneous.....	2,000.00

TOTAL ACREAGE COSTS

\$ 25,800.00INTANGIBLE DRILLING COSTS

Surveyor.....	700.00
Surface Damages.....	5,000.00
Road and Location.....	5,000.00
Rig Move.....	60,000.00
Footage Cost @ _____ per foot.....	N/A
Day Work <u>50</u> @ <u>12,000</u> per day.....	600,000.00
Bits and Reamers. <u>1-17 1/2"</u> , <u>4-12 1/2"</u> , <u>8-7 7/8"</u>	80,000.00
Fuel..... 900y/ Day.....	45,000.00
Water.....	20,000.00
Drilling Mud and Chemicals.....	30,000.00
Coring and Core Analysis.....	N/A
Cement and Cementing Service.....	25,000.00
Mud Logging.....	10,500.00
Electric Logging.....	20,000.00
Drill Stem Tests <u>3</u>	8,500.00
Drilling Overhead Costs <u>Two (2) Months</u>	10,000.00
Geologist.....	4,000.00
Engineer.....	4,000.00
Welder.....	800.00
Miscellaneous.....	50,000.00

TOTAL INTANGIBLE DRILLING COSTS \$ 978,500.00TANGIBLE DRILLING COSTS

_____ ' of _____ " Conductor Casing@ _____ /ft.....	
<u>600</u> ' of <u>13 3/8"</u> Surface Casing@ _____ / ft.....	<u>15,480.00</u>
<u>5000</u> ' of <u>8 5/8"</u> Intermediate Casing@ _____ /ft..	<u>91,250.00</u>

Wellhead Equipment.....	
Sales Tax.....	
Miscellaneous.....	<u>10,000.00</u>

TOTAL TANGIBLE DRILLING COSTS \$ 116,730.00Plugging and Cleanup Costs..... 20,000.00

DRY HOLE COST

\$ 1,121,030.00

ESTIMATED AFE
[Continued]

INTANGIBLE COMPLETION COSTS

Cement and Cementing Service.....	\$ 25,000.00
Well Service Unit <u>15</u> days @ <u>2,100</u> per day.....	31,500.00
Correlation log and perforating.....	10,500.00
Rental Tools: BOP, packer, test tank, etc.....	5,000.00
Acidizing.....	30,000.00
Fracturing.....	38,000.00
Water hauling.....	1,500.00
Roustabout Labor.....	5,000.00
Engineer.....	10,000.00
Miscellaneous.....	20,000.00

TOTAL INTANGIBLE COMPLETION COSTS \$ 176,500.00

TANGIBLE COMPLETION COSTS

13,500 ' of 5 1/2 " Production Casing @ /ft..... 157,125.00

13,500 ' of 2 3/8 " Tubing @ /ft..... 84,375.00

Cementing Equipment.....	700.00
Guy Line Anchors.....	400.00
Wellhead Equipment.....	11,500.00
Tank Battery and Flow Line.....	25,000.00
Pumping Unit.....	N/A
Sales Tax.....	10,869.00
Miscellaneous.....	20,000.00

TOTAL TANGIBLE COMPLETION COSTS \$ 309,969.00

TOTAL COMPLETION COSTS \$ 486,469.00

TOTAL WELL COSTS \$ 1,607,499.00

Approved this day of 19

Interest

Dockets Nos. 6-82 and 7-82 are tentatively set for February 17 and March 3, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - FEBRUARY 2, 1982

OIL CONSERVATION COMMISSION - 9 A.M.
ROOM 205, STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

The following cases were continued from the January 11, 1982, Commission hearing:

CASE 7393: (DE NOVO)

Application of Uriah Exploration Incorporated for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Cisco, Canyon and Morrow formations underlying the W/2 of Section 13, Township 22 South, Range 24 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

Upon application of Supron Energy Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7394: (DE NOVO)

Application of Supron Energy Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Pennsylvanian well to be drilled 467 feet from the North line and 1650 feet from the West line of Section 13, Township 22 South, Range 24 East, the N/2 of said Section 13 to be dedicated to the well.

Upon application of Supron Energy Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

Docket No. 5-82

DOCKET: EXAMINER HEARING - WEDNESDAY - FEBRUARY 3, 1982

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

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

CASE 7469: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit H. M. Bailey & Associates, Commercial Union Insurance Company, and all other interested parties to appear and show cause why the following wells on the H. M. Bailey Lease, Township 21 South, Range 1 West, Dona Ana County, should not be plugged and abandoned in accordance with a Division-approved plugging program: In Section 10: Nos. 9 in Unit A, 9, 11, 12, and 12 in Unit B, 10 and 14 in Unit C; and No. 15 in Unit C of Section 9.

CASE 7470: Application of Wayne Moore for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Delaware River Unit Area, comprising 2,560 acres more or less, of State and fee lands in Township 26 South, Range 28 East.

CASE 7471: Application of Gulf Oil Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the South Lynch State Unit Area, comprising 1920 acres, more or less, of State lands in Township 21 South, Range 33 East.

CASE 7472: Application of Grace Petroleum Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Buffalo-Deep East Unit Area, comprising 2543 acres, more or less, of Federal and State lands in Townships 18 and 19 South, Range 33 East.

CASE 7462: (Continued from January 20, 1982, Examiner Hearing)

Application of Marathon Oil Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of the Drinkard and Blinberry production in the wellbore of its C. J. Saunders Well No. 3, located in Unit C of Section 1, Township 22 South, Range 36 East.

CASE 7473: Application of Inexco Oil Company for pool creation, special pool rules and discovery allowable Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new oil pool for its Lottie York Well No. 1 located in Unit P of Section 14, Township 17 South, Range 37 East, with special rules therefor, including provisions for 160-acre spacing. Applicant further seeks the assignment of 57,150 barrels of discovery allowable to said well.

CASE 7453: (Continued and Readvertised)

Application of T. D. Skelton for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Devonian and Mississippian formations underlying the NE/4 NW/4 of Section 7, Township 12 South, Range 38 East, to be dedicated to the re-entry of an old well at a standard location thereon or to a new well to be drilled at a standard location if such re-entry is unsuccessful. Also to be considered will be the cost of re-entering and completing said well and the drilling of the new well, if necessary, and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in re-entry and/or drilling said wells.

CASE 7451: (Continued from January 20, 1982, Examiner Hearing)

Application of Yates Petroleum Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Abo formation underlying the SE/4 of Section 11, Township 6 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7474: Application of Union Oil Company of California for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Strawn, Atoka and Morrow formations underlying the E/2 of Section 25, Township 19 South, Range 33 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7475: Application of C & K Petroleum, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Casey-Strawn Pool underlying the E/2 SE/4 of Section 28, Township 16 South, Range 37 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7476: Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and SE/4, respectively, of Section 12, Township 5 South, Range 24 East, each to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.

CASE 7477: Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Abo formation, underlying the NE/4 of Section 30, Township 6 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7448: (Continued and Readvertised)

Application of Energy Reserves Group, Inc. for creation of a new associated pool and special pool rules, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new associated pool to be designated the South Peterson Penn Associated Pool, comprising the NW/4 of Section 30, Township 5 South, Range 33 East, the S/2 of Section 11, the S/2 of Section 12, and the N/2 of Section 13, Township 6 South, Range 33 East. Applicant further seeks the establishment of special pool rules including 40-acre spacing units for oil wells and 320-acre spacing units for gas wells and a 4000 to one gas-oil ratio limitation.

PAGE 3
EXAMINER HEARING - WEDNESDAY
FEBRUARY 3, 1982

CASE 7478: Application of Julian Ard for compulsory pooling and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 33 East, to be dedicated to a well to be drilled at an unorthodox location 1980 feet from the North line and 2310 feet from the East line of said Section 23. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

DANIEL F. SECKER
Independent Petroleum Landman
P. O. BOX 1621
MIDLAND, TEXAS 79702

January 14, 1982

Case 7478

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

Attention: Mr. Dan Nutter

RE: REQUEST FOR HEARING FOR
FORCE POOLING ORDER
E/2 SEC. 23, T20S, R33E,
LEA COUNTY, NEW MEXICO
KGS LEASE NM-29704

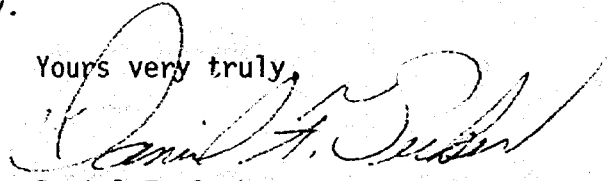
Gentlemen:

Pursuant our conversation of this date I herewith request that our name be placed on the docket for a hearing February 3, 1982 concerning our request for a force pooling order of the above captioned lands. We intend to drill a Morrow test at a location 1980' FNL and 2310' FEL of said Section 23 and intend to pool all of the E/2.

The operator for this test will be Julian Ard, P. O. Box 17360, Fort Worth, Texas 76102.

Should you require additional information please do not hesitate to call me at your earliest opportunity.

Yours very truly,


Daniel F. Secker

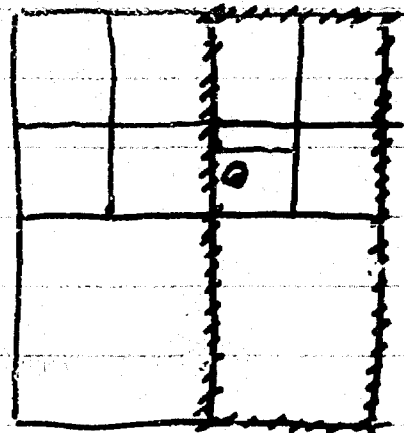
DFS/jr

cc: Mr. Julian Ard

Julian Ard
P.O. Box 17360
Ft Worth, TX 76102

Compulsory pooling

E/2 Sec 23 20S 33E Lea
Morrow formation
unorthodox location
1980 FNL 2310 FEL



poolee

Kortex Gas & Oil Co
Wall Towers West
Midland TX 79701

Attn: Glenda Howard

called in by
Dan Secker 915 683-8871
210pm 1-14-82

HERBIE
ORDERS

all

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7478
Order No. R-4903

APPLICATION OF JULIAN ARD FOR
COMPULSORY POOLING AND AN UNORTHODOX
LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

John
NPD *M.S.*

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on February 3, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of February, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Julian Ard, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a well at an unorthodox location 1980 feet from the North line and 2310 feet from the East line of said Section 23.
- (4) That there are interest owners in the proposed 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 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 who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well, *provided however, that* with respect to the NE/4NE/4 of said Section 23, any working interest owner who has not consented to voluntary pooling by reason of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior should be afforded an opportunity to pay his share of reasonable estimated or actual well costs in lieu of paying his share of such costs out of production following resolution of said appeal.

(9) 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.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$ 3500.00 per month while drilling and \$ 350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(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.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before June 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in

the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 1980 feet from the North line and 2310 feet from the East line of said Section 23.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of June, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of June, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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

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

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) 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, provided however,

that with respect to the NE/4NE/4 of Section 23, any non-consenting working interest owner may, within thirty (30) days following resolution of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior, pay his proportionate share of estimated or actual well costs, and nothing herein shall be construed to prevent or hinder any agreement or arrangement between the operator and any such working-interest owner respecting payment, escrow, or other provision for accounting of said proportionate share.

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

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

(7) 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, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him or, with respect to the NE/4NE/4 of Section 23, within thirty (30) days from the date of resolution of the appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior.

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

(9) That \$ 3500.00 per month while drilling and \$ 350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) 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 interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in 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.

(13) 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

JOE D. RAMEY,
Director

S E A L

CASE 74/8: JULIAN ARD FOR COMPULSORY
POOLING AND AN UNORTHODOX LOCATION, LEA
COUNTY, NEW MEXICO

COCKET MAILED

Date 1/25/82 (Norwest)

Combined fixed rate:
3500 / mo drly/
350 / mo prod

CASE NO.

7478

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey
James B. Grant

KELLAHIN AND KELLAHIN
Attorneys at Law
El Patio, 117 Guadalupe
Post Office Box 1769
Santa Fe, New Mexico 87501

Telephone (505) 982-4285

July 23, 1982

Mr. Joe D. Ramey
OIL CONSERVATION DIVISION
Post Office Box 2088
Santa Fe, New Mexico 87501

HAND DELIVERED

Re: Division Case 7478
Order R-6903
Applicant: Julian Ard
Compulsory Pooling Case

JUL 23 1982

Dear Mr. Ramey:

On behalf of Nortex Gas & Oil Company, we hereby apply to the New Mexico Oil Conservation Division for an amendment to Division Order R-6903 as follows:

On Paragraph (4) Page 4, of the Order, by deleting the words:

"following resolution of an appeal
(filed August 24, 1981) before the
Board of Land Appeals of the
Department of Interior,"...."

and by substituting the words:

"following final adjudication or
settlement, which ever comes sooner,
of the disputed ownership of the oil
and gas minerals underlying the subject
tract,"..."

Nortex Gas & Oil Company states the following as justification for its request.

1. That the NE/4NE/4 of Section 23, included as part of the proration unit subject to the referenced compulsory pooling order, is subject to a federal oil and gas lease which has been assigned to Nortex Oil & Gas Company.

Mr. Joe D. Ramey
OIL CONSERVATION DIVISION
July 23, 1982
Page Two

2. The BLM approved assignment was contested and resulted in an appeal to the Board of Land Appeals of the Department of Interior as recited in Division Order R-6903.

3. That a final resolution was entered by the Board of Land Appeals on June 24, 1982, which failed to resolve the question of ownership of the minerals underlying this tract.

4. Nortex Gas & Oil Company desires to participate in the subject well to be drilled pursuant to Division Order R-6903 but is unable to do so until the ownership of this tract has been finally adjudicated or settled.

5. As setforth in the transcript of the Division Hearing in Case 7478, it was anticipated that the Board of Land Appeals decision would result in a resolution of the ownership of the working interest for this tract and thus allow the prevailing party to elect to participate in the subject well.

6. Based upon the assumption setforth in paragraph 3 above, Division Order R-6903 setforth a method to allow the prevailing non-consenting working interest owner to make an election concerning participation in this well.

7. However, the Board of Land Appeals Decision entered on June 24, 1982, failed to resolve the question of ownership of the working interest underlying this tract and compels those interest owners to seek an adjudication of this issue in the District Court.

Accordingly, we would appreciate the Division Order being amended as requested.

Very truly yours,


W. Thomas Kellahin

WTK/rb

cc: Mr. Robert Bledso, Esq.
Mr. Ernie Padilla, Esq.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 February 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Julian Ard for
compulsory pooling and unortho-
dox location, Lea County, New
Mexico.

CASE
7478

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Ernest L. Padilla, Esq.
P. O. Box 2523
Santa Fe, New Mexico 87501

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I N D E X

DANIEL F. SECKER

Direct Examination by Mr. Padilla 3

E X H I B I T S

Applicant Exhibit One, Application	5
Applicant Exhibit Two, Plat	6
Applicant Exhibit Three, Plat	8
Applicant Exhibit Four, AFE	13

1
2 MR. NUTTER: We'll call next Case Number
3 7478.

4 MR. PEARCE: Application of Julian Ard
5 for compulsory pooling and an unorthodox location, Lea
6 County, New Mexico.

7 MR. PADILLA: Mr. Examiner, Ernest L.
8 Padilla, Santa Fe, New Mexico, for the applicant in this
9 case.

10 I have one witness who needs to be
11 sworn.

12
13 (Witness sworn.)

14
15 DANIEL F. SECKER
16 being called as a witness and being duly sworn upon his oath,
17 testified as follows, to-wit:

18
19 DIRECT EXAMINATION

20 BY MR. PADILLA:

21 Q Mr. Secker, for the record would you
22 please state your name and where you reside?

23 A My name is Daniel F. Secker and I re-
24 side in Midland, Texas.

25 Q How do you spell your last name, Mr.

1
2 Secker?

3 A. S-E-C-K-E-R.

4 Q. Mr. Secker, what is your connection with
5 Julian Ard, the applicant in this case?

6 A. I'm representing Julian Ard as a landman.

7 Q. Mr. Secker, would you tell us what your
8 educational background and work experience in the oil and gas
9 industry is?

10 A. I received a BA degree from the Citadel,
11 a military college of South Carolina, in political science
12 and pre-law.

13 I've been involved in the oil and gas
14 industry since 1970 as a landman for Atlantic Richfield, as
15 a District Landman for Southland Royalty Company, and I have
16 been an independent landman for the past six years.

17 I'm a certified petroleum landman.

18 Q. Mr. Secker, are you familiar with the
19 purpose of today's hearing?

20 A. Yes, sir, with the unorthodox location
21 as well as compulsory pooling.

22 MR. PADILLA: Mr. Examiner, are the wit-
23 ness' qualifications as an expert landman acceptable?

24 MR. NUTTER: Yes, they are.

25 Q. Mr. Secker, would you tell us what the --

1
2 what the nature of today's hearing is? What does the appli-
3 cant seek with this case?

4 A. We're asking for an unorthodox location
5 for a 13,500 foot Morrow test, to be located 1980 feet from
6 the north line, 2310 feet from the east line of Section 23,
7 Township 20 South, Range 33 East.

8 We're also asking for compulsory pooling
9 for a 320-acre drilling unit to be comprised of the east
10 half of Section 23.

11 Q Mr. Secker, let me hand you what has
12 been marked as Exhibit Number One. Would you please tell us
13 what it is and what it contains?

14 A. Exhibit One is an application with the
15 Department of the Interior, application to drill, and this
16 is our application for the drilling of a 13,000 foot Morrow
17 test at the location previously stated.

18 Q Mr. Secker, does that indicate a spud
19 date for the proposed well?

20 A. The date, I don't believe is on this
21 particular exhibit; however, we have a KGS lease. It ex-
22 pires March the 1st of 1983 and we anticipate the drilling
23 of the well over the expiration date.

24 Q So in other words, you have a short
25 term lease, is that correct?

1

2

A. Yes, we do.

3

4

5

Q. Now, Mr. Secker, I hand you what has been marked as Exhibit Number Two. Would you tell us now what that is and what it contains?

6

7

8

9

A. Exhibit Two is a location plat filed with the State of New Mexico that shows the location also previously submitted that also names Julian Ard, the person whom I represent, to be the operator.

10

11

Q. What -- what acreage would be dedicated to the well?

12

13

A. The acreage dedicated would be 320 acres comprised of all of the east half of Section 23.

14

15

Q. Of that acreage, which is controlled by whatever means by the applicant, Julian Ard?

16

17

A. 280 acres out of the 320 is controlled by Julian Ard, either by farmout or ownership.

18

19

20

I might state at this time that the 280 acres is owned jointly by Supron, who owns 80 percent; Julian Ard, 10 percent; Ed Hudson, 10 percent.

21

22

23

24

Supron, who is currently the operator, is farming out to Julian Ard for the drilling of the test. Julian Ard will participate with his percentage; Ed Hudson will participate with his percentage.

25

We have filed, or we're currently getting

1
2 execution today of a designation of operator from Supron,
3 naming Julian Ard as operator of the test well.

4 MR. NUTTER: Did you say Supron is
5 farming out to Ard?

6 A. Yes.

7 MR. NUTTER: Then he will control, in-
8 cluding the farmout, 90 percent of the 280 acres?

9 A. Yes, sir.

10 MR. NUTTER: Okay, how about the other
11 remaining 40?

12 A. The other remaining 40 is owned by
13 Mortex Oil Company, Oil and Gas Company, I believe, out of
14 Midland.

15 MR. NUTTER: Is that a divided or un-
16 divided interest in the 320?

17 A. The ownership of Mortex?

18 MR. NUTTER: Yes, sir.

19 A. It's divided interest. They own --

20 MR. NUTTER: And where is it?

21 A. It's the northeast quarter of the north-
22 east quarter.

23 MR. NUTTER: Okay.

24 A. The lease, if I might elaborate, was
25 drawn under simultaneous filing in March of 1980, and there

1
2 has been subsequently assigned to Nortex Oil Company of Mid-
3 land full ownership of the lease.

4 There has been an appeal filed on that
5 lease. In checking with the BLM they have relayed to me that
6 the title is in Nortex.

7 I have discussed with Nortex the commun-
8 itization of their lease into our unit and they have relayed
9 to me that they would participate in the well if it were not
10 for the appea being filed on the lease, and as such, they
11 would pay their proportionate share of the well cost.

12 They have indicated to me that they
13 would be willing to execute a letter agreement stating that
14 they will pay their well cost subject to the removal of the
15 appeal.

16 MR. NUTTER: Okay. Now your little
17 plat here, Exhibit Three, which we haven't got to yet, shows
18 Energy Group of America owning that 40 acres.

19 A. Yes, sir. That's where the appeal comes
20 forth.

21 Apparently, as I understand the case, I
22 am not fully cognizant of all of the facts regarding the
23 appeal, but my understanding is that the lease was purchased
24 by a gentleman, I believe, by the name of Gordon C. McDonough,
25 from the winners of the simultaneous filing. He at that time,

1 and I understand this was back sometime in 1980, he sold the
2 lease to Petroleum Resources.
3

4 Apparently Petroleum Resources was under
5 review by the BLM, and I'm not certain what the situation
6 was. I understand it was possibly a sole interest. I've
7 forgotten exactly what the terminology is, but it was sole
8 party in interest examination, I think, that they were under.

9 They requested that the assignment into
10 them be withdrawn, which it was.

11 Then it's my understanding that Gordon
12 McDonough sold the lease to Nortex under an assignment, and
13 the assignment was approved by the BLM.

14 It's my understanding that the appeal
15 is filed by Petro Resources.

16 That's my familiarity with that parti-
17 cular situation.

18 MR. NUTTER: You don't mean Petro Re-
19 sources, you mean Energy Group of America.

20 A. I'm not quite certain. The map shows
21 Energy Group of America. Talking with the BLM they tell me
22 that it's Petro Resources.

23 There was also at one time a letter on
24 file with the BLM concerning Getty Oil Company, which was
25 also withdrawn.

1 and I understand this was back sometime in 1980, he sold the
2 lease to Petroleum Resources.
3

4 Apparently Petroleum Resources was under
5 review by the BLM, and I'm not certain what the situation
6 was. I understand it was possibly a sole interest. I've
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17 cular situation.

18 MR. NUTTER: You don't mean Petro. Re-
19 sources, you mean Energy Group of America.

20 A. I'm not quite certain. The map shows
21 Energy Group of America. Talking with the BLM they tell me
22 that it's Petro Resources.

23 There was also at one time a letter on
24 file with the BLM concerning Getty Oil Company, which was
25 also withdrawn.

1
2 So I'm afraid I can't answer your ques-
3 tion.

4 MR. NUTTER: But this -- this assignment
5 either Energy Group of America or to Petro Resources, and
6 also to Nortex, was made by McDonough, who wasn't the original
7 recipient of the lease in the drawing. He bought it from the
8 original recipient.

9 A. That's my understanding, and that may
10 not be correct.

11 MR. NUTTER: Now do you know if that
12 original recipient, do you know his name?

13 A. No, sir, I don't.

14 MR. NUTTER: And does he carry any
15 override into this thing, or anything?

16 A. I would presume that he does but I'm
17 not familiar with it.

18 MR. NUTTER: I think somewhere along the
19 line in this record we're going to have to have the names
20 of everybody who is concerned with this.

21 A. According to the BLM, the owner of the
22 lease is Nortex. As to any overrides that may exist, I'm
23 not familiar with them.

24 Q Mr. Secker, nonetheless, the BLM takes
25 the position that there is a lease on the acres, is that cor-

1
2 rect?

3 A. Yes.

4 Q. And covers the northeast quarter of the
5 northeast quarter of 23. Is that also correct?

6 A. That's correct.

7 MR. PADILLA: Mr. Examiner, I think we
8 can try to get you that information as quickly as possible
9 following the hearing.

10 MR. NUTTER: Okay.

11 Q. Mr. Secker, Julian Ard, you've indicated
12 has been designated the operator by the other working interests
13 in the area?

14 A. That is correct.

15 Q. And desires to be the working interest
16 or the operator under an order issued by the Oil Conservation
17 Division?

18 A. That is correct.

19 Q. Mr. Secker, as to the unorthodox portion
20 of the case, would you tell us something about that? Why
21 was that well location chosen instead of a standard location?

22 A. According to the geology, that appears
23 to be the optimum location for a Morrow test, according to
24 the geologist that prepared the information.

25 Q. Now looking at the Exhibit Number Three,

1
2 would you tell us where any other Morrow wells are located
3 in the area that you know of?

4 A. On Exhibit Three the nearest producing
5 Morrow well is to the north, and I believe it's off of your
6 map, and my information states that that would be the Grace
7 Petroleum Smith Ranch Federal, which is located in the south-
8 west quarter -- I'm sorry, in the northwest quarter of Section
9 11.

10 My understanding also is that there is
11 an abandoned Morrow producer, which does show on your map,
12 which appears in the northeast quarter of the northwest quar-
13 ter of Section 14, being labeled there as the ARCO Arc. That
14 is abandoned in the Morrow, as to my understanding.

15 Other wells in the area that were taken
16 down to the Morrow, to the east approximately a mile and
17 three-quarters from our location is the Cities Service --
18 it's the Cities Service Government something -- and it was
19 carried to a depth of 15,187. It was dry in the Morrow.

20 To the north -- I'm sorry, to the south-
21 west of our location is the Amoco 1-Y, located in Section 27,
22 which I believe was dry in the Morrow but was an Atoka dis-
23 covery.

24 Q Now, Mr. Secker, have you -- do you know
25 of any communications between the applicant and the operator

1
2 to the west in the west half of Section 23 concerning the
3 unorthodox location?

4 A. Yes, I do. There were negotiations be-
5 tween Mr. Julian Ard and the Bass Company out of Ft. Worth,
6 who owns acreage immediately to the west.

7 We had initially contacted them for the
8 formation of a drilling unit that would be comprised of all
9 of Section 23. They at that time elected not to either part-
10 icipate in a well with us or farm out to us for the Morrow
11 test.

12 They did, however, offer \$2.00 a foot
13 dry hole money for our test, test well over in the east half
14 of Section 23.

15 Q. A test at the location where you propose
16 to drill the well, is that --

17 A. Yes, I believe that to be correct.
18 These negotiations were carried on by Mr. Ard in Ft. Worth.

19 Q. Mr. Secker, let me hand you now what has
20 been marked as Exhibit Number Four. Would you tell us what
21 that is and what it contains?

22 A. Exhibit Number Four is an AFE for the
23 drilling of the subject well, wherein we have a total dry
24 hole cost for the 13,500 foot Morrow well of being \$1,121,030.
25 Completed cost of the well, \$1,607,499.

1
2 Q Do you have any figures as to the over-
3 head production costs for a drilling and a completed well?

4 A In the operating agreement that we intend
5 to use should this be force pooled, or compulsory pooled,
6 we anticipate using a drilling well rate of \$3500 and a pro-
7 ducing well rate of \$350, which I believe is well within the
8 industry average. If anything, it's probably below.

9 Q Mr. Secker, do you have anything else
10 in support -- to say in support of this application?

11 A The only remarks that I have, as far as
12 the compulsory unit, would be my discussions that I have
13 relayed earlier in my testimony, as to the position that
14 Nortex would take, wherein they said that they would be in-
15 terested in participating with a well, paying their propor-
16 tionate share, if it were not for the appeal that is now on
17 record with the BLM.

18 Q Do you have a drilling committed to
19 commence a well prior to termination of your lease?

20 A Yes, we do.

21 Q And when would you propose to start
22 drilling? I think you've already mentioned that.

23 A Yes, we propose drilling the well on
24 or before the expiration of our lease, which is March the
25 1st of '81.

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Q Assuming that we can get the information that the Examiner requires or has alerted us to, do you request early consideration of this application so that you may proceed with the drilling?

A. Yes, by all means.

MR. PADILLA: Mr. Examiner, I have nothing else and we offer Exhibits One through Four.

MR. NUTTER: Exhibits One through Four will be admitted in evidence.

Now, Mr. Padilla, you haven't presented any testimony here today relative to any risk factor.

You're not seeking a risk factor, I assume.

MR. PADILLA: We are, Mr. Examiner. I would be happy to ask a question, which I forgot to ask him.

Mr. Secker, in light of the location of the well, and the depth of the well, what information can you give us concerning the risk factor as a penalty for carrying the interest of the northeast quarter -- the northeast quarter northeast quarter?

MR. SECKER: In view of the geologic data that we have presented --

MR. NUTTER: You haven't presented any geologic data.

1
2 MR. SECKER: The geologic discussion as
3 to proximity of wells.

4 MR. NUTTER: That's not geology; that's
5 geography.

6 MR. SECKER: Well, geography, then, if
7 you please. It is rank wildcat. We feel that a penalty
8 provision of 200 percent would be more than adequate.

9 MR. NUTTER: Now, have any arrangements
10 been made, you said that Nortex had said they would be willing
11 to participate were it not for this appeal of the title,
12 have they indicated anything about being willing to put up
13 the money in advance, assuming that they're going to get the
14 title and then have it rebated back to them if they don't
15 get the title?

16 A. They have discussed that. We haven't
17 gone into depth on it.

18 MR. NUTTER: And that wouldn't be sub-
19 ject to any penalty, would it?

20 A. That's right. If a penalty were imposed,
21 I think that probably a 200 percent penalty would be more than
22 adequate; however, should Nortex elect to go under a letter
23 agreement with us and escrow the monies as to their propor-
24 tionate share, we would have no objection.

25 MR. NUTTER: And they are an operating

1
2 company, are they not?

3 A. Yes, sir, they are.

4 MR. NUTTER: They have some money in the
5 bank, presumably.

6 A. Yes, sir. My understanding is that they
7 are a division of Northern Natural Gas.

8 MR. NUTTER: I see.

9 MR. PADILLA: Mr. Examiner, maybe I
10 could ask one more question.

11 Mr. Secker, the BLM at this point cannot
12 approve a communitization agreement, is that correct, involving
13 Nortex and Julian Ard?

14 A. Well --

15 MR. PADILLA: Because of the contest of
16 the lease?

17 A. Well, Nortex will not execute the com-
18 munitization agreement until the appeal is settled. That's
19 why we asked for a compulsory pooling.

20 We are interested in expediting this
21 inasmuch as we have early lease expiration.

22 And in discussing the matter with Nortex
23 we have mentioned to them that we would like to pool it under
24 a regular communitization agreement, if possible.

25 They relayed to us their problem with

1 the appeal. Therefor we chose to go before the board.

2 MR. NUTTER: Okay, off the record a
3 minute, Sally.
4

5
6 (There followed a discussion
7 off the record.)
8

9 MR. NUTTER: Okay, back on the record.
10 Mr. Padilla, in light of the testimony here today regarding
11 Nortex and the possibility that they may participate and the
12 possibility of a letter agreement excrowing their share of
13 drilling costs, wuld it be reasonable for an order entered
14 by the Division to make special provision for Nortex in the
15 event that they should participate in a nonparticipating
16 manner that we just discussed?

17 MR. PADILLA: We think that would be
18 reasonable, Mr. Examiner.

19 MR. NUTTER: Mr. Padilla, could you pre-
20 pare paragraphs for the compulsory pooling order that we
21 could insert in such an order?

22 MR. PADILLA: Yes, sir, I can.

23 MR. NUTTER: Okay.

24 Mr. Secker, I notice -- now you stated
25 that the reason the well was being drilled at a location 1980

1
2 and 2310 was because of geological purposes; however, I look
3 at your Exhibit Three and it looks like there's a dry hole
4 drilled right at the site where a standard location would be
5 in that 40-acre tract, isn't there?

6 A Yes, sir, there's a shallow location
7 there.

8 MR. NUTTER: So you'd have to move off
9 that, maybe move to the west of it.

10 A Yes, sir. From what I understand in
11 discussing the matter with our geologist, the optimum location
12 would be west of that old dry hole; therefor, we're asking
13 for --

14 MR. NUTTER: Since they had to move,
15 they moved to the west.

16 A Yes, sir.

17 MR. NUTTER: Okay. Are there any fur-
18 ther questions of Mr. Secker? He may be excused.

19 Do you have anything further, Mr. Padilla?

20 MR. PADILLA: Nothing further.

21 MR. NUTTER: Does anyone have anything
22 they wish to offer in Case Number 7478?

23 We'll take the case under advisement
24 and the hearing is adjourned.

25 (Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that
the foregoing Transcript of Hearing before the Oil Conserva-
tion Division was reported by me; that the said transcript
is a full, true, and correct record of the hearing, prepared
by me to the best of my ability.

Sally W. Boyd CSR

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is
a correct record of the hearing held in
the hearing room of the Oil Conservation Division
heard by me on 2/3 1982 7478

[Signature] Examiner
Oil Conservation Division



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

February 15, 1982

Mr. Ernest L. Padilla
Attorney at Law
P. O. Box 2523
Santa Fe, New Mexico 87502

Re: CASE NO. 7478
ORDER NO. R-6903

Applicant:

Julian Ard

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD	<u>x</u>
Artesia OCD	<u>x</u>
Aztec OCD	

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7478
Order No. R-6903

APPLICATION OF JULIAN ARD FOR
COMPULSORY POOLING AND AN UNORTHODOX
LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on February 3, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 15th day of February, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Julian Ard, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at an unorthodox location 1980 feet from the North line and 2310 feet from the East line of said Section 23.

(4) That there are interest owners in the proposed 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 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.

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Case No. 7478
Order No. R-6903

(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 who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well, provided, however, that with respect to the NE/4 NE/4 of said Section 23, any working interest owner who has not consented to voluntary pooling by reason of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior should be afforded an opportunity to pay his share of reasonable estimated or actual well costs in lieu of paying his share of such costs out of production following resolution of said appeal.

(9) 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.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$3500.00 per month while drilling and \$350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(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.

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Case No. 7478
Order No. R-6903

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before June 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 1980 feet from the North line and 2310 feet from the East line of said Section 23.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of June, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of June, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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

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

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) 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, provided however, that with respect to the NE/4 NE/4 of Section 23, any non-consenting working interest

-3-

Case No. 7478
Order No. R-6903

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before June 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

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PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of June, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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

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

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) 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, provided however, that with respect to the NE/4 NE/4 of Section 23, any non-consenting working interest

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Case No. 7478

Order No. R-6903

owner may, within thirty (30) days following resolution of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior, pay his proportionate share of estimated or actual well costs, and nothing herein shall be construed to prevent or hinder any agreement or arrangement between the operator and any such working-interest owner respecting payment, escrow, or other provision for accounting of said proportionate share.

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

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

(7) 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, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him or, with respect to the NE/4 NE/4 of

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Case No. 7478
Order No. R-6903

Section 23, within thirty (30) days from the date of resolution of the appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior.

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

(9) That \$3500.00 per month while drilling and \$350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) 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 interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

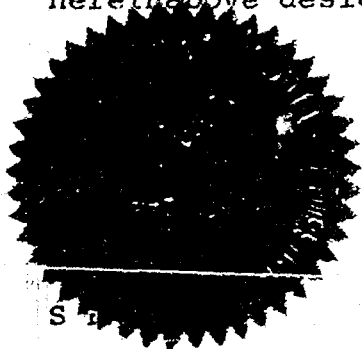
(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address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

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

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Case No. 7478
Order No. R-6903

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



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY,
Director

ERNEST L. PADILLA
ATTORNEY AND COUNSELOR AT LAW

P.O. Box 2523
Santa Fe, New Mexico 87501
(505) 988-7577

February 8, 1982

Mr. Dan Nutter
Hearing Examiner
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

*Rec'd
2/8/82
Jou*

Re: Case No. 7478 ~ February 3, 1982 docket

Dear Mr. Nutter:

In accordance with your request I have made a search of the Bureau of Land Management oil and gas records to ascertain the ownership of the NE/4NE/4 of Section 23, Township 20S, Range 33E, Lea County, New Mexico. In this regard I am enclosing a copy of the appropriate Serial Register page which shows record title and operating rights ownership in federal oil and gas lease NM 39156. I believe that the data presented therein speaks for itself and in fact answers some of your inquiries at the hearing.

In checking other sources of information at the BLM, I learned also that Gordon McDonagh retained a 6/25% override in making his assignment to Nortex Oil and Gas Company.

In addition, the appeal to the Board of Land Appeals involves the approval by the BLM of Mr. McDonagh's withdrawal of an earlier purported assignment to Petrol Resources Corporation. Evidently Mr. McDonagh's withdrawal, prior to receiving any consideration from Petrol Resources, was prompted by an investigation of Petrol Resources and Energy Group of America by the BLM. Apparently in this and other lease transactions, the officers of both of these corporations were the same thus violating certain earlier disclosures which had been made to the BLM.

The BLM currently recognizes Nortex as the lessee of record, and BLM staffers view the chance of success of the appeal as remote.

ERNEST L. PADILLA
ATTORNEY AND COUNSELOR AT LAW

P.O. Box 2523
Santa Fe, New Mexico 87501
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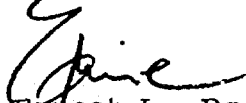
Mr. Dan Nutter

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February 8, 1982

I am also enclosing proposed changes to the Division's usual compulsory pooling order in order to allow Nortex an opportunity to voluntarily participate in wells costs pending a resolution of the above-mentioned appeal before the Board of Land Appeals.

Very truly yours,



Ernest L. Padilla

ELP:pfm

cc: Mr. David Secker

PROPOSED CHANGES

rec'd 2/8/82
[Signature]

(1) New Finding (8)

(8) That with respect to the NE/4NE/4 of said Section 23, and working interest owner who has not consented to voluntary pooling by reason of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior should be afforded an opportunity to pay his share of reasonable estimated or actual well costs in lieu of paying his share of such costs out of production following resolution of said appeal.

(2) Current findings 8-13 renumbered as per the attached sample order.

(3) New Ordering ¶ (5)

(5) That, with respect to the NE/4NE/4 of Section 23, any non-consenting working interest owner may, within thirty (30) days following resolution of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior, pay his proportionate share of estimated or actual well costs, and nothing herein shall be construed to prevent or hinder any agreement or arrangement between the operator and any such working-interest owner respecting payment, escrow, or other provision for accounting of said proportionate share.

(4) Addition to the end of ¶ 8(B) (drop the period and add a comma in lieu thereof):

"or, with respect to the NE/4NE/4 of Section 23, within thirty (30) days from the date of resolution of the appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior."

(5) Renumber current ordering paragraphs 5-13 as indicated in the attached sample order.

SERIAL REGISTER PAGE

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Legal Reference OG (n.c.) - Act of 2-25-1920, as amended	File Code 3112-A	Serial Number NM 39156
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Name and Mailing Address

McDonagh, Gordon C., c/o Energy Group of America Inc., Lock Box T,
Roseland, NJ--07068
Nortex Gas & Oil Co., 403 Wall Towers W., Midland, TX 79701

*Rec'd 2/8/82
Jou*

Description of Land

T. 20 S., R. 33 E., NMPM
Sec. 23: NE $\frac{1}{4}$ NE $\frac{1}{4}$
24: NE $\frac{1}{4}$, W $\frac{1}{2}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$

Acres: 560.00

DATE OF ACTION	ACTION TAKEN
11/14/1979	Simultaneous filing at 10:00 a.m. Drew No. 1. mcs
EEB. 15 1980	(License issued effective <u>MAY 1 1980</u> <i>183</i>)
7/22/1981	Asgn from Gordon C. McDonagh to Nortex Gas & Oil Co. of an undivided 100% int. Apvd. eff. 8/1/1981. ep
9/10/81	Appeal Filed 8/24/81. mbs

UNITED STATES
DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1A. TYPE OF WORK DRILL <input checked="" type="checkbox"/> DEEPEN <input type="checkbox"/> PLUG BACK <input type="checkbox"/>		5. LEASE DESIGNATION AND SERIAL NO. 1111-2370-1	
B. TYPE OF WELL OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> OTHER <input type="checkbox"/>		6. IF INDIAN, ALLOTTEE OR TRIBE NAME	
2. NAME OF OPERATOR Julian Ard		7. UNIT AGREEMENT NAME	
3. ADDRESS OF OPERATOR P. O. Box 17360, Fort Worth, TX 76102		8. FARM OR LEASE NAME South Texas Federal	
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.) At surface 1980' FNL & 2310' FEL of SEC. 23, T20S, R33E At proposed prod. zone Same		9. WELL NO. 1	
14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE Approx. 15 miles from Buckeye, NM		10. FIELD AND POOL, OR WILDCAT Wildcat	
15. DISTANCE FROM PROPOSED LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any) 1980'		11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA Sec. 23, T20S, R33E	
16. NO. OF ACRES IN LEASE 280		12. COUNTY OR PARISH Lea	
17. NO. OF ACRES ASSIGNED TO THIS WELL 320		13. STATE New Mexico	
18. DISTANCE FROM PROPOSED LOCATION TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT. 13,500'		20. ROTARY OR CABLE TOOLS Rotary	
21. ELEVATIONS (Show whether DF, RT, GR, etc.) 3617' GR		22. APPROX. DATE WORK WILL START As Soon As Possible	

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17 1/2"	13 3/8"	48#	600'	(1) 640 Sks Class C Cement
12 1/4"	8 5/8"	32#	5000'	See Reverse & Exhibit "E"
7 7/8"	5 1/2"	20#		
7 7/8"	5 1/2"	17#	13500'	

Mud Program: See Exhibit "G"

BOP Program: See Exhibit "D"

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen or plug back, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. SIGNED Julian Ard TITLE Owner DATE 1-28-82
(This space for Federal or State office use)

PERMIT NO. _____ APPROVAL DATE _____

APPROVED BY _____ TITLE _____ DATE _____
CONDITIONS OF APPROVAL, IF ANY: _____

*See Instructions On Reverse Side

All distances must be from the outer boundaries of the Section.

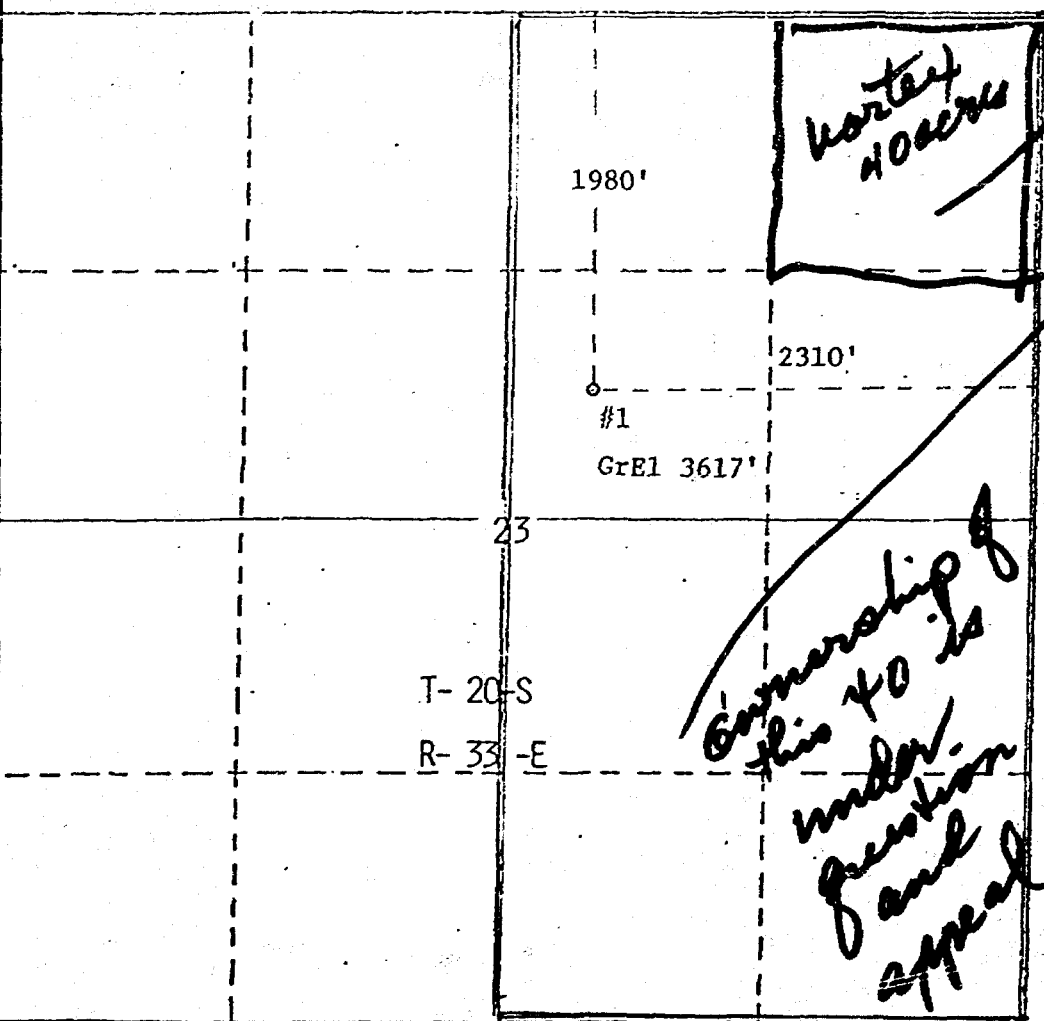
JULIAN ARD OIL COMPANY			Lense SOUTH TEAS FEDERAL		Well No. 1
Section G	Section 23	Township 20S	Range 33E	County LEA	
Location of Well:					
1980	feet from the NORTH	line and	2310	feet from the EAST	line
Ground Level Elev. 3617'	Producing Formation MORROW	Pool WILDCAT	Dedicated Acreage 320 Acres		

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty). Supron Energy Corp.-W.I. 70%, Edward R. Hudson-W.I. 8.75%, Julian Ard W.I. 8.75%, Nortex-W.I. 12.50%
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☒ Yes ☐ No If answer is "yes," type of consolidation Force Pooling

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Division.



CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Name Julian Ard
Position Owner
Company Julian Ard
Date 1-28-82

I hereby certify that the education shown on this field notes and that the same is true and correct to the best of my knowledge and belief.

JANUARY
Note Surveyed
Registered Professional Engineer and/or Land Surveyor

W.D. WATSON, JR

Certificate No. 3959

g. Supron 80%
Ard 10%
Ed Hudson 10% } of the 280
Supron is farming out to Ard
and designating Ard as opv. Ex 2

27

ESTIMATED AFE

DATE 1-25-82LEASE
NAME SOUTH-TEAS-FEDERALWELL
NO. 1PROPOSED
DEPTH 13,500' - 13,800'WELL
LOCATION Section 23, T20S, R33ECOUNTY LeaSTATE New MexicoACREAGE COSTS

Lease costs.....	\$ 15,000.00
Geoscience.....	7,000.00
Legal.....	1,800.00
Miscellaneous.....	2,000.00

TOTAL ACREAGE COSTS

\$ 25,800.00INTANGIBLE DRILLING COSTS

Surveyor.....	700.00
Surface Damages.....	5,000.00
Road and Location.....	5,000.00
Rig Move.....	60,000.00
Footage Cost @ per foot.....	N/A
Day Work <u>50</u> @ <u>12,000</u> per day.....	600,000.00
Bits and Reamers. <u>1- 17 1/2"</u> , <u>4- 12 1/2"</u> , <u>8- 7- 7/8"</u>	80,000.00
Fuel..... 900 γ /Day.....	45,000.00
Water.....	20,000.00
Drilling Mud and Chemicals.....	30,000.00
Coring and Core Analysis.....	N/A
Cement and Cementing Service.....	25,000.00
Mud Logging.....	10,500.00
Electric Logging.....	20,000.00
Drill Stem Tests <u>3</u>	8,500.00
Drilling Overhead Costs... <u>Two (2) Months</u>	10,000.00
Geologist.....	4,000.00
Engineer.....	4,000.00
Welder.....	800.00
Miscellaneous.....	50,000.00

TOTAL INTANGIBLE DRILLING COSTS \$ 978,500.00TANGIBLE DRILLING COSTS

<u> </u> ' of <u> </u> " Conductor Casing@ <u> </u> /ft.....	
<u>600</u> ' of <u>13 3/8</u> " Surface Casing@ <u> </u> / ft.....	15,480.00
<u>5000</u> ' of <u>8 5/8</u> " Intermediate Casing@ <u> </u> /ft..	91,250.00

Wellhead Equipment.....	
Sales Tax.....	
Miscellaneous.....	10,000.00

TOTAL TANGIBLE DRILLING COSTS \$ 116,730.00Plugging and Cleanup Costs..... 20,000.00

DRY HOLE COST

\$ 1,121,030.00

ESTIMATED AFE
[Continued]

INTANGIBLE COMPLETION COSTS

Cement and Cementing Service.....	\$ 25,000.00
Well Service Unit 15 days @ 2,100 per day.....	31,500.00
Correlation log and perforating.....	10,500.00
Rental Tools: BOP, packer, test tank, etc.....	5,000.00
Acidizing.....	30,000.00
Fracturing.....	38,000.00
Water hauling.....	1,500.00
Roustabout Labor.....	5,000.00
Engineer.....	10,000.00
Miscellaneous.....	20,000.00

TOTAL INTANGIBLE COMPLETION COSTS \$ 176,500.00

TANGIBLE COMPLETION COSTS

13,500 ' of 5 1/2" Production Casing @ _____/ft..... 157,125.00

13,500 ' of 2 3/8" Tubing @ _____/ft..... 84,375.00

Cementing Equipment.....	700.00
Guy Line Anchors.....	400.00
Wellhead Equipment.....	11,500.00
Tank Battery and Flow Line.....	25,000.00
Pumping Unit.....	N/A
Sales Tax.....	10,869.00
Miscellaneous.....	20,000.00

TOTAL TANGIBLE COMPLETION COSTS \$ 309,969.00

TOTAL COMPLETION COSTS \$ 486,469.00

TOTAL WELL COSTS \$ 1,607,499.00

Approved this _____ day of _____ 19 _____

Interest

CASE 7472: Application of Inexco Oil Company for pool creation, special pool rules and discovery allowable Lea County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new oil pool for its Lottie York Well No. 1 located in Unit P of Section 14, Township 17 South, Range 37 East, with special rules therefor, including provisions for 160-acre spacing. Applicant further seeks the assignment of 57,150 barrels of discovery allowable to said well.

CASE 7453: (Continued and Readvertised)

Application of T. D. Skelton for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Devonian and Mississippian formations underlying the NE/4 NW/4 of Section 7, Township 12 South, Range 38 East, to be dedicated to the re-entry of an old well at a standard location thereon or to a new well to be drilled at a standard location if such re-entry is unsuccessful. Also to be considered will be the cost of re-entering and completing said well and the drilling of the new well, if necessary, and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in re-entry and/or drilling said wells.

CASE 7451: (Continued from January 20, 1982, Examiner Hearing)

Application of Yates Petroleum Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Abo formation underlying the SE/4 of Section 11, Township 6 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7474: Application of Union Oil Company of California for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Strawn, Atoka and Morrow formations underlying the E/2 of Section 25, Township 19 South, Range 33 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7475: Application of C & K Petroleum, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Casey-Strawn Pool underlying the E/2 SE/4 of Section 28, Township 16 South, Range 37 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7476: Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and SE/4, respectively, of Section 12, Township 5 South, Range 24 East, each to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.

CASE 7477: Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Abo formation, underlying the NE/4 of Section 30, Township 6 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7448: (Continued and Readvertised)

Application of Energy Reserves Group, Inc. for creation of a new associated pool and special pool rules, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new associated pool to be designated the South Peterson Penn Associated Pool, comprising the NW/4 of Section 30, Township 5 South, Range 33 East, the S/2 of Section 11, the S/2 of Section 12, and the N/2 of Section 13, Township 6 South, Range 33 East. Applicant further seeks the establishment of special pool rules including 40-acre spacing units for oil wells and 320-acre spacing units for gas wells and a 4000 to one gas-oil ratio limitation.

Dockets Nos. 6-82 and 7-82 are tentatively set for February 17 and March 3, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - FEBRUARY 2, 1982

OIL CONSERVATION COMMISSION - 9 A.M.
ROOM 205, STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

The following cases were continued from the January 11, 1982, Commission hearing:

CASE 7393: (DE NOVO)

Application of Uriah Exploration Incorporated for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Cisco, Canyon and Morrow formations underlying the W/2 of Section 13, Township 22 South, Range 24 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

Upon application of Supron Energy Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7394: (DE NOVO)

Application of Supron Energy Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Pennsylvanian well to be drilled 467 feet from the North line and 1650 feet from the West line of Section 13, Township 22 South, Range 24 East, the N/2 of said Section 13 to be dedicated to the well.

Upon application of Supron Energy Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

Docket No. 5-82

DOCKET: EXAMINER HEARING - WEDNESDAY - FEBRUARY 3, 1982

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

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

CASE 7469: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit H. M. Bailey & Associates, Commercial Union Insurance Company, and all other interested parties to appear and show cause why the following wells on the H. M. Bailey Lease, Township 21 South, Range 1 West, Dona Ana County, should not be plugged and abandoned in accordance with a Division-approved plugging program: In Section 10: Nos. 9 in Unit A, 9, 11, 12, and 13 in Unit B, 10 and 14 in Unit C; and No. 15 in Unit C of Section 9.

CASE 7470: Application of Wayne Moore for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Delaware River Unit Area, comprising 2,560 acres more or less, of State and fee lands in Township 26 South, Range 28 East.

CASE 7471: Application of Gulf Oil Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the South Lynch State Unit Area, comprising 1920 acres, more or less, of State lands in Township 21 South, Range 33 East.

CASE 7472: Application of Grace Petroleum Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Buffalo-Deep East Unit Area, comprising 2543 acres, more or less, of Federal and State lands in Townships 18 and 19 South, Range 33 East.

CASE 7462: (Continued from January 20, 1982, Examiner Hearing)

Application of Marathon Oil Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of the Drinkard and Pinebry production in the wellbore of its C. J. Saunders Well No. 3, located in Unit C of Section 11, Township 22 South, Range 36 East.

PAGE 3
EXAMINER HEARING - WEDNESDAY
FEBRUARY 3, 1982

CASE 7478: Application of Julian Ard for compulsory pooling and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 33 East, to be dedicated to a well to be drilled at an unorthodox location 1980 feet from the North line and 2310 feet from the East line of said Section 23. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

DANIEL F. SECKER
Independent Petroleum Landman
P. O. Box 1621
MIDLAND, TEXAS 79702

January 14, 1982

Case 7478

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

Attention: Mr. Dan Nutter

RE: REQUEST FOR HEARING FOR
FORCE POOLING ORDER
E/2 SEC. 23, T20S, R33E,
LEA COUNTY, NEW MEXICO
KGS LEASE NM-29704

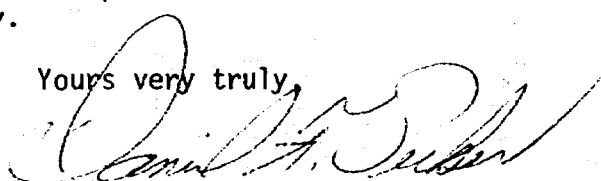
Gentlemen:

Pursuant our conversation of this date I herewith request that our name be placed on the docket for a hearing February 3, 1982 concerning our request for a force pooling order of the above captioned lands. We intend to drill a Morrow test at a location 1980' FNL and 2310' FEL of said Section 23 and intend to pool all of the E/2.

The operator for this test will be Julian Ard, P. O. Box 17360, Fort Worth, Texas 76102.

Should you require additional information please do not hesitate to call me at your earliest opportunity.

Yours very truly,



Daniel F. Secker

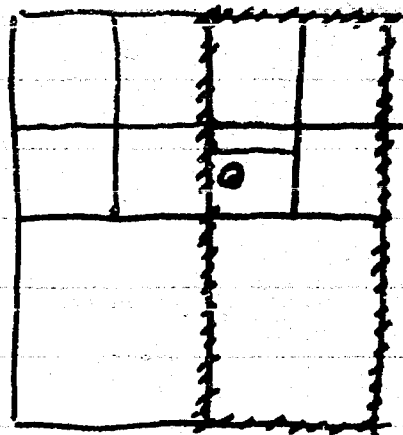
DFS/jr

cc: Mr. Julian Ard

Julian Ard
P.O. Box 17360
Ft Worth, TX 76102

Compulsory pooling

E/2 Sec 23 20S 33E Lea
Morrow formation
unorthodox location
1980 FNL 2310 FEL



pooler

Nortey Gas & Oil Co
Wall Towers West
Midland TX 79701

Attn: Glenda Howard

called in by
Dan Secker 915 688-8871
210pm 1-14-82

HERBIE
ORDERS

[Handwritten signature]

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7478
Order No. R-4903

APPLICATION OF JULIAN ARD FOR
COMPULSORY POOLING AND AN UNORTHODOX
LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

[Handwritten signature]
NIPD M.S.

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on February 3, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of February, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Julian Ard, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a well at an unorthodox location 1980 feet from the North line and 2310 feet from the East line of said Section 23.
- (4) That there are interest owners in the proposed 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 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 who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well, provided however, that with respect to the NE/4NE/4 of said Section 23, any working interest owner who has not consented to voluntary pooling by reason of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior should be afforded an opportunity to pay his share of reasonable estimated or actual well costs in lieu of paying his share of such costs out of production following resolution of said appeal.

(9) 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.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$ 3500.00 per month while drilling and \$ 350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(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.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before June 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in

the Morrow formation underlying the E/2 of Section 23, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 1980 feet from the North line and 2310 feet from the East line of said Section 23.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of June, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of June, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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

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

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) 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, provided however,

that with respect to the NE/4NE/4 of Section 23, any non-consenting working interest owner may, within thirty (30) days following resolution of an appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior, pay his proportionate share of estimated or actual well costs, and nothing herein shall be construed to prevent or hinder any agreement or arrangement between the operator and any such working-interest owner respecting payment, escrow, or other provision for accounting of said proportionate share.

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

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

(7) 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, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him or, with respect to the NE/4NE/4 of Section 23 within thirty (30) days from the date of resolution of the appeal (filed August 24, 1981) before the Board of Land Appeals of the Department of Interior

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

(9) That \$ 5500.00 per month while drilling and \$ 350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) 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 interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in 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.

(13) 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

JOE D. RAMEY,
Director

S E A L

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

(13) That 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

JOE D. RAMEY,
Director

S E A L

CASE 7473: NOTINVEST
TION FOR AMENDMENT OF ORDER NO. R-2046, *action*
RIO ARRIBA COUNTY, NEW MEXICO

DOCKET MAILED

DATE 2/5/82