

CASE 5658: INEXCO OIL COMPANY
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

CASE NO.

5658

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.



INEXCO OIL COMPANY

May 20, 1976

Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79701
Attn: Mr. G. Thane Akins
Joint Interest Superintendent

Cities Service Oil Company
P. O. Box 4906
Midland, Texas 79701
Attn: Mr. Frank Riney

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

Re: North Carlsbad NM-125
Inexco 1-10 Fed. St. Com.
Sec. 10, T21S-R26E
Eddy County, NM

Gentlemen:

Case #5658, Order #R-5193 dated April 20, 1976 requires, within thirty (30) days prior to commencing the captioned well, the Operator shall furnish the Commission and each known working interest owner in the subject unit, a itemized schedule of estimated well costs.

This A.F.E. has previously been furnished to the two working interest owners, ARCO and Cities, on January 28, 1976. However, we are now enclosing for each working interest owner, duplicate originals of the same A.F.E. and enclosing one for the Oil Conservation Commission of New Mexico as required. A Communitization Agreement is now being drawn to cover this unit which will comprise State and Federal lands in the W $\frac{1}{2}$ of Section 10, T21S-R26E, Eddy County, N.M.

Atlantic Richfield Company
Cities Service Oil Company
Oil Conservation Commission of New Mexico
May 20, 1976
Page 2

An Operating Agreement is now being prepared and will be mailed to each working interest owner.

Inexco is now drilling its #1 Avalon Federal in Section 1 of T21S-R26E, Eddy County, approximately 2½ miles northeast of subject location and it is very likely that the rig from that well will move to the well in Section 10.

Yours very truly,

INEXCO OIL COMPANY



Clark Baker
Area Landman

CB/var
enc.

INEXCO OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

AFE No. (Inexco Property No.) _____
 Prospect N. Carlsbad
 Well Name and Number Fed. - State Com. #1-10
 Estimated Days to Drill 45
 Estimated Days to Complete 15

Location: SW/4
Sec. 10 - T21 - R26
Eddy County, New Mexico

OBJECTIVES SANDS AND DEPTH
Wolfcamp 8,200'
Morrow B 10,600'
Base Morrow 10,900'

Est. T.D. 11,100'
 Est. Spud _____
 AFE Prepared 12/18/75
 By: V. C. Maddox

(X) Drill () Workover Same Zone () Recomplete in New Zone

DESCRIPTION	ESTIMATED COSTS		ACTUAL COST
	DRILLING	COMPLETION	
INTANGIBLE COSTS (343):			
01 Access and Location Costs	9,000	1,000	
02 Move-in, Rig-up, Rig-down, Move-out			
Contract Drilling			
03 Footage <u>45</u> ft. at \$ <u>3,500</u> ft.	157,500		
04 Daywork <u>15</u> days at \$ <u>1,000</u> day		15,000	
05 Completion Unit <u>15</u> days at \$ <u>1,000</u> day	11,000	2,000	
06 Fuel, Power, Water and Water Lines	45,000		
07 Bits, Reamers and Stabilizers	3,000	2,000	
08 Equipment Rental			
09 Cementing and Squeezing -			
Conductor Casing	900		
Surface Casing	3,000		
Intermediate Casing	5,000		
Production Casing		12,000	
Liner			
Other			
10 Drilling Mud and Chemicals	20,000	2,000	
10 Mud Logger	5,000		
11 Logging, Coring and Testing -			
Cores <u>3</u>	7,500		
DST's <u>IES 2,500' - T.D., BHC-GR 8,000' - T.D.</u>	28,000		
Logs			
12 Perforating		5,000	
12 Acidizing and Fracturing		25,000	
13 Labor and Supervision	2,500	1,000	
13 Contract Labor	14,000	2,000	
14 Drilling Overhead	2,000	1,000	
15 Transportation	3,000	5,000	
16 Sales Taxes	1,000	7,000	
17 Other Miscellaneous Intangible Costs			
18 Losses, Damages and Abandonment	6,000	(4,000)	
19 Fishing Tool Expense and/or Directional Drilling			
20 Dry Hole Contributions			
22 Well Control Insurance	7,500	500	
TOTAL INTANGIBLE	\$ 407,400	\$ 330,900	\$ 76,500

DESCRIPTION					ESTIMATED COSTS		ACTUAL COST
					DRILLING	COMPLETION	
TANGIBLE COSTS (342):							
01	Conductor Csg.	50	ft. of	20"	at \$ 19.00 / ft	1,000	
02	Surface Csg.	350	ft. of	13-3/8"	at \$ 14.50 / ft	5,100	
03	Intermediate Csg.	2,000	ft. of	8-5/8"	at \$ 7.00 / ft	14,000	
04	Production Csg.	4,100	ft. of	5-1/2"	at \$ 6.30 / ft		70,000
05	Liner		ft. of		at / ft		
06	Tubing	11,100	ft. of	2-7/8"	at \$ 2.60 / ft	29,000	
07	Casing Head Assembly				5,000		
07	Tubing Head Assembly					5,000	
08	Pumping Unit						
09	Prime Mover					3,000	
12	Installation Costs and Non-Controllable Well Equipment					9,000	
15	Storage Tanks						
16	Separator					18,000	
17	Dehydrator					17,000	
18	Heater - Treater						
19	LACT Unit						
20	LTX or Production Unit					5,000	
21	Line Pipe						
22	Gas Recorders					16,000	
23	Installation Costs and Non-Controllable Lease Equipment						
TOTAL TANGIBLE					\$ 197,100	\$ 25,100	\$ 172,000
TOTAL WELL					\$ 604,500	\$ 356,000	\$ 248,500

It is recognized that the amounts herein are estimates only and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than that herein set out.

OWNERSHIP APPROVALS:

	Interest:	\$	By	Date:
INEXCO OIL COMPANY	62.5	377,813	<i>George A. Brubaker</i>	1-26-71
ARCO	25.0	151,125		
CITIES SERVICE	12.5	75,562		

Included in the AFE, Item 22, Page 1, is Well Control Insurance estimated at \$7,500 for the coverage as defined by the attached sheet which coverage is based on an estimated T.D. of 11,100 feet. Please indicate your acceptance or rejection of this coverage in the space below and return to Inexco as soon as possible.

Should we not hear from you to the contrary prior to the spud date of the subject well, it shall be conclusively presumed that you have elected to share in the above insurance coverage.

Accepted _____

Rejected _____

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
March 31, 1976

EXAMINER HEARING

IN THE MATTER OF:

Application of Inexco Oil Company for) CASE
compulsory pooling, Eddy County,) 5658
New Mexico.)

BEFORE: Richard L. Stamets, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: William F. Carr, Esq.
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

For the Applicant: W. Thomas Kellahin, Esq.
KELLAHIN & FOX
Attorneys at Law
500 Don Gaspar
Santa Fe, New Mexico

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General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

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I N D E X

REILLY FLUELLEN

Direct Examination by Mr. Kellahin 3

L. F. GOZA

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1 MR. STAMETS: We will call next Case 5658.

2 MR. CARR: Case 5658, application of Inexco Oil
3 Company for compulsory pooling, Eddy County, New Mexico.

4 MR. KELLAHIN: If the Examiner please, I would like
5 the record to reflect the same appearances, the same witness
6 under oath and I have one additional witness to be sworn.

7 MR. STAMETS: The second witness will stand and be
8 sworn, please?

9 (THEREUPON, the witness was duly sworn.)

10 MR. KELLAHIN: If the Examiner please, I would like
11 the record to reflect that Mr. Fluellen has already qualified
12 to testify.

13 MR. STAMETS: The record will so show.

14
15 REILLY FLUELLEN

16 called as a witness, having been previously sworn, was
17 examined and testified as follows:

18
19 DIRECT EXAMINATION

20 BY MR. KELLAHIN:

21 Q. Mr. Fluellen, would you refer to what has been
22 marked as Exhibit Number One, identify it and state briefly
23 what Inexco is seeking?

24 A. Inexco is seeking to force pool the west half of
25 Section 10. This location is shown on the plat which is

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1 called Exhibit Number One. This plat shows our proposed
2 location and it also shows the nearby wells and the nearby
3 wells have the producing intervals identified by geometric
4 figures and those figures are explained in the legend down in
5 the lower left corner of the plat. Also below each well spot
6 are numbers which are the production during January of 1976
7 from the indicated zones and the indicated wells.

8 Q The west half of Section 10 is composed of what
9 kinds of acreage, fee, State or Federal?

10 A There is some Federal and some State land.

11 Q There is no fee land is there?

12 A No.

13 Q All right, what are the percentage interest of the
14 individuals in the west half of Section 10?

15 A Inexco owns sixty-two and one-half percent working
16 interest; Atlantic Richfield has twenty-five percent; Cities
17 Service has twelve and a half percent.

18 Q What percentage has voluntarily committed itself
19 to the drilling of the well in the west half of Section 10?

20 A None, except Inexco.

21 Q Would you please refer to what has been marked as
22 Exhibit Number Two and identify it?

23 A Exhibit Number Two is an AFE prepared by Inexco Oil
24 Company showing our estimate of the cost to drill and
25 complete a well at the proposed location in Section 10.

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1 Q How much is that cost?

2 A That cost for drilling and completing is a total of
3 six hundred and four thousand, five hundred dollars. This
4 AFE has been submitted to Arco and Cities Service to try to
5 get them to take some action on their lease in that proposed
6 unit.

7 Q How does the proposed cost of this well compare to
8 the cost of similar offsetting wells?

9 A The last well that Inexco shared in is a well not
10 shown on the plat, No. 1. It is a well in the north part of
11 Section 3. It was drilled in this working interest unit by
12 David Fasken. It is the Fasken No. 4 El Paso. The cost for
13 that well was five hundred and seventy-six thousand, seven
14 hundred and sixty-two dollars. Inexco also received an AFE
15 for the drilling of the well in the southwest part of Section
16 3 in the working interest unit, the David Fasken State Federal
17 No. 1. That AFE submitted by David Fasken was for five hundred
18 and ninety-two thousand dollars and to repeat, Inexco's AFE
19 was for six hundred and four thousand, five hundred, which is
20 within a reasonable number of what other wells in the area
21 cost.

22 Q Mr. Fluellen, do you have an opinion as to what
23 risk factor ought to be assigned to the non-consenting parties?

24 A I think two hundred percent.

25 Q On what do you base that opinion?

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1 A. Part of it can be seen from looking at Exhibit Number
2 One. As I stated earlier, this exhibit shows the producing
3 zones of each well by symbols so that a well in Section 2, the
4 David Fasken El Paso Federal No. 2 is dually completed. It is
5 completed in the Morrow and also in the Upper Pennsylvanian.
6 Below that well is the production from these zones for January
7 of this year which shows that the Morrow produced only nine
8 hundred and one MCF all month and the Upper Penn produced only
9 ten thousand, three hundred and fifty-seven M.

10 Moving over to Section 3, the one in the northern
11 part of Section 3, the David Fasken El Paso Federal No. 1 is
12 also completed dually. It is in the Morrow and the Strawn.
13 The Morrow in that well produced twenty thousand, four hundred
14 and nine MCF during January and the Strawn produced six
15 thousand, three hundred and thirty-two MCF during January.

16 Moving to the southwest part of Section 3 to the
17 David Fasken State Federal No. 1, that well is completed in
18 the Morrow. It produced twenty thousand and one MCF during
19 January and in Section 4 in the southwest quarter of Section 4,
20 Antweil Rock Federal No. 1 is a dry hole which penetrated the
21 Morrow.

22 Down in Section 9 the Atlantic Richfield No. 1 BQ
23 is also a Morrow well. It produced sixty-five thousand, seven
24 hundred and forty MCF. The Arco Federal BQ No. 2, again a
25 Morrow well, produced forty-six thousand and twenty-two MCF

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1 during January. Now, the two wells operated by Atlantic
2 Richfield in Section 9 are both completed in the same sand
3 stringer within the Morrow, however, the well operated by David
4 Fasken in the extreme southwest corner of Section 3 is completed
5 in a different zone within the Morrow. Continuing to show what
6 these wells are completed in and what they produced, down in
7 Section 16 Atlantic Richfield State BP is completed in the
8 Morrow but produced only two hundred and sixty-six MCF during
9 January. In the southern part of Section 16 the Arco No. 1 BR,
10 another dual, the Morrow and the Atoka. The Morrow produced
11 eleven thousand four hundred and three MCF and the Atoka twenty-
12 six thousand, six hundred and six.

13 Moving over to Section 15, the Arco State No. 1 BO
14 is completed in the Upper Pennsylvanian, produced seven thousand,
15 two hundred and forty-five MCF during January. And that well
16 also was drilled through the Morrow and reported to recover
17 salt water on two drill stem tests of the Morrow zone. From
18 this I feel that the risk associated with drilling Morrow
19 wells in this area can be recognized to be rather high and even
20 though you get production from the Morrow the chance of
21 commercial wells is still something that has to be taken
22 into account.

23 Q What is your drilling schedule for the completion
24 of this well, how many days is it going to take?

25 A. Sixty days total.

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1 Q Do you believe that Inexco could comply with an
2 order that would provide that a well should be completed or
3 abandoned within a hundred and twenty days after its
4 commencement?

5 A Yes.

6 Q And do you propose that Inexco be designated the
7 operator?

8 A Yes.

9 Q In your opinion, Mr. Fluellen, will the approval of
10 this application be in the best interests of conservation, the
11 prevention of waste and the protection of correlative rights?

12 A Yes.

13 Q And were Exhibits One and Two compiled by you?

14 A Yes.

15 MR. KELLAHIN: We move the introduction of Exhibits
16 One and Two.

17 MR. STAMETS: The Exhibits will be admitted.

18 (THEREUPON, Applicant's Exhibits One and
19 Two were admitted into evidence.)

20 MR. KELLAHIN: I would like to call Mr. Goza who is
21 sitting right there.

22

23

L. F. GOZA

24

25

called as a witness, having been first duly sworn, was
examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you please state your name and occupation?

A L. F. Goza, I'm the land manager for Inexco Oil Company in Houston.

Q Have you previously testified before this Commission?

A No, I haven't.

Q What has been your employment experience as a landman?

A I have been employed by Inexco for the previous two years and prior to that for twelve years as a practicing landman for various companies.

Q Are you familiar with the facts surrounding this particular application?

A Yes, I am.

Q If the Examiner please, we tender this witness' testimony to show what the cost of supervision will be for this well and his efforts to obtain voluntary approval from Arco and Cities Service.

MR. STAMETS: The witness is considered qualified.

Q (Mr. Kellahin continuing.) Please refer to what has been marked as Exhibit Number Three and its different parts, identify them and explain to the Examiner what information they contain?

A These letters were our correspondence to the other

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1 operators within the Unit, requesting their participation in
2 the well. Both Arco and Cities Service started on January 8th
3 setting out their interest and their estimated cost, followed
4 by an AFE as previously entered there for their execution on
5 January 28th. The final reply being in writing from Cities
6 Service on February 17th which indicates that they elect not
7 to participate at all in the drilling of this well. By then
8 verbal conversations they indicated that they will not sell,
9 they will not farmout and they will not join in the drilling of
10 this well, primarily due to the fact that their lease doesn't
11 expire until 1980.

12 Q I would like to direct your attention to the costs
13 of supervision, first of all, during the drilling of this
14 well and second of all after the drilling of the well.

15 A Our standard administrative overhead charges under
16 the accounting procedure of the operating agreement and practice
17 in the industry is, we use one thousand, six hundred and fifty-
18 four dollars for drilling well rate per month during the drilling
19 and a hundred and eighty-two dollars per month operational
20 charges after completion.

21 Q Is it your recommendation that those two amounts
22 be assigned to the non-consenting interest owners?

23 A Yes.

24 Q And would you in addition request that the charges
25 for supervision be adjusted annually?

1 A. Yes.

2 MR. KELLAHIN: If the Examiner please, we move
3 the introduction of Exhibit Number Three.

4 MR. STAMETS: Exhibit Three will be admitted.

5 (THEREUPON, Applicant's Exhibit Three was
6 admitted into evidence.)

7 MR. KELLAHIN: That concludes our examination.

8 MR. STAMETS: One point of clarification, Mr. Kellahin,
9 when you asked Mr. Goza if he wished to have these adjusted
10 annually, were you asking him if he wished them to be adjusted
11 annually in the same manner that previous orders of the
12 Commission allowed for annual adjustment?

13 MR. KELLAHIN: That is correct.

14 MR. STAMETS: And your answer would still be the
15 same?

16 MR. GOZA: Yes.

17 MR. STAMETS: Any other questions of Mr. Goza?

18 MR. KELLAHIN: No, sir.

19 MR. STAMETS: Any other questions of Mr. Fluellen?
20 They may both be excused.

21 (THEREUPON, the witnesses were excused.)

22 MR. STAMETS: Anything further in this case?

23 MR. KELLAHIN: No, sir.

24 MR. STAMETS: We will take the case under advise-
25 ment.

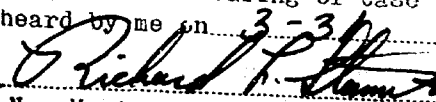
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REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand Reporter,
do hereby certify that the foregoing and attached Transcript
of Hearing before the New Mexico Oil Conservation Commission
was reported by me, and the same is a true and correct record
of the said proceedings to the best of my knowledge, skill and
ability.


Sidney F. Morrish, C.S.R.

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 5658
heard by me on 3-3-26, 1926

Richard P. Ham, Examiner
New Mexico Oil Conservation Commission

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BEFORE THE
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I N D E X

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REILLY FLUELLEN

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EXHIBIT INDEX

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1 Q. How much is that cost?

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18 the Morrow. It produced twenty thousand and one MCF during
19 January and in Section 4 in the southwest quarter of Section 4
20 Antweil Rock Federal No. 1 is a dry hole which penetrated the
21 Morrow.

22 Down in Section 9 the Atlantic Richfield No. 1 BQ
23 is also a Morrow well. It produced sixty-five thousand, seven
24 hundred and forty MCF. The Arco Federal BQ No. 2, again a
25 Morrow well, produced forty-six thousand and twenty-two MCF

sid morrish reporting service

General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

1 during January. Now, the two wells operated by Atlantic
2 Richfield in Section 9 are both completed in the same sand
3 stringer within the Morrow, however, the well operated by David
4 Fasken in the extreme southwest corner of Section 3 is completed
5 in a different zone within the Morrow. Continuing to show what
6 these wells are completed in and what they produced, down in
7 Section 16 Atlantic Richfield State BP is completed in the
8 Morrow but produced only two hundred and sixty-six MCF during
9 January. In the southern part of Section 16 the Arco No. 1 BR,
10 another dual, the Morrow and the Atoka. The Morrow produced
11 eleven thousand four hundred and three MCF and the Atoka twenty-
12 six thousand, six hundred and six.

13 Moving over to Section 15, the Arco State No. 1 BO
14 is completed in the Upper Pennsylvanian, produced seven thousand,
15 two hundred and forty-five MCF during January. And that well
16 also was drilled through the Morrow and reported to recover
17 salt water on two drill stem tests of the Morrow zone. From
18 this I feel that the risk associated with drilling Morrow
19 wells in this area can be recognized to be rather high and even
20 though you get production from the Morrow the chance of
21 commercial wells is still something that has to be taken
22 into account.

23 Q What is your drilling schedule for the completion
24 of this well, how many days is it going to take?

25 A. Sixty days total.

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1 Q Do you believe that Inexco could comply with an
2 order that would provide that a well should be completed or
3 abandoned within a hundred and twenty days after its
4 commencement?

5 A Yes.

6 Q And do you propose that Inexco be designated the
7 operator?

8 A Yes.

9 Q In your opinion, Mr. Fluellen, will the approval of
10 this application be in the best interests of conservation, the
11 prevention of waste and the protection of correlative rights?

12 A Yes.

13 Q And were Exhibits One and Two compiled by you?

14 A Yes.

15 MR. KELLAHIN: We move the introduction of Exhibits
16 One and Two.

17 MR. STAMETS: The Exhibits will be admitted.

18 (THEREUPON, Applicant's Exhibits One and
19 Two were admitted into evidence.)

20 MR. KELLAHIN: I would like to call Mr. Goza who is
21 sitting right there.

22
23 L. F. GOZA

24 called as a witness, having been first duly sworn, was
25 examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you please state your name and occupation?

A L. F. Goza, I'm the land manager for Inexco Oil Company in Houston.

Q Have you previously testified before this Commission?

A No, I haven't.

Q What has been your employment experience as a landman?

A I have been employed by Inexco for the previous two years and prior to that for twelve years as a practicing landman for various companies.

Q Are you familiar with the facts surrounding this particular application?

A Yes, I am.

Q If the Examiner please, we tender this witness' testimony to show what the cost of supervision will be for this well and his efforts to obtain voluntary approval from Arco and Cities Service.

MR. STAMETS: The witness is considered qualified.

Q (Mr. Kellahin continuing.) Please refer to what has been marked as Exhibit Number Three and its different parts, identify them and explain to the Examiner what information they contain?

A These letters were our correspondence to the other

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1 operators within the Unit, requesting their participation in
2 the well. Both Arco and Cities Service started on January 8th
3 setting out their interest and their estimated cost, followed
4 by an AFE as previously entered there for their execution on
5 January 28th. The final reply being in writing from Cities
6 Service on February 17th which indicates that they elect not
7 to participate at all in the drilling of this well. By then
8 verbal conversations they indicated that they will not sell,
9 they will not farmout and they will not join in the drilling of
10 this well, primarily due to the fact that their lease doesn't
11 expire until 1980.

12 Q I would like to direct your attention to the costs
13 of supervision, first of all, during the drilling of this
14 well and second of all after the drilling of the well.

15 A Our standard administrative overhead charges under
16 the accounting procedure of the operating agreement and practice
17 in the industry is, we use one thousand, six hundred and fifty-
18 four dollars for drilling well rate per month during the drilling
19 and a hundred and eighty-two dollars per month operational
20 charges after completion.

21 Q Is it your recommendation that those two amounts
22 be assigned to the non-consenting interest owners?

23 A Yes.

24 Q And would you in addition request that the charges
25 for supervision be adjusted annually?

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Phone (505) 982-9212

1 A. Yes.

2 MR. KELLAHIN: If the Examiner please, we move

3 the introduction of Exhibit Number Three.

4 MR. STAMETS: Exhibit Three will be admitted.

5 (THEREUPON, Applicant's Exhibit Three was

6 admitted into evidence.)

7 MR. KELLAHIN: That concludes our examination.

8 MR. STAMETS: One point of clarification, Mr. Kellahin,

9 when you asked Mr. Goza if he wished to have these adjusted

10 annually, were you asking him if he wished them to be adjusted

11 annually in the same manner that previous orders of the

12 Commission allowed for annual adjustment?

13 MR. KELLAHIN: That is correct.

14 MR. STAMETS: And your answer would still be the

15 same?

16 MR. GOZA: Yes.

17 MR. STAMETS: Any other questions of Mr. Goza?

18 MR. KELLAHIN: No, sir.

19 MR. STAMETS: Any other questions of Mr. Fluellen?

20 They may both be excused.

21 (THEREUPON, the witnesses were excused.)

22 MR. STAMETS: Anything further in this case?

23 MR. KELLAHIN: No, sir.

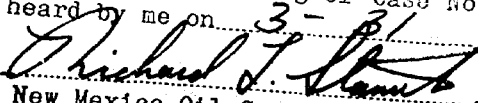
24 MR. STAMETS: We will take the case under advise-

25 ment.

REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand Reporter,
do hereby certify that the foregoing and attached Transcript
of Hearing before the New Mexico Oil Conservation Commission
was reported by me, and the same is a true and correct record
of the said proceedings to the best of my knowledge, skill and
ability.


Sidney F. Morrish, C.S.R.

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 5658,
heard by me on 3-31-1976
, Examiner
New Mexico Oil Conservation Commission

sid morrish reporting service

General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 5658
Order No. R-5193

APPLICATION OF INEXCO OIL COMPANY
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on March 31, 1976, at Santa Fe, New Mexico, before Examiner, Richard L. Stamets.

NOW, on this 20th day of April, 1976, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Inexco Oil Company, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the W/2 of Section 10, Township 21 South, Range 26 East, NMPM, Avalon Field, Eddy County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill its Inexco Federal 10 State Com Well No. 1 at an orthodox location in the W/2 of said Section 10.
- (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.

Case No. 5658
Order No. R-5193

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

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

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

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

(11) That \$1654.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$182.00 per month should be fixed as a reasonable charge for supervision while producing; that this charge should be adjusted annually based upon the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers; that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(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 July 15, 1976, 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 Pennsylvanian formation underlying the W/2 of Section 10, Township 21 South, Range 26 East, NMPM, Avalon Field, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas

-3-

Case No. 5658
Order No. R-5193

spacing and proration unit to be dedicated to applicant's Inexco Federal 10 State Com Well No. 1 to be drilled at an orthodox location in the W/2 of said Section 10.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15th day of July, 1976, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of July, 1976, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Commission 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 Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Inexco Oil Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission 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.

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

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

Case No. 5658
Order No. R-5193

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.

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

(9) That \$1654.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$182.00 per month is hereby fixed as a reasonable charge for supervision while producing, provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; that the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(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.

-5-

Case No. 5658

Order No. R-5193


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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

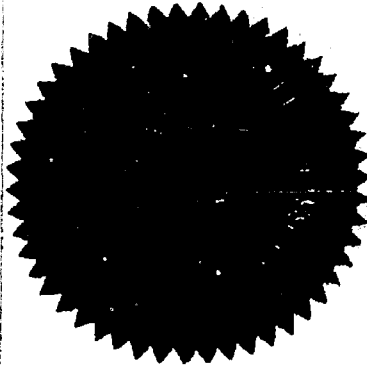
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

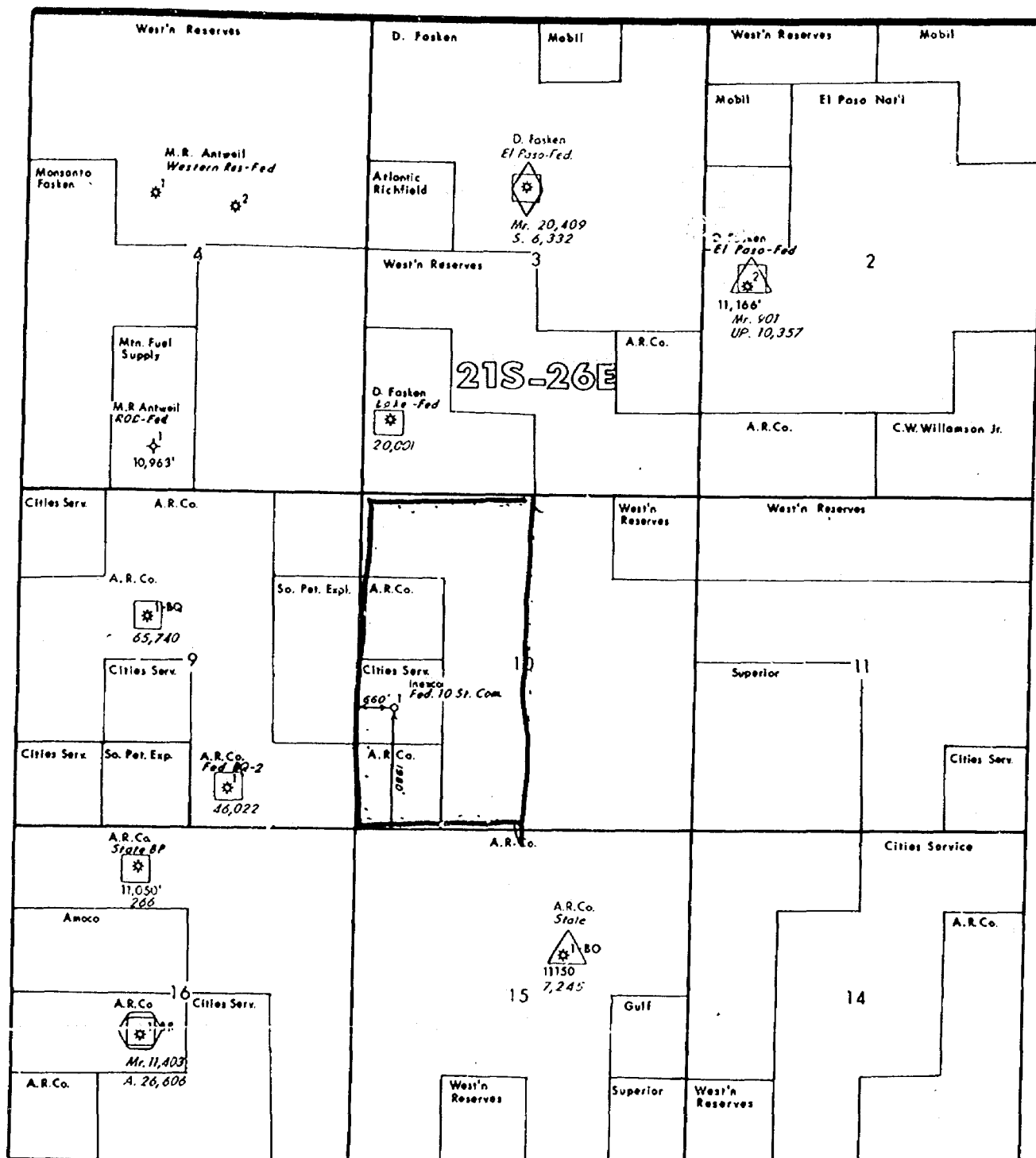

PHIL R. LUCERO, Chairman

EMERY C. ARNOLD, Member


JOE D. RAMEY, Member & Secretary






S E A L

jr/



LEGEND

PRODUCING ZONE

-  Morrow
-  Upper Penn.
-  Strawn
-  Atoka

PRODUCTION IN JANUARY 1976, MCF

AVALON MORROW FLD. EXTENSION
EDDY CO., NEW MEXICO

INEXCO #1 FEDERAL 10 STATE COM.

Scale In Miles

0 1/2 1

3-25-76



1100 Milam Bldg. - Houston, Texas 77002
713-237-3300

INEXCO OIL COMPANY

INEXCO OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

AFE No. (Inexco Property No.) _____
 Prospect N. Carlsbad
 Well Name and Number Fed. - State Com. #1-10
 Estimated Days to Drill 45
 Estimated Days to Complete 15

Location: SW/4
Sec. 10 - T21 - R26
Eddy County, New Mexico

OBJECTIVES SANDS AND DEPTH
Wolfcamp 8,200'
Morrow B 10,600'
Base Morrow 10,900'

Est. T.D. 11,100'
 Est. Spud _____
 AFE Prepared 12/18/75
 By: V. C. Maddox

(X) Drill () Workover Some Zone () Recomplete in New Zone

DESCRIPTION		ESTIMATED COSTS		ACTUAL COST
		DRILLING	COMPLETION	
INTANGIBLE COSTS (343):				
01	Access and Location Costs	9,000	1,000	
02	Move-in, Rig-up, Rig-down, Move-out			
	Contract Drilling			
03	Footage _____ ft. at \$ _____ ft.			
04	Daywork <u>45</u> days at \$ <u>3,500</u> day	157,500		
05	Completion Unit <u>15</u> days at \$ <u>1,000</u> day		15,000	
06	Fuel, Power, Water and Water Lines	11,000	2,000	
07	Bits, Reamers and Stabilizers	45,000		
08	Equipment Rental	3,000	2,000	
09	Cementing and Squeezing -			
	Conductor Casing	900		
	Surface Casing	3,000		
	Intermediate Casing	5,000		
	Production Casing		12,000	
	Liner			
	Other			
10	Drilling Mud and Chemicals	20,000	2,000	
10	Mud Logger	5,000		
11	Logging, Coring and Testing -			
	Cores			
	DST's <u>3-</u>	7,500		
	Logs <u>IES 2,500' - T.D., BHC-GR 8,000' - T.D.</u>	28,000		
			
			
			
12	Perforating		5,000	
12	Acidizing and Fracturing		25,000	
13	Labor and Supervision	2,500	1,000	
13	Contract Labor	14,000	2,000	
14	Drilling Overhead	2,000	1,000	
15	Transportation	3,000	5,000	
16	Sales Taxes	1,000	7,000	
17	Other Miscellaneous Intangible Costs			
18	Losses, Damages and Abandonment	6,000	(4,000)	
19	Fishing Tool Expense and/or Directional Drilling			
20	Dry Hole Contributions			
22	Well Control Insurance	7,500	500	
TOTAL INTANGIBLE		\$ 407,400	\$ 76,500	\$

DESCRIPTION					ESTIMATED COSTS		ACTUAL COST
					DRILLING	COMPLETION	
TANGIBLE COSTS (342):							
01	Conductor Csg.	50	ft. of 20"	at \$ 19.00 / ft	1,000		
02	Surface Csg.	350	ft. of 13-3/8"	at \$ 14.50 / ft	5,100		
03	Intermediate Csg.	2,000	ft. of 8-5/8"	at \$ 7.00 / ft	14,000		
04	Production Csg.	4,100	ft. of 5-1/2"	at \$ 6.30 / ft		70,000	
05	Liner		ft. of	at / ft			
06	Tubing	11,100	ft. of 2-7/8"	at \$ 2.60 / ft		29,000	
07	Casing Head Assembly				5,000		
07	Tubing Head Assembly					5,000	
08	Pumping Unit						
09	Prime Mover						
12	Installation Costs and Non-Controllable Well Equipment					3,000	
15	Storage Tanks					9,000	
16	Separator						
17	Dehydrator					18,000	
18	Heater - Treater					17,000	
19	LACT Unit						
20	LTX or Production Unit						
21	Line Pipe					5,000	
22	Gas Recorders						
23	Installation Costs and Non-Controllable Lease Equipment					16,000	
TOTAL TANGIBLE					\$ 197,100	\$ 25,100	\$ 172,000
TOTAL WELL					\$ 604,500	\$ 356,000	\$ 248,500

It is recognized that the amounts herein are estimates only and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than that herein set out.

OWNERSHIP APPROVALS:

	Interest:	\$
INEXCO OIL COMPANY	62.5	377,813
ARCO	25.0	151,125
CITIES SERVICE	12.5	75,562

By George A. Paulsen Date: 1-26-76

Included in the AFE, Item 22, Page 1, is Well Control Insurance estimated at \$7,500 for the coverage as defined by the attached sheet which coverage is based on an estimated T.D. of 11,100 feet. Please indicate your acceptance or rejection of this coverage in the space below and return to Inexco as soon as possible.

Should we not hear from you to the contrary prior to the spud date of the subject well, it shall be conclusively presumed that you have elected to share in the above insurance coverage.

Accepted _____

Rejected _____

January 8, 1975

Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79701

Attn: Mr. M. James Walker

Cities Service Oil Company
P. O. Box 1919
Midland, Texas 79701

Attn: Mr. J. Frank Riney

Re: North Carlsbad NM-125
Eddy County, New Mexico

Gentlemen:

Inexco Oil Company wishes to communitize W/2 Section 10, Township 21 South, Range 26 East for the drilling of an 11,300' Morrow test to be located approximately 1980' FSL and 660' FWL of Section 10.

It appears ARCO owns leasehold covering SW/4 NW/4 and SW/4 SW/4 Section 10 (.250000 of 320 acre unit) and CSO NW/4 SW/4 of Section 10 (.125000 of 320 acre unit) Inexco's leaseholds cover the balance of the proposed unit or (.625000 of 320 acre unit).

We would appreciate each of you furnishing us the following:

1. Copy of lease.
2. Copy of assignment(s), if any.
3. Rental receipts.
4. Copy of assignment(s) of overriding royalty or any carved out interests if there be such.

BEFORE EXAMINER STAMETS	
OIL CONSERVATION COMMISSION	
INEXCO	EXHIBIT NO. 3
CASE NO.	5658
Submitted by	
Hearing Date	31 MAR 76

Atlantic Richfield Company
Cities Service Oil Company
January 8, 1976
Page 2

The proposed Operating Agreement will be "individual loss"; therefore, we would appreciate knowing if you wish us to examine your title at your expense, or if you will furnish us a copy of title opinion covering your leasehold.

Your cooperation in furnishing the requested instrument will be appreciate.

Yours very truly,

INEXCO OIL COMPANY

Clark Baker
Area Landman

CB/cj

bcc: Reilly Fluellen

January 28, 1976

Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79701

Attention: Mr. M. James Walker

Cities Service Oil Company
P. O. Box 1919
Midland, Texas 79701

Attention: Mr. J. Frank Riney

Re: N. Carlsbad NM-125
No. 1-10 Fed. - State Com.
SW/4 10-21S-26E
Eddy County, New Mexico

Gentlemen:

You both, subsequent to our letter of January 8, 1976, have requested AFE's on captioned proposed well.

Enclosed for each company are duplicate originals of AFE and Well Prognosis.

Upon receiving an approved copy of the AFE, we will prepare and mail each of you an Operating Agreement.

When we receive the material requested in our letter of January 18, 1976, with current title opinions covering your leaseholds, we will prepare a Communitization Agreement for execution by all parties.

Yours very truly,

INEXCO OIL COMPANY

Clark Baker
Area Landman

CB/ntc

Enclosures - 2



CITIES SERVICE OIL COMPANY

Box 1919
Midland, Texas 79701
Telephone (915) 684-7131

February 17, 1976

Inexco Oil Company
1100 Milam Building
Suite 1900
Houston, Texas 77002

Attention: Mr. Clark Baker

Re: North Carlsbad NM-125
No. 1-10 Federal - State Com.
SW/4 Section 10-21S-26E
Eddy County, New Mexico

Gentlemen:

Please refer to your letters of January 8, 1976 and January 28, 1976.

This is to advise our Management does not wish to participate in the drilling of your proposed test.

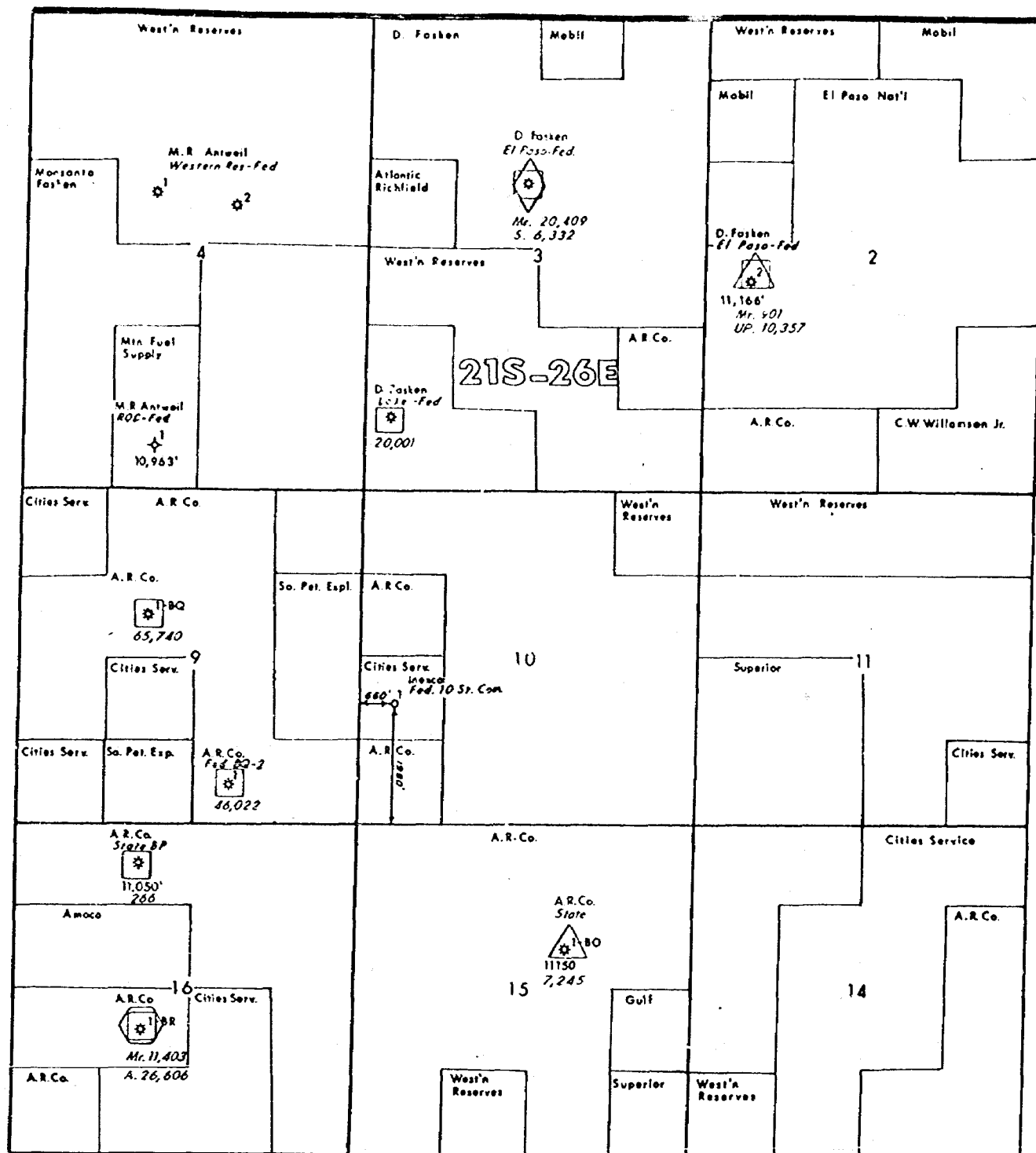
Yours very truly,

CITIES SERVICE OIL COMPANY





J. Frank Riney
Landman

JFR:eh

2/19/76
Riney said their Prod Dept. has control of the
lease 1980 EXP. Won't sell, Won't FO,
Won't Join. IOC will have to force Pool
UB



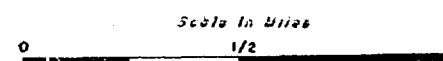
LEGEND
PRODUCING ZONE

-  Morrow
-  Upper Penn.
-  Strawn
-  Atoka

PRODUCTION IN JANUARY 1976, MCF

AVALON MORROW FLD. EXTENSION
EDDY CO., NEW MEXICO

INEXCO #1 FEDERAL 10 STATE COM.



INEXCO OIL COMPANY

1100 Milam Bldg - Houston, Texas 77002
713-237-3300

Case 5658
Exhibit 1

INEXCO OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

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 Estimated Days to Complete 15

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Sec. 10 - T21 - R26
Eddy County, New Mexico

OBJECTIVES SANDS AND DEPTH
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Base Morrow 10,900'

Est. T.D. 11,100'
 Est. Spud _____
 AFE Prepared 12/18/75
 By: V. C. Maddox

(X) Drill () Workover Same Zone () Recomplete in New Zone

DESCRIPTION	ESTIMATED COSTS		ACTUAL COST
	DRILLING	COMPLETION	
INTANGIBLE COSTS (343):			
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02 Move-in, Rig-up, Rig-down, Move-out			
Contract Drilling			
03 Footage <u>45</u> ft. at \$ <u>3,500</u> ft.	157,500		
04 Daywork <u>15</u> days at \$ <u>1,000</u> day		15,000	
05 Completion Unit <u>15</u> days at \$ <u>1,000</u> day	11,000	2,000	
06 Fuel, Power, Water and Water Lines	45,000		
07 Bits, Reamers and Stabilizers	3,000	2,000	
08 Equipment Rental			
09 Cementing and Squeezing -			
Conductor Casing	900		
Surface Casing	3,000		
Intermediate Casing	5,000		
Production Casing		12,000	
Liner			
Other			
10 Drilling Mud and Chemicals	20,000	2,000	
10 Mud Logger	5,000		
11 Logging, Coring and Testing -			
Cores <u>-3-</u>	7,500		
DST's <u>IES 2,500' - T.D., BHC-GR 8,000' - T.D.</u>	28,000		
Logs			
12 Perforating		5,000	
12 Acidizing and Fracturing		25,000	
13 Labor and Supervision	2,500	1,000	
13 Contract Labor	14,000	2,000	
14 Drilling Overhead	2,000	1,000	
15 Transportation	3,000	5,000	
16 Sales Taxes	1,000	7,000	
17 Other Miscellaneous Intangible Costs			
18 Losses, Damages and Abandonment	6,000	(4,000)	
19 Fishing Tool Expense and/or Directional Drilling			
20 Dry Hole Contributions			
22 Well Control Insurance	7,500	500	
TOTAL INTANGIBLE	\$ 407,400	\$ 330,900	\$ 76,500

Case 5658
 Exhibit 2

DESCRIPTION				ESTIMATED COSTS		ACTUAL COST
				DRILLING	COMPLETION	
TANGIBLE COSTS (342):						
01	Conductor Csg.	50	ft. of 20" at \$ 19.00 / ft.	1,000		
02	Surface Csg.	350	ft. of 13-3/8" at \$ 14.50 / ft.	5,100		
03	Intermediate Csg.	2,000	ft. of 8-5/8" at \$ 7.00 / ft.	14,000		
04	Production Csg.	4,100	ft. of 5-1/2" at \$ 6.30 / ft.		70,000	
05	Liner		ft. of / ft.			
06	Tubing	11,100	ft. of 2-7/8" at \$ 2.60 / ft.		29,000	
07	Casing Head Assembly			5,000		
07	Tubing Head Assembly				5,000	
08	Pumping Unit					
09	Prime Mover					
12	Installation Costs and Non-Controllable Well Equipment				3,000	
15	Storage Tanks				9,000	
16	Separator					
17	Dehydrator				18,000	
18	Heater - Treater				17,000	
19	LACT Unit					
20	LTX or Production Unit					
21	Line Pipe				5,000	
22	Gas Recorders					
23	Installation Costs and Non-Controllable Lease Equipment				16,000	
TOTAL TANGIBLE				\$ 197,100	\$ 25,100	\$ 172,000
TOTAL WELL				\$ 604,500	\$ 356,000	\$ 248,500

It is recognized that the amounts herein are estimates only and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than that herein set out.

OWNERSHIP APPROVALS:

	Interest:	\$
INEXCO OIL COMPANY	62.5	377,813
ARCO	25.0	151,125
CITIES SERVICE	12.5	75,562

By: George A. Brubaker Date: 1-26-76

Included in the AFE, Item 22, Page 1, is Well Control Insurance estimated at \$7,500 for the coverage as defined by the attached sheet which coverage is based on an estimated T.D. of 11,100 feet. Please indicate your acceptance or rejection of this coverage in the space below and return to Inexco as soon as possible.

Should we not hear from you to the contrary prior to the spud date of the subject well, it shall be conclusively presumed that you have elected to share in the above insurance coverage.

Accepted _____

Rejected _____

January 8, 1975

Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79701

Attn: Mr. M. James Walker

Cities Service Oil Company
P. O. Box 1919
Midland, Texas 79701

Attn: Mr. J. Frank Riney

Re: North Carlsbad NM-125
Eddy County, New Mexico

Gentlemen:

Inexco Oil Company wishes to communitize W/2 Section 10, Township 21 South, Range 26 East for the drilling of an 11,300' Morrow test to be located approximately 1980' FSL and 660' FWL of Section 10.

It appears ARCO owns leasehold covering SW/4 NW/4 and SW/4 SW/4 Section 10 (.250000 of 320 acre unit) and CSO NW/4 SW/4 of Section 10 (.125000 of 320 acre unit) Inexco's leaseholds cover the balance of the proposed unit or (.625000 of 320 acre unit).

We would appreciate each of you furnishing us the following:

1. Copy of lease.
2. Copy of assignment(s), if any.
3. Rental receipts.
4. Copy of assignment(s) of overriding royalty or any carved out interests if there be such.

Case 5658

Exhibit 3

Atlantic Richfield Company
Cities Service Oil Company
January 8, 1976
Page 2

The proposed Operating Agreement will be "individual loss"; therefore, we would appreciate knowing if you wish us to examine your title at your expense, or if you will furnish us a copy of title opinion covering your leasehold.

Your cooperation in furnishing the requested instrument will be appreciate.

Yours very truly,

INEXCO OIL COMPANY

Clark Baker
Area Landman

CB/cj

bcc: Reilly Fluellen

January 28, 1976

Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79701

Attention: Mr. H. James Walker

Cities Service Oil Company
P. O. Box 1919
Midland, Texas 79701

Attention: Mr. J. Frank Riney

Re: N. Carlsbad NM-125
No. 1-10 Fed. - State Com.
SW/4 10-21S-26E
Eddy County, New Mexico

Gentlemen:

You both, subsequent to our letter of January 8, 1976, have requested AFE's on captioned proposed well.

Enclosed for each company are duplicate originals of AFE and Well Prognosis.

Upon receiving an approved copy of the AFE, we will prepare and mail each of you an Operating Agreement.

When we receive the material requested in our letter of January 18, 1976, with current title opinions covering your leaseholds, we will prepare a Communitization Agreement for execution by all parties.

Yours very truly,

INEXCO OIL COMPANY

Clark Baker
Area Landman

CB/ntc

Enclosures - 2



CITIES SERVICE OIL COMPANY

Box 1919
Midland, Texas 79701
Telephone (915) 684-7131

February 17, 1976

Inexco Oil Company
1100 Milam Building
Suite 1900
Houston, Texas 77002

Attention: Mr. Clark Baker

Re: North Carlsbad NM-125
No. 1-10 Federal - State Com.
SW/4 Section 10-21S-26E
Eddy County, New Mexico

Gentlemen:

Please refer to your letters of January 8, 1976 and January 28, 1976.

This is to advise our Management does not wish to participate in the drilling of your proposed test.

Yours very truly,

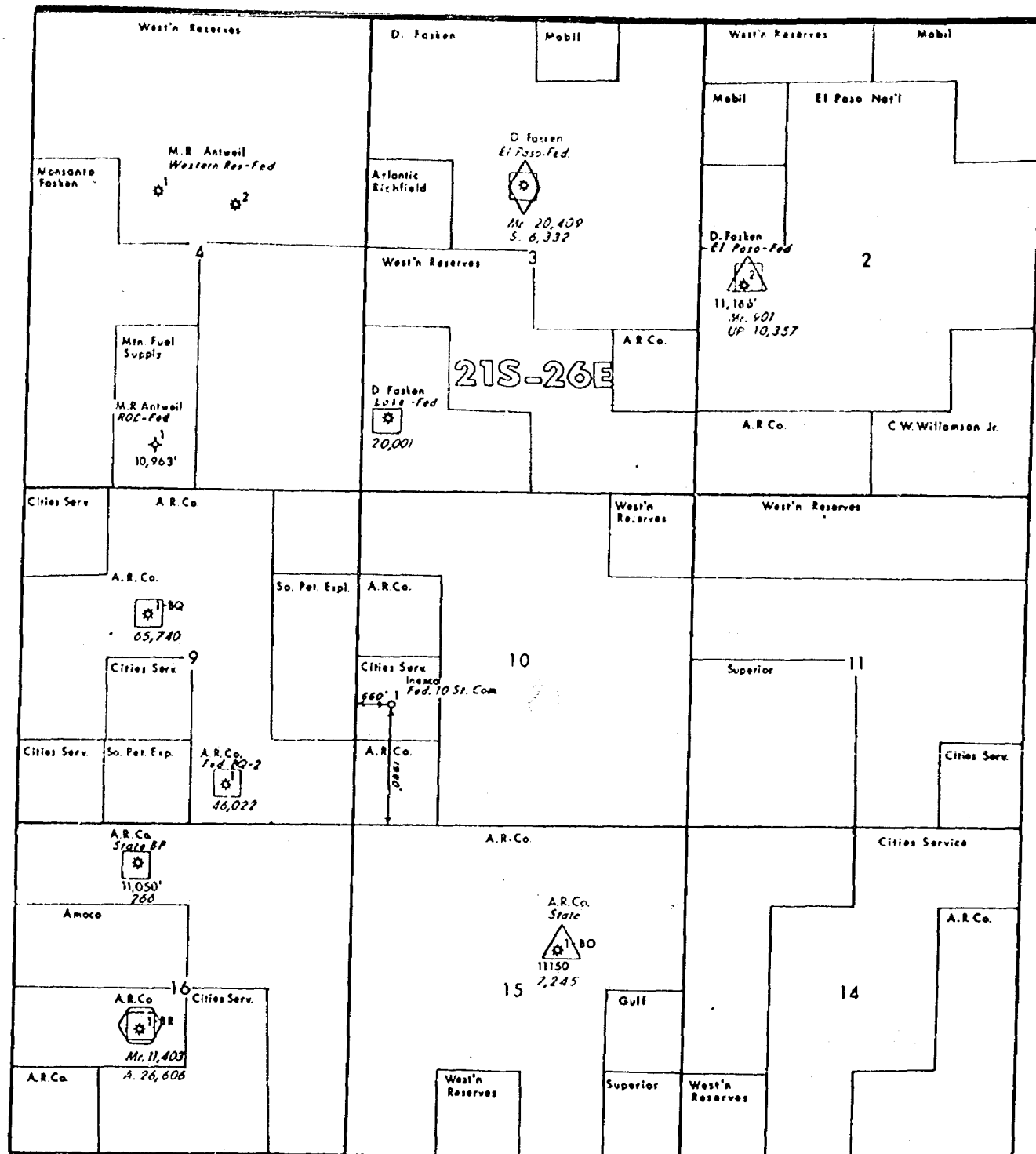
CITIES SERVICE OIL COMPANY

J. Frank Riney
J. Frank Riney
Landman

JFR:eh

2/19/76

*Riney said their Prod Dept. has control of the
lease 1980 EXP. Won't sell, Won't FO,
Won't Join. IOC will have to force Pool
CB*



LEGEND
PRODUCING ZONE

- ☐ Morrow
- ☐ Upper Penn.
- ☐ Strawn
- ☐ Atoka

PRODUCTION IN JANUARY 1976, MCF

AVALON MORROW FLD. EXTENSION
EDDY CO., NEW MEXICO

INEXCO #1 FEDERAL 10 STATE COM.

Scale in Miles
0 1/2 1

3-25-76



1100 Milam Bldg - Houston, Texas 77002
713-237-3300

INEXCO OIL COMPANY

Case 5658
Exhibit 1

INEXCO OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

AFE No. (Inexco Property No.) _____
 Prospect N. Carlsbad
 Well Name and Number Fed. - State Com. #1-10
 Estimated Days to Drill 45
 Estimated Days to Complete 15

Location: SW/4
Sec. 10 - T21 - R26
Eddy County, New Mexico

OBJECTIVES SANDS AND DEPTH
Wolfcamp 8,200'
Morrow B 10,600'
Base Morrow 10,900'

Est. T.D. 11,100'
 Est. Spud _____
 AFE Prepared 12/18/75
 By: V. C. Maddox

(X) Drill () Workover Same Zone () Recomplete in New Zone

DESCRIPTION		ESTIMATED COSTS		ACTUAL COST
		DRILLING	COMPLETION	
INTANGIBLE COSTS (343):				
01	Access and Location Costs	9,000	1,000	
02	Move-in, Rig-up, Rig-down, Move-out			
	Contract Drilling			
03	Footage _____ ft. at \$ _____ ft.			
04	Daywork <u>45</u> days at \$ <u>3,500</u> day	157,500		
05	Completion Unit <u>15</u> days at \$ <u>1,000</u> day		15,000	
06	Fuel, Power, Water and Water Lines	11,000	2,000	
07	Bits, Reamers and Stabilizers	45,000		
08	Equipment Rental	3,000	2,000	
09	Cementing and Squeezing -			
	Conductor Casing	900		
	Surface Casing	3,000		
	Intermediate Casing	5,000		
	Production Casing		12,000	
	Liner			
	Other			
10	Drilling Mud and Chemicals	20,000	2,000	
10	Mud Logger	5,000		
11	Logging, Coring and Testing -			
	Cores-3-	7,500		
	DST's <u>IES 2,500' - T.D., BHC-GR 8,000' - T.D.</u>	28,000		
	Logs			
			
			
12	Perforating		5,000	
12	Acidizing and Fracturing		25,000	
13	Labor and Supervision	2,500	1,000	
13	Contract Labor	14,000	2,000	
14	Drilling Overhead	2,000	1,000	
15	Transportation	3,000	5,000	
16	Sales Taxes	1,000	7,000	
17	Other Miscellaneous Intangible Costs			
18	Losses, Damages and Abandonment	6,000	(4,000)	
19	Fishing Tool Expense and/or Directional Drilling			
20	Dry Hole Contributions			
22	Well Control Insurance	7,500	500	
TOTAL INTANGIBLE		\$ 407,400	\$ 330,900	\$ 76,500

Case 5658
 Exhibit 2

DESCRIPTION					ESTIMATED COSTS		ACTUAL COST
					DRILLING	COMPLETION	
TANGIBLE COSTS (342):							
01	Conductor Csg.	50	ft. of	20"	at \$ 19.00 / ft	1,000	
02	Surface Csg.	350	ft. of	13-3/8"	at \$ 14.50 / ft	5,100	
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04	Production Csg.	4,100	ft. of	5-1/2"	at \$ 6.30 / ft		70,000
05	Liner		ft. of		at / ft		
06	Tubing	11,100	ft. of	2-7/8"	at \$ 2.60 / ft		29,000
07	Casing Head Assembly					5,000	
07	Tubing Head Assembly						5,000
08	Pumping Unit						
09	Prime Mover						
12	Installation Costs and Non-Controllable Well Equipment						3,000
15	Storage Tanks						9,000
16	Separator						
17	Dehydrator						18,000
18	Heater - Treater						17,000
19	LACT Unit						
20	LTX or Production Unit						
21	Line Pipe						5,000
22	Gas Recorders						
23	Installation Costs and Non-Controllable Lease Equipment						16,000
TOTAL TANGIBLE					\$ 197,100	\$ 25,100	\$ 172,000
TOTAL WELL					\$ 604,500	\$ 356,000	\$ 248,500

It is recognized that the amounts herein are estimates only and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than that herein set out.

OWNERSHIP APPROVALS:

	Interest:	\$	By	Date:
INEXCO OIL COMPANY	62.5	377,813	<i>George A. Anderson</i>	1-26-76
ARCO	25.0	151,125		
CITIES SERVICE	12.5	75,562		

Included in the AFE, Item 22, Page 1, is Well Control Insurance estimated at \$7,500 for the coverage as defined by the attached sheet which coverage is based on an estimated T.D. of 11,100 feet. Please indicate your acceptance or rejection of this coverage in the space below and return to Inexco as soon as possible.

Should we not hear from you to the contrary prior to the spud date of the subject well, it shall be conclusively presumed that you have elected to share in the above insurance coverage.

Accepted _____

Rejected _____

INEXCO OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

AFE No. (Inexco Property No.) _____
 Prospect _____ N. Carlsbad
 Well Name and Number Fed. - State Com. #1-10
 Estimated Days to Drill _____ 45
 Estimated Days to Complete _____ 15

Location: SW/4
 Sec. 10 - T21 - R26
 Eddy County, New Mexico

OBJECTIVES _____ SANDS _____ AND _____ DEPTH _____
 _____ Wolfcamp _____ 8,200'
 _____ Morrow B _____ 10,600'
 _____ Base Morrow _____ 10,900'

Est. T.D. _____ 11,100'
 Est. Spud _____
 AFE Prepared _____ 12/18/75
 By: _____ V. C. Maddox

(X) Drill () Workover Same Zone () Recomplete in New Zone

DESCRIPTION	ESTIMATED COSTS		ACTUAL COST
	DRILLING	COMPLETION	
INTANGIBLE COSTS (343):			
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Contract Drilling			
03 Footage _____ ft. at \$ _____ ft.			
04 Daywork _____ 45 days at \$ 3,500 day	157,500		
05 Completion Unit _____ 15 days at \$ 1,000 day		15,000	
06 Fuel, Power, Water and Water Lines	11,000	2,000	
07 Bits, Reamers and Stabilizers	45,000		
08 Equipment Rental	3,000	2,000	
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Conductor Casing	900		
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Intermediate Casing	5,000		
Production Casing		12,000	
Liner			
Other			
10 Drilling Mud and Chemicals	20,000	2,000	
10 Mud Logger	5,000		
11 Logging, Coring and Testing -			
Cores _____ -3-			
DST's _____	7,500		
Logs _____ IES 2,500' - T.D., BHC-GR 8,000' - T.D.	28,000		
		5,000	
12 Perforating		25,000	
12 Acidizing and Fracturing			
13 Labor and Supervision	2,500	1,000	
13 Contract Labor	14,000	2,000	
14 Drilling Overhead	2,000	1,000	
15 Transportation	3,000	5,000	
16 Sales Taxes	1,000	7,000	
17 Other Miscellaneous Intangible Costs			
18 Losses, Damages and Abandonment	6,000	(4,000)	
19 Fishing Tool Expense and/or Directional Drilling			
20 Dry Hole Contributions			
22 Well Control Insurance	7,500	500	
TOTAL INTANGIBLE	\$ 407,400	\$ 330,900 \$ 76,500	\$

Case 5658
 Exhibit 2

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					DRILLING	COMPLETION	
TANGIBLE COSTS (342):							
01	Conductor Csg.	50	ft. of 20"	at \$ 19.00 / ft	1,000		
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03	Intermediate Csg.	2,000	ft. of 8-5/8"	at \$ 7.00 / ft	14,000		
04	Production Csg.	4,100	ft. of 5-1/2"	at \$ 6.30 / ft		70,000	
05	Liner		ft. of	at / ft			
06	Tubing	11,100	ft. of 2-7/8"	at \$ 2.60 / ft		29,000	
07	Casing Head Assembly				5,000		
07	Tubing Head Assembly					5,000	
08	Pumping Unit						
09	Prime Mover						
12	Installation Costs and Non-Controllable Well Equipment					3,000	
15	Storage Tanks					9,000	
16	Separator						
17	Dehydrator					18,000	
18	Heater - Treater					17,000	
19	LACT Unit						
20	LTX or Production Unit						
21	Line Pipe					5,000	
22	Gas Recorders						
23	Installation Costs and Non-Controllable Lease Equipment					16,000	
TOTAL TANGIBLE					\$ 197,100	\$ 25,100	\$ 172,000
TOTAL WELL					\$ 604,500	\$ 356,000	\$ 248,500

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OWNERSHIP APPROVALS:

	Interest:	\$	By	Date:
INEXCO OIL COMPANY	62.5	377,813	<i>George A. Bullock</i>	1-26-76
ARCO	25.0	151,125		
CITIES SERVICE	12.5	75,562		

Included in the AFE, Item 22, Page 1, is Well Control Insurance estimated at \$7,500 for the coverage as defined by the attached sheet which coverage is based on an estimated T.D. of 11,100 feet. Please indicate your acceptance or rejection of this coverage in the space below and return to Inexco as soon as possible.

Should we not hear from you to the contrary prior to the spud date of the subject well, it shall be conclusively presumed that you have elected to share in the above insurance coverage.

Accepted _____

Rejected _____

Dockets Nos. 12-76 and 13-76 are tentatively set for hearing on April 14 and 28, 1976. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 31, 1976

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

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

CASE 5641: (Continued from March 17, 1976 Examiner Hearing)

Application of John Yuronka for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced water by injection to the Queen formation through the open-hole interval from approximately 3800 to 3875 feet in his State JC "T" Well No. 1 located in Unit B of Section 16, Township 23 South, Range 36 East, Langelie-Mattix Pool, Lea County, New Mexico.

CASE 5651: (Continued & Readvertised)

Application of Burnah Oil & Gas Co. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Morrow test well to be drilled 1780 feet from the South line and 660 feet from the West line of Section 11, Township 24 South, Range 28 East, Eddy County, New Mexico, the W/2 of said Section 11 to be dedicated to the well.

CASE 5655: Application of Apollo Oil Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced water into the lower Yates-Seven Rivers formation through the open-hole interval from 3289 to 3363 feet in its Brown Well No. 5, located in Unit E of Section 25, Township 25 South, Range 36 East, Jalmat Pool, Lea County, New Mexico.

CASE 5656: Application of David Fasken for an unorthodox location and simultaneous dedication, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of his Avalon Federal Com Well No. 2, to be drilled 660 feet from the South and West lines of Section 1, Township 21 South, Range 25 East, Catclaw Draw-Morrow Gas Pool, Eddy County, New Mexico, with all of said Section 1, a previously approved 854-acre non-standard gas proration unit, to be simultaneously dedicated to said well and to applicant's Avalon Federal Com Well No. 1, located in Unit P of said Section 1.

CASE 5657: Application of Inexco Oil Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox gas well location of a well to be drilled 350 feet from the East line and 803 feet from the South line of Section 1, Township 21 South, Range 26 East, Burton Flat Field, Eddy County, New Mexico, the S/2 of said Section 1 to be dedicated to the well.

CASE 5658: Application of Inexco Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the W/2 of Section 10, Township 21 South, Range 26 East, Avalon Field, Eddy County, New Mexico, to be dedicated to applicant's Inexco Federal-State Com Well No. 1-10, to be drilled at an orthodox location. 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5659: Application of Texaco Inc. for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle Penrose Skelly Grayburg and Drinkard production in the wellbore of its Mittie Weatherly Well No. 1, located in Unit P of Section 17, Township 21 South, Range 37 East, Lea County, New Mexico.

CASE 5660: Application of Exxon Corporation for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Fairview Mills Unit Area comprising 3840 acres, more or less, of Federal and Fee lands in Township 25 South, Range 34 East, Lea County, New Mexico.

CASE 5661: Application of Randolph M. Richardson for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the CC Tank Unit Area comprising 10,550 acres, more or less, of Federal, State, and fee lands in Townships 19 and 20 South, Ranges 23 and 24 East, Eddy County, New Mexico.

BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF INEXCO OIL COMPANY FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO

A P P L I C A T I O N

Comes now Inexco Oil Company and applies to the Oil Conservation Commission for an order pooling all of the mineral interests, whatever they may be, underlying the W/2 Section 10, Township 21 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show the Commission:

1. Applicant is the owner of the right to drill and develop the W/2 of said Section 10.

2. Applicant proposes to drill a well to the Morrow formation underlying the above tract at an orthodox well location, to be designated as its Inexco No. 1-10 Federal-State Com.

error → 3. Applicant is the owner of the right to drill and develop the E/2 SW/4, E/2 NW/4, and the NE/4 NW/4 of Section 10. It has been unable to obtain the agreement of other interest owners in the unit in the formation of a drilling and proration unit. The interest owners involved are:

A. Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79701

B. Cities Service Oil Company
P. O. Box 4906
Midland, Texas 79701

4. In order to protect correlative rights, prevent waste,

and afford applicant the opportunity to recover its just and equitable share of the oil and gas underlying the proposed unit, it is necessary to pool such lands and interests in a spacing and proration unit.

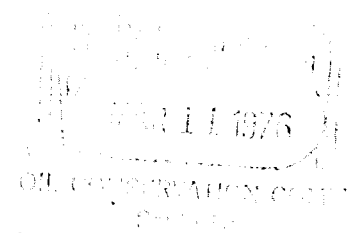
WHEREFORE applicant prays that this application be set for hearing before the Commission or the Commission's duly appointed examiner, and that after notice and hearing as required by law the Commission enter its order pooling all of the mineral interests, whatever they may be, underlying the W/2 of Section 10, Township 21 South, Range 26 East, N.M.P.M., together with provision for applicant to recover its costs in drilling, completing and producing the well, its costs of supervision and a charge for the risk involved in drilling the well, as provided by law, and for such other and further provision as may be proper.

Respectfully submitted,

INEXCO OIL COMPANY

By Jason W. Kellahin
Kellahin & Fox
P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANTS



BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF INEXCO OIL COMPANY FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO

A P P L I C A T I O N

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1. Applicant is the owner of the right to drill and develop the W/2 of said Section 10.

2. Applicant proposes to drill a well to the Morrow formation underlying the above tract at an orthodox well location, to be designated as its Inexco No. 1-10 Federal-State Com.

3. Applicant is the owner of the right to drill and develop the E/2 SW/4, E/2 NW/4, and the NE/4 NW/4 of Section 10. It has been unable to obtain the agreement of other interest owners in the unit in the formation of a drilling and proration unit. The interest owners involved are:

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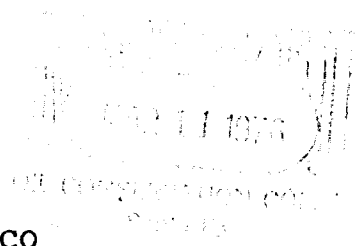
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Respectfully submitted,

INEXCO OIL COMPANY

By Jason W. Kellahin
Kellahin & Fox
P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANTS



BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF INEXCO OIL COMPANY FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO

A P P L I C A T I O N

Comes now Inexco Oil Company and applies to the Oil Conservation Commission for an order pooling all of the mineral interests, whatever they may be, underlying the W/2 Section 10, Township 21 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show the Commission:

1. Applicant is the owner of the right to drill and develop the W/2 of said Section 10.

2. Applicant proposes to drill a well to the Morrow formation underlying the above tract at an orthodox well location, to be designated as its Inexco No. 1-10 Federal-State Com.

3. Applicant is the owner of the right to drill and develop the E/2 SW/4, E/2 NW/4, and the NE/4 NW/4 of Section 10. It has been unable to obtain the agreement of other interest owners in the unit in the formation of a drilling and proration unit. The interest owners involved are:

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Midland, Texas 79701

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4. In order to protect correlative rights, prevent waste,

and afford applicant the opportunity to recover its just and equitable share of the oil and gas underlying the proposed unit, it is necessary to pool such lands and interests in a spacing and proration unit.

WHEREFORE applicant prays that this application be set for hearing before the Commission or the Commission's duly appointed examiner, and that after notice and hearing as required by law the Commission enter its order pooling all of the mineral interests, whatever they may be, underlying the W/2 of Section 10, Township 21 South, Range 26 East, N.M.P.M., together with provision for applicant to recover its costs in drilling, completing and producing the well, its costs of supervision and a charge for the risk involved in drilling the well, as provided by law, and for such other and further provision as may be proper.

Respectfully submitted,

INEXCO OIL COMPANY

By Jason W. Kellahin
Kellahin & Fox
P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANTS

DRAFT

dr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 5658

Order No. R- 5193

APPLICATION OF INEXCO OIL COMPANY FOR
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on March 31, 1976
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this day of April, 1976, the Commission,
a quorum being present, having considered the testimony, the record,
and the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

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

(2) That the applicant, Inexco Oil Company,
seeks an order pooling all mineral interests in the
Pennsylvanian underlying the W/2
of Section 10, Township 21 South, Range 26 East,
NMPM, Avalon Field, Eddy County, New
Mexico.

(3) That the applicant has the right to drill and proposes to drill ~~a well~~ ^{its Inexco Federal State Com Well No. 100} at ^{an orthodox location, in the Wm of Said State} 10.

(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 that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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

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

(11) That 1654.00 per month should be fixed as a reason-

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~~(11) That \$1793.00 per month should be fixed as a reason-~~
able charge for supervision (combined fixed rates) while drilling, and that ~~\$1654.00~~ per month should be fixed as a reasonable charge for supervision while producing; that this charge should be adjusted annually based upon the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers; that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(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 July 15, 1976, 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 Pennsylvanian formation underlying the W/2 of Section 10, Township 21 South, Range 26 East, NMPM, Avalon Field, Eddy County, New Mexico, are hereby pooled to form a standard 320 - acre gas spacing and proration unit to be dedicated to applicant's Inexco Federal State Com Well No. 1 to be drilled at an orthodox location in the W/2 of said Section 10

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15th day of July, 1976, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of July, 1976, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Commission 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 Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Inexco Oil Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission 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.

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

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

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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.

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

(9) That \$1654.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that \$182.00 per month is hereby fixed as a reasonable charge for supervision while producing, provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; that the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Doby County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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

CASE 5659: TEXACO INC. FOR
DOWNHOLE COMMINGLING, LEA COUNTY,
NEW MEXICO