

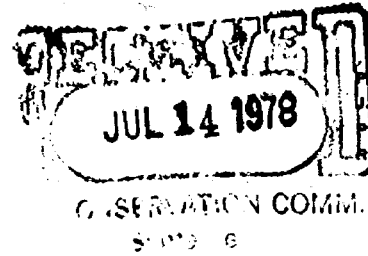
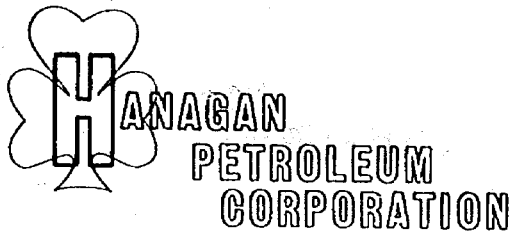
CASE 6255: HANAGAN PETROLEUM
CORPORATION FOR COMPULSORY POOL-
ING, EDDY COUNTY, NEW MEXICO

oration

CASE NO.

C255

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.



PHONE 805 - 623-5083
P. WHITE BUILDING
POST OFFICE BOX 1737
ROSWELL, NEW MEXICO
88201

July 12, 1978

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

Attn: Mr. Joe Ramey, Director

Re: Case No. 6255
Order No. R-5757

Gentlemen:

Attached is a copy of a letter of transmittal dated 7/3/78 and an AFE, in compliance with paragraph (3) page 3 of the captioned.

Very truly yours,

HANAGAN PETROLEUM CORPORATION

Robert G. Hanagan
Robert G. Hanagan

RGH/pjt

Stamets
PSH

JUL 14 1978

CONSERVATION COMM.
Santa Fe

HANAGAN PETROLEUM CORPORATION

J. P. White Building

Roswell, New Mexico 88201

Mr. Fred Letezio
14210 Mortenvue Drive
Taylor, Michigan 48180

Dear Mr. Letezio:

By its Order No. R-5757 dated June 29, 1978, in case No. 6255, the Energy and Minerals Department, Oil Conservation Division, of the State of New Mexico, force pooled your interest in Fairchild Tracts 729 and 740 lying in the N 1/2 of Section 8, Township 19 South, Range 26 East, N.M.P.M. In accordance with such order, and on behalf of Hanagan Petroleum Corporation, operator of the proposed well, we enclose two copies of Authority For Expenditure dated June 28, 1978, setting forth estimated well costs for the Crusader Rabbit No. 1 well to be located on a spacing and proration unit consisting of the N 1/2 of Section 8 above described. The operator proposes to commence the drilling of such well immediately. As set forth in the AFE, your prorata share of estimated dry hole costs is \$9,387.50 (1/32nd). Within 30 days from your receipt hereof, please furnish Hanagan Petroleum Corporation with your check for such amount, together with an executed copy of the AFE. In the event a completion attempt is made on such well, an additional amount of \$5,478.13 will be due from you as your share of the estimated completion costs.

Unless you have executed one copy of the AFE and returned the same to us, together with your check for the above amount, 30 days from your receipt hereof, in the event the proposed well is completed as a producer, an undivided 1/8th of your total interest in the proration unit will be set aside as royalty (subject to merchantable title), and 7/8th thereof treated as working interest. Out of production, there will be withheld from your working interest an amount equal to 100% of the actual reasonable costs of drilling and completing the

Mr. Fred Letezio
July 3, 1978
Page two



subject well, plus an additional 200% penalty for the risk involved in drilling the well, pursuant to the terms of the order of the Oil Conservation Division.

Sincerely yours,

Chad Dickerson

By _____
CHAD DICKERSON
Attorney for Hanagan Petroleum
Corporation

CD;aa
Encls.

cc: Hanagan Petroleum Corporation ✓
cc: Mr. Ralph Nix

Certified Mail Return
Receipt Requested

HANAGAN PETROLEUM CORPORATION

Date 6/28/78

AUTHORITY FOR EXPENDITURE (AFE)

Lease Crusader Rabbit Well No. 1 Field Undesignated
 & Morrow Formation
 Location 660' FNL & 1980' FWL of Section 8, T19S-R26E, Eddy Co., N.M. Depth 9500'
 Reason for Request Drill and Complete Morrow Gas Well

JUL 14 1978

INTANGIBLE COST	Before Casing Point (BCP) or Dry Hole Costs	After Casing Point (ACP) or Completion Costs
1. Legal (Incl. NMOCC Hearings, Title & etc.)	\$	\$
2. Surveying	150.00	
3. Damages		
4. Dirt Work (Roads, location & etc.)	15,000.00	2,500.00
5. Contract Drilling: Footage - @ 16	152,000.00	
Day - 5 days X 3750 WDP (3650 WODP)	18,750.00	3,000.00
6. Cement & Cement Services:		
Surface -	5,000.00	
Intermediate -	10,000.00	
Production -		8,000.00
7. Drilling Fluids: Water -	10,000.00	2,000.00
Mud -	20,000.00	
8. Drillstem Tests (3) Coring	6,000.00	
9. Electric Logs	20,000.00	
10. Plugging	5,000.00	(5,000.00)
11. Rental Equipment	5,000.00	3,000.00
12. Trucking	2,000.00	2,000.00
13. Geological & Engineering Supervision	8,000.00	
14. Contract Labor (Consultant engineer, roustabout, etc.)		5,000.00
15. Perforating (Incl. tie in log)		5,000.00
16. Well Stimulation (acid, fracturing & etc.)		20,000.00
17. Workover or Pulling Unit		15,000.00
18. Drilling Overhead @ 1800/Mon.	2,000.00	1,000.00
19. Administrative Overhead		
20. Insurance		
21. Miscellaneous	1,500.00	2,000.00
22. Contingencies % (Includes 4% N.M. Sales Tax)		
TOTAL INTANGIBLE COST	\$ 280,400.00	\$ 63,500.00
TANGIBLE COST		
23. Casing: Surface - 300' of 13 3/8"	\$ 5,000.00	\$
Intermediate - 1300' of 8 5/8"	13,500.00	
Production - 9500' of 4 1/2"		52,250.00
24. Tubing 9500' of 2 3/8"		27,550.00
25. Wellhead Equipment	1,500.00	6,500.00
26. Production Packer		2,500.00
27. Separation Equipment		15,000.00
28. Tank Battery		2,500.00
29. Valves, Fittings, Line Pipe		3,500.00
30. Pumping Equipment		
31. Metering Equipment		3,000.00
32. Other		
TOTAL TANGIBLE COST	\$ 20,000.00	\$ 112,800.00
TOTAL COST OF WELL	\$ 300,400.00	\$ 175,300.00
LESS CONTRIBUTIONS	\$ Dry Hole	\$ Completed Well
NET COST OF WELL	\$ 300,400.00	\$ 475,700.00
INTEREST SHARE	\$	\$

IF APPROVAL IS GIVEN, OPERATOR IS AUTHORIZED TO PROCEED AND THE UNDERSIGNED GRANTING APPROVAL AGREES TO PAY FOR WORK REQUIRED IN PROPORTION TO UNDERSIGNED'S SHARE OF THE WORKING INTEREST.

ACCEPTED BY:

APPROVE BY:

Company

HANAGAN PETROLEUM CORPORATION

By:

By:

Date

Date

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
21 June 1978

EXAMINER HEARING

IN THE MATTER OF:

Application of Hanagan Petroleum
Corporation for compulsory pooling,
Eddy County, New Mexico.

CASE
6255

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Lynn Teschendorf, Esq.
Legal Counsel for the Division
State Land Office Building
Santa Fe, New Mexico 87501

For the Applicant:

Chad Dickerson, Esq.
Artesia, New Mexico

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

I N D E X

HUGH HANAGAN

Direct Examination by Mr. Dickerson 3

BILL McCRAW

Direct Examination by Mr. Dickerson 14

E X H I B I T S

Applicant Exhibit One, Plat 12

Applicant Exhibit Two, Letter 19

Applicant Exhibit Three, Letter 19

Applicant Exhibit Four, Letter 19

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1 MR. STAMETS: The hearing will please come to
2 order. We'll call now Case 6255.

3 MS. TESCHENDORF: Case 6255. Application of
4 Hanagan Petroleum Corporation for compulsory pooling, Eddy
5 County, New Mexico.

6 MR. STAMETS: We'll call for appearances in
7 this case.

8 MR. DICKERSON: Mr. Examiner, my name is Chad
9 Dickerson, a lawyer from Artesia, New Mexico, on behalf
10 of the Applicant, and we have one witness for certain and
11 one possible witness.

12 MR. STAMETS: I'd like to have both witnesses
13 stand and be sworn at this time, please.

14 (Witnesses sworn.)

15
16 HUGH HANAGAN

17 being called as a witness and having been duly sworn upon
18 his oath, testified as follows, to-wit:

19
20 DIRECT EXAMINATION

21 BY MR. DICKERSON:

22 Q Will you state your name, address, and give
23 your occupation, please?

24 A My name is Hugh Hanagan. I live in Roswell,
25 New Mexico. I'm a geologist by profession but also vice

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1 president of Hanagan Petroleum Corporation.

2 Q Mr. Hanagan, you have become qualified and
3 testified before this Commission on numerous occasions,
4 have you not?

5 A Yes.

6 MR. DICKERSON: Mr. Examiner, if you have no
7 objection, we will --

8 MR. STAMETS: The witness is considered qual-
9 ified.

10 Q (Mr. Dickerson continuing.) Mr. Hanagan, I
11 will refer you to what has been marked Exhibit One. I
12 will ask you, if you please, with regard to that exhibit
13 describe the plans of Hanagan Petroleum Corporation which
14 have necessitated this proceeding.

15 A Well, Hanagan Petroleum Corporation seeks an
16 order pooling all mineral interests in the Wolfcamp and
17 Pennsylvanian formations underlying the north half of
18 Section 8, 19 South, and 26 East, Eddy County, New Mexico,
19 to be dedicated to a well to be drilled at a standard
20 location. Also to be considered will be the cost of
21 drilling and completing said well, the allocation of these
22 costs, along with the actual operating costs and charges
23 for supervision.

24 Applicant further seeks to be designated as
25 operator of said well and an additional charge for the

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1 risk involved in drilling the said well.

2 Hanagan Petroleum Corporation plans to drill
3 a 9500 foot Morrow gas well to a depth sufficient to pene-
4 trate the entire Wolfcamp and Pennsylvanian formations.
5 The well's name will be Hanagan Petroleum Corporation's
6 No. 1 Crusader Rabbit, and I want you to know I didn't
7 name it that.

8 This well will be located 660 feet from the
9 north line, 1980 feet from the west line, of Section 8,
10 Township 19 South, Range 26 East, Eddy County.

11 On Exhibit One the well location is colored in
12 red and the 320 acre proration unit is colored in yellow.

13 Geographically the subject well is located
14 approximately ten miles south of Artesia, New Mexico,
15 just west of Highway 285 and approximately 3-1/2 miles
16 northwest of Lakewood.

17 The proposed test is directly offset by gas
18 production in the West 4-Mile Draw Morrow Field, which
19 has normal 320 acre gas units -- gas proration units.

20 To accomplish these plans Hanagan Petroleum
21 Corporation seeks approval of an order by the Oil Conser-
22 vation Division including the following items:

23 One, to pool all mineral interests under the
24 north half of Section 8, Township 19 South, 26 East,
25 covering the Wolfcamp and Penn formations, in order to

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1 create a standard 320 acre gas proration unit. All
2 mineral owners were contacted and offered an opportunity
3 to participate in the subject well as to their proportionate
4 interests.

5 All have agreed to either join or lease, any-
6 way some way or other to join in the venture, except for
7 a 10-acre interest, which would amount to a 1/32nd interest
8 in the well.

9 This 10-acre interest is owned by -- well, in
10 the first place, the ownership is questionable. As much
11 as we can determine it is owned probably by the heirs of
12 a gentleman that bought the lease somewhere in the 1920s
13 or earlier and the children, or at least two of them,
14 have been contacted that live in the Michigan area around
15 Chicago.

16 The lease, like I say, is an old lease, some-
17 where around 1924 or earlier. It has never been leased
18 since the ownership, since the people owned it, so it
19 is really highly questionable in our minds as to just ex-
20 actly who owns it, due to deaths and so forth during the
21 years.

22 This part of -- this 10-acre interest or this
23 forced pooling part would probably be better described
24 by the second witness, if you have any detailed questions.
25 If you have just some detailed questions as to that owner-

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1 ship of that ten acres, it could be that we'd have to
2 have the other witness and you could question him on it.

3 Hanagan Petroleum themselves are -- or at
4 least Hanagan and Hanagan, have the -- they own the 80-acre
5 tract, consisting of the southeast 80 acres of that pro-
6 ration unit. In other words, the south half of the north-
7 east quarter, we are record title owners to that.

8 The other 240 acres, to show you the problems
9 involved, there are 35 people that have already joined
10 into the venture of drilling the well in that 240 acres,
11 and how many more in this 10 acres, we don't know. It
12 could be 110 or 6 or 100; we don't know. So you see there
13 is a problem there on that 10 acre interest.

14 There are no problems on the rest of the pro-
15 ration unit except that 10 acre interest.

16 To accomplish, or to be able to drill this
17 well, the second item would be the submitting to the
18 Commission the estimated drilling and completion well costs,
19 and Hanagan Petroleum has participated in six wells that
20 have been drilled in this area. In fact, all six of them
21 are either direct or diagonal offsets to this proposed
22 well. So we are quite aware of the cost in this area.

23 Based on these wells we estimate the cost of
24 a dry hole, or a well down to the production casing point,
25 at \$300,000, and should the well be completed, an additional

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1 cost of \$170,000 -- \$175,000, for a total of \$475,000
2 for a completed well, completed Morrow gas well.

3 These costs would be allocated as to the pro-
4 portionate interest of all working interests or mineral
5 owners interests, including those force pooled.

6 The third item is Hanagan Petroleum Company's
7 overhead or a fixed rate base, and we -- we have a fixed
8 rate base on drilling wells rate of \$1800 per month. On
9 a producing well rate of \$275 per month.

10 There would be an operating agreement entered
11 into. It hasn't been yet but there is no problem there,
12 again, outside of this 10-acre interest. The operating
13 agreement that we use is the AAPL form 610-1977. It's
14 a form that is used consistently throughout the industry.
15 It's not written by any individual at all. It's an in-
16 dustry-used form for an operating agreement.

17 For accounting purposes we use the COPAS Form
18 1977, which is entitled Joint Operating Accounting Pro-
19 cedure, which again is an industry accepted accounting
20 method, agreement.

21 The fourth item would be designation as oper-
22 ator, and we do seek to be named as the operator of the
23 subject well. Hanagan Petroleum has had considerable
24 experience in drilling and completing of this type well
25 and is presently the operator of several gas wells in

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1 Eddy County, so we feel that we are a qualified operator.

2 The fifth item would be the risk cost. As all
3 of you know, the odds are always greater that the proposed
4 well will be a dry hole or a marginal producer. This is
5 especially true in erratic gas/sand zones of the Morrow
6 formation.

7 We also know that the cost of these wells are
8 increasing at an amazing rate. I mean from AFE to AFE;
9 from thirty days to thirty days.

10 We also know that the cost of these wells can-
11 not really be judged by an AFE. In other words, most of
12 the time if you've based an AFE on the last one you drilled,
13 you're going to be -- I mean it's going to cost you more
14 than that well.

15 In considering the risk factor involved in
16 this case, let us look at that land plat, Exhibit One, and
17 look at some of the wells in there.

18 First you can notice that the area is fairly
19 well surrounded by dry Morrow wells. They're colored in
20 grey. In fact, there are dry holes east and west and
21 northeast of the proposed well. There are also-- and those
22 two, those direct dry holes, one of them is in Section 5,
23 in the northeast quarter of 5; there's a dry hole which
24 will be the direct west offset in Section 7, and there is
25 a dry hole in Section 9, which would be to the east.

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1 There are also two oil wells colored in blue
2 that are marginal wells. In fact, one has been abandoned,
3 the well in Section 17 has been abandoned a long time ago,
4 and the fact of the matter is it was never really -- there
5 was never any sales from that well.

6 And the second marginal well is in Section 4,
7 which is a Samadan well in which we have an interest.
8 That well is in the process of being abandoned right now.
9 In fact, we have already given our approval of abandoning
10 that well. It has not been approved by the Commission,
11 but it is in the process of being abandoned.

12 There is what we wthink is a good Morrow well
13 in Section 5 in the southwest quarter, which would be a
14 direct north offset to the proposed location. We also
15 have an interest in that well, which is the Dorchester
16 No. 1 Morrison Well. It was completed in October of 1977
17 for 5250 Mcf of gas. It has just recently gone on line,
18 probably sixty days or so it's been on the line, so it
19 does appear to be a good well.

20 There is also a well in the process of being
21 completed in Section 6, which would be a diagonal north-
22 west offset to the proposed location. That well is the
23 Dorchester No. 1 Liggett, L-I-G-G-E-T-T. It is in the
24 process of being completed as a Morrow well. We have an
25 interest in it. It looks like that it will make a well

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1 in the Morrow. In fact, it's on a four point test right
2 now, probably.

3 So you can see overall that in that area there,
4 there are two good Morrow wells. We have participated
5 in six wells in -- right immediately adjoining the pro-
6 posed location, and we may get our money back on two out
7 of the six. We definitely -- we definitely will never
8 recover our money on four out of those six wells.

9 So you can see that the risk -- there is a
10 definite risk in that area.

11 The wells are not producing out of the same
12 sands in that area, which again is a big risk. I'd rather
13 have them all producing out of about the same sands so
14 that we know that they cover some area. So there is evi-
15 dence of these sands may not be the same or won't be a
16 blanket sand condition, and since it's not a blanket sand
17 condition, why, the odds are even higher that it could be
18 a dry hole.

19 In view of this situation, we ask that the
20 maximum risk factor be applied to those working interests
21 or mineral interests owners not participating in the pro-
22 posed well. We understand this factor to be 200 percent
23 of the drilling and completion costs incurred as to their
24 interest.

25 Q You understand it to be, Mr. Hanagan, recovery

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1 of 100 percent of your cost plus 200 percent penalty?

2 A. That's correct. That's correct.

3 Q Mr. Hanagan, this plat marked and described
4 as Exhibit One was colored and marked under your direction,
5 was it not?

6 A. That's correct.

7 MR. DICKERSON: Mr. Examiner, we move the ad-
8 mission of Exhibit Number One.

9 MR. STAMETS: Exhibit Number One will be ad-
10 mitted.

11 MR. DICKERSON: We have additional testimony
12 as to the details of this title if the Commission would
13 like to hear this testimony, or we will stand on Mr.
14 Hanagan's testimony.

15 A I might insert, I never did describe that
16 10-acre tract that's in question, which I think you pro-
17 bably want.

18 MR. STAMETS: Yes.

19 A A legal description of that 10-acre tract.

20 The legal description would be the east half
21 west half of the northeast quarter of the northwest
22 quarter, and to further pin it down, there's a little
23 grey pencil mark right next to the -- on Exhibit A. There
24 is a darkened area immediately west of that red circle,
25 which is that 10-acre tract we're speaking of on that

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1 plat.

2 Another way to pin it down would be using the
3 state unit system, it would be the east half of the west
4 half of Unit C, and the well, of course, would be located
5 in Unit C. It would be the east half of the west half
6 of Unit C.

7 MR. STAMETS: It's a very narrow slice then
8 of that --

9 A Yes, sir, it is a 5-acre slice north to south.

10 MR. DICKERSON: Mr. Examiner, we would also
11 like to point out that the entire northwest quarter of
12 this section and the northeast -- or the northwest of the
13 northeast is dedicated, as far as the county records show,
14 to small 5-acre tracts and they are known and described
15 as Fairchild Tracts.

16 This acreage that Mr. Hanagan has described
17 by reference to the survey, is known upon the dedication
18 plat as Fairchild Tracts 729 and 740.

19 MR. STAMETS: Are there any questions of this
20 witness? He may be excused.

21 The Examiner would like to have some testimony
22 on attempts that have been made to contact, find and con-
23 tact the owners of this acreage being pooled here today.
24
25

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BILL McCaw

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. DICKERSON:

Q Would you state your name, give your address, and describe your occupation, please?

A Bill McCaw, and I'm with Ralph Nix' office. (sic) He is a land man in Artesia, New Mexico.

Q Mr. McCaw, in pursuance of your occupation, did you undertake to obtain oil and gas leases or otherwise enter into agreements with parties holding mineral interests under the north half of Section 8?

A Yes.

Q Could you describe the efforts that you have made and the problems you've encountered with regard to this 10-acre tract that is the subject of this hearing?

A This 10-acre tract, Mr. Hanagan indicated, was acquired by Dominic Latesio (sic) when Mr. FAirchild subdivided this acreage, which was back in the early 1900s, and since that time there has been nothing on the county records, you know, such as oil and gas leases, or probates of people dying, you know, or anything, so the only thing on the county records is the date into Dominic

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1 Latesio, and that's all.

2 The tax records show an address in Michigan --

3 Q Excuse me, Mr. McCaw, approximately what year
4 was that deed to Dominic Latesio?

5 A I don't have it with me but it was in the
6 early 1900s.

7 Q Prior to 1950?

8 A Yes. On the tax records it shows that they
9 have been paying taxes on this property every year and
10 it is under Dominic Latesio's original owner's name.

11 I wrote a letter to Mr. Latesio at --

12 Q Let me show you Exhibit Number Two and ask you
13 if that's the letter you're referring to?

14 A No, that's the second letter.

15 Q Exhibit Number Three.

16 A Right. I wrote this letter in October 21st to
17 a Mr. Dominic Latesio, which address I got from the tax
18 rolls, describing the acreage and that our intentions of
19 getting a well drilled in here; also telling him about the
20 well that I believe at that time was drilled north of
21 this property in Section 5, and at that time I offered
22 him \$100 an acre for 3/16ths royalty in a 3-year lease.

23 I never did hear from Mr. Latesio so I tried
24 to contact him by telephone at this time.

25 There was -- in the phone book there were

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1 some Latesio's, so I started calling -- calling some of
2 them.

3 I did get one phone number of an Emil Latesio
4 (sic). Well, let me back up just one second to tell you
5 how I got Emil.

6 There was another person named Savaglia (sic)
7 here, and he is a cousin of Latesio, and so I did acquire
8 an oil and gas lease from Savaglia, and he told me, you
9 know, that these people did live in Michigan, which I did
10 know, and he told me about this Emil Latesio and a Fred
11 Latesio that Mr. Latesio, the old man, had died.

12 So at that point he didn't know anything of
13 the family, said they didn't get along with each other,
14 he didn't know any phone numbers or anything about them.
15 He hadn't been in contact with them.

16 So I, through the directory assistance, I did
17 get a phone number for Mr. Emil Latesio. I called him on
18 the phone and I told him about the property and he didn't
19 even admit that he was Emil Latesio. He said that he did
20 not handle the property any more, that his brother
21 handled the property, and that it was Dominic, his father's
22 property to start with. And I asked him if Fred was his
23 brother and he said I don't know; I asked him for a phone
24 number, he said I don't know, and he hung up the phone.
25 He said I don't want to talk about it any more and hung

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1 up the phone.

2 So I went back to my original -- to Mr. Savaglia
3 and I asked for some other relatives that might have the
4 phone number of Fred. It took me about five -- I called
5 about five of these relatives. None of them knew anything
6 about the family but they didn't get along and none of
7 them would give me any phone numbers and I finally got
8 one person to give me Fred's phone number if I wouldn't
9 tell him where I got it.

10 I called Fred and he said -- I asked him if
11 he got my original letter and he said he always throws
12 the letters away that he gets on this property. He doesn't
13 understand it and he doesn't want to read it and he doesn't
14 want to do anything.

15 So I visited with him and I told him the im-
16 portance of getting this well drilled due to the fact that
17 we were being drained. Mr. Nix also, you know, had minerals
18 in there and that we would like to get something done in
19 there.

20 He said he didn't want to lease it so I
21 finally indicated to him, you know, that if he wanted to --
22 he said the lease wasn't enough, so I told him that he
23 could pay us part of the well, and he then decided that
24 for me to write him another letter and send an oil and gas
25 lease.

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 888-3404
Santa Fe, New Mexico 87501

1 Q I'll hand you what has been marked Exhibit
2 Number Two, Mr. McCaw, and you may refer to that.

3 A All right. This was in November. It was in
4 October, the first letter, and this was in November 21st.
5 I did address this to Fred Latesio.

6 Q Fred Latesio is the only one of these people
7 who you were able to locate who admitted actually anything
8 to do with this property?

9 A That's right.

10 I also sent our regular oil and gas lease form
11 of Producer's ADA, revised 1965 New Mexico, lease form,
12 to him, and asked him to look at the oil and gas lease,
13 take it to his attorney, if he had any questions have
14 his attorney either call me or call my attorney, just
15 anything, you know, to do some talking.

16 And I never did hear from him again. So I
17 called him again and his only words was the print was too
18 small on the oil and gas lease, and he didn't want to do
19 anything.

20 So at this time I told him about forced
21 pooling and I visited with him about that and he said --
22 I told him that was what we were going to have to do if
23 he didn't pay his part or lease it, and he said if that's
24 the law, do it. He says anything you want to do is fine
25 as long as it's within the law.

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

1 And that was the way that we left it. I also,
2 from talking with relatives, learned that there were
3 around eight children. I didn't get their last names
4 because a lot of them didn't know. There were some
5 daughters and some sons and when talking with Mr. Latesio
6 he never did indicate how the property was owned, whether
7 they all owned it in equal shares or anything. I just
8 didn't get anything out of him.

9 Q Mr. McCaw, have you run down all the leads
10 you were able to get on in order to determine any heir-
11 ship information concerning this Dominic Latesio, the
12 original owner of this property?

13 A Yes.

14 Q And I will refer you to what has been marked
15 Exhibit Four and ask you if that is the letter describing
16 the affect of the forced pooling application and so forth
17 that would be necessitated by Mr. Latesio's refusal to
18 do anything or even discuss participating in this venture?

19 A That's right. This was April 24th.

20 MR. DICKERSON: Mr. Examiner, we move admission
21 of Exhibits Two, Three, and Four.

22 MR. STAMETS: These exhibits will be admitted.
23 I'm certainly glad that I asked, it's been one of the
24 most interesting recitations we've had in quite awhile.

25 What's the procedure now assuming that you --

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

1 well, assuming we issue an order granting compulsory
2 pooling, what's the standard procedure as far as you're
3 concerned? Do you notify Mr. Latesio that it has been
4 issued and send him a copy of it?

5 MR. DICKERSON: Yes, Mr. Examiner, we will
6 furnish him with a copy of the AFE within a short period
7 of time and request -- and again allow him to participate
8 in the drilling of the well if he so desires.

9 MR. STAMETS: Then assuming now that he does
10 not join and the well is completed and is a commercial
11 well, what is the procedure?

12 MR. DICKERSON: The interest of the Latesio's
13 from a title standpoint, Mr. Examiner, is debatable and
14 for that purpose I do not think that any producer or pur-
15 chaser of production could undertake to pay Mr. Latesio
16 without much more information concerning the ownership of
17 this property without some type of judicial proceeding
18 being undertaken in Lea County to clear title to this
19 property.

20 In the instance that this Commission issues
21 its order pooling this interest, the interest, 1/8th in-
22 terest attributable to this Latesio interest, will be
23 escrowed and accounted for when the proper owners of it
24 are determined.

25 MR. STAMETS: Do you notify the Latesio's that

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

1 this is being done?

2 MR. DICKERSON: Yes, sir.

3 MR. STAMETS: Any other questions of the wit-
4 ness? He may be excused.

5 Anything further in this case?

6 MR. DICKERSON: No, sir.

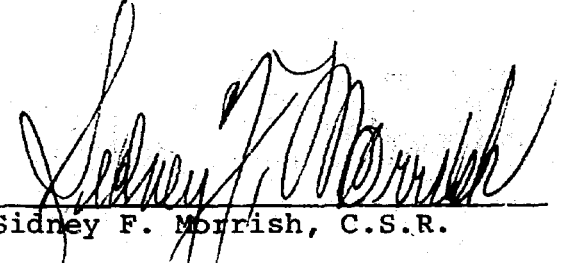
7 MR. STAMETS: The case will be taken under
8 advisement.

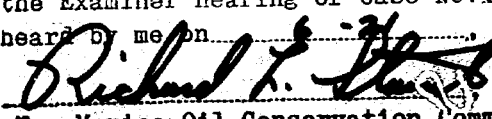
9 (Hearing concluded.)
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SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (606) 908-3404
Santa Fe, New Mexico 87501

REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill from my notes taken at the time of the hearing.


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. 6255 heard by me on 5-24-28 1928.
 Examiner
New Mexico Oil Conservation Commission


SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501



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

Hanagan Petroleum Corporation

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

Yours very truly,

JOE D. RAMEY
Director

Copy of order also sent to:

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

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. 6255
Order No. R-5757

APPLICATION OF HANAGAN PETROLEUM
CORPORATION FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 21, 1978, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 29th day of June, 1978, 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, Hanagan Petroleum Corporation, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 8, Township 19 South, Range 26 East, NMPM, Eddy County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.
- (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 \$1800.00 per month while drilling and \$275.00 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 October 1, 1978, 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 Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 8, Township 19 South, Range 26 East, NMPM, Eddy 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 a standard location thereon.

-3-

Case No. 6255
Order No. R-5757

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of October, 1978, 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 1st day of October, 1978, 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 Hanagan Petroleum Corporation 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 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.

(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 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

-4-

Case No. 6255
Order No. R-5757

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 \$1800.00 per month while drilling and \$275.00 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 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

-5-

Case No. 6255
Order No. R-5757

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 Division 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 Division may deem necessary.

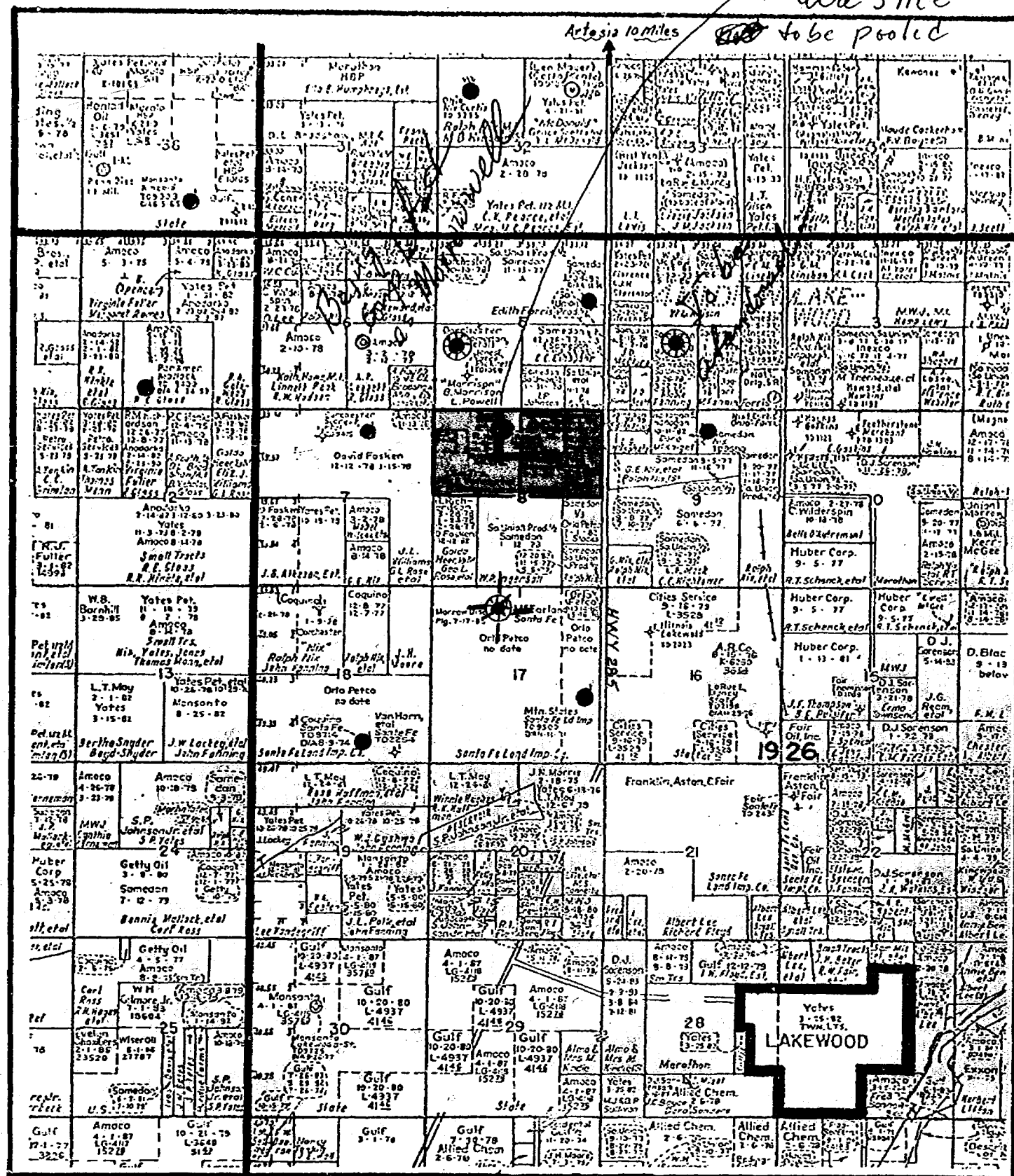
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director

fd/

~~to be~~ to be pooled



HANAGAN PETROLEUM CORPORATION
NO. 1 CRUSADER RABBIT
W. Four Mile Draw Mor. Field
Eddy Co., New Mexico

Compulsory Pooling CASE #6255

Docket No. 21-78 6/21/78

Exhibit #1

dry holes in gray

November 21, 1977

Exhibit #2
Case #6255

Mr. Fred Letezio
14210 Mortenvue Drive
Taylor, MI 48180

RE: Oil & Gas Lease
T-19-S, R-26-E, NMPM
Section 8: Fairchild
Tracts
#729 & #740
Eddy County, NM

Dear Mr. Letezio:

Pursuant to our telephone conversation of November 19, 1977, enclosed please find a copy of the oil and gas lease that we would like to use. We are going to drill a well in the N $\frac{1}{2}$ of Section 8, Township 19 South, Range 26 East, Eddy County, New Mexico around February 1978. As I discussed with you on the telephone, everyone in the N $\frac{1}{2}$ of Section 8 will participate in this gas well as to the proportions that they own. We need to start a quiet title suit on the N $\frac{1}{2}$ of Section 8 as soon as possible, because it takes approximately six (6) weeks to get this done. If we can possibly get an oil and gas lease from you before we start the quiet title suit, we can put this property in this suit, which will help make your title a merchantable title at no cost to you.

If checking the county records it appears that your family owns all the minerals under Fairchild Tracts #729 and #740, which is approximately 10 acres. We are paying \$100.00 per mineral acre for 3/16 royalty for a three (3) year oil and gas lease. After examining this oil and gas lease and visiting with your attorney, please call me or have your attorney call me collect and I will try to answer any questions that you may have.

Trusting that this venture will prove profitable to all parties concerned.

Very truly yours,

William J. McCaw

WJM:cp

encl.

313-287-3625

October 21, 1977

Exhibit #3

Case #6255

Mr. ~~Dominick~~ Letizio
14210 Mortenvue Dr.
Taylor, MI 48180

RE: T-19-S, R-26-E
Section 8: N $\frac{1}{2}$
Fairchild Tract #729#740
Eddy County, New Mexico

Dear Mr. Letizio:

Recently there was a well drilled in the W $\frac{1}{2}$ of Section 5, Township 19 South, Range 26 East, Eddy County, New Mexico, which is the direct offset to the N $\frac{1}{2}$ of Section 8, of which you have a mineral interest. This well has been completed in the Morrow zone of the Pennsylvanian formation and as far as we can tell, it looks like it is going to be a good producer; however, this well is not hooked up to a gas line and when it starts producing, this will tell the story.

I am one of the larger mineral holders in the N $\frac{1}{2}$ of Section 8 and have acquired additional leases. If I am successful in getting this acreage together, I intend to drill a test well that would adequately test the zone that is productive to the north. This well was drilled to a depth of 9448' and wells to this depth cost in the neighborhood of \$430,000.00 to drill and complete.

From the county records you appear to own all of the minerals under Fairchild Tract #729, #740, which is approximately 10 mineral acres. I have been paying \$100.00 per mineral acre and 3/16 royalty for a three (3) year oil and gas lease. (It is my intent to start this well as soon as I have acquired the leases in the N $\frac{1}{2}$ of Section 8).

If this meets with your approval, please write us or call us collect and we will prepare the lease and draft for your signature. Since we all are interested in minerals in the N $\frac{1}{2}$ of Section 8, I feel this will be to the mutual benefit of all the mineral holders.

Very truly yours,

Ralph Nix

RN:cp

C
O
P
Y

A. J. LOSEE
JOEL M. CARSON
CHAD DICKERSON

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

AREA CODE 505
746-3508

24 April 1978

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Exhibit #4
Case #6255

Mr. Fred Letezio
14218 Mortenvue Drive
Taylor, Michigan 48180

Dear Mr. Letezio:

C
O
P
Y
We represent Mr. Ralph Nix of Artesia, New Mexico. Mr. William J. McCune of Mr. Nix's office has corresponded with you concerning their desire to obtain an oil and gas lease from you covering your interest, located in Section 8, Township 19 South, Range 26 East, N.M.P.M., Eddy County, New Mexico.

Mr. Nix is offering to pay \$100 per net mineral acre for your execution of the lease, and 3/16ths royalty on production. This is a very generous offer, and we believe it would be to your advantage to accept the offer. The lease previously sent to you, although it has fine print so that it will take up only one page, is perfectly standard and does not in any way take advantage of the lessor.

Unless Mr. Nix is successful in obtaining your voluntary execution of the lease, he will have no choice but to make application to the New Mexico Oil Conservation Commission to force pool your interest. If that becomes necessary, the following disadvantages will accrue to you.

1. You will not get any money for the execution of the lease (at \$100 per acre).
2. Your interest will have to pay its proportionate share of the very large costs of drilling any well, plus large penalties of up to three times your cost for the risk involved.
3. If and when you ever receive any royalty from any well drilled, it will be only 1/8th instead of the 3/16ths now being offered to you.

Mr. Fred Letezio

24 April 1978

-2-

4. Your interest is not merchantable, and you will never get paid any money for any royalties from any producing well, unless you come to New Mexico, hire attorneys at your own expense and conduct some type of court proceeding to clear your title. If you execute the lease, on the other hand, we will be glad, if you desire, to quiet your title at no expense to you, incidental to our representing Mr. Nix.

For all of the above reasons, it will be much to your advantage to sign the lease, a copy of which has been sent to you. Please call or write Mr. William J. McCaw with your response. We also would appreciate your furnishing us with any information you have concerning Dominico Letezio, including the date of his death, his wife's name, his heirs' names and addresses, and a copy of any wills left by him or anyone else involved. If you desire that we attempt to perfect your interest at the same time we are conducting a quiet title suit on behalf of Mr. Nix, at no cost to you, please so indicate by signing the enclosed copy hereof, and returning it to me.

Sincerely yours,

LOSEE, CARSON & DICKERSON, P.A.

Chad Dickerson

Chad Dickerson

CD:pv

I REQUEST THAT YOU ATTEMPT TO PERFECT MY TITLE AS SET FORTH ABOVE, AND HEREBY CONSENT TO BEING DESIGNATED AS A PLAINTIFF IN ANY COURT PROCEEDING FOR SUCH PURPOSE.

Fred Letezio

Dockets Nos. 22-78 and 23-78 are tentatively set for hearing on July 6 and 19, 1978. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - JUNE 21, 1978

9 A.M. - OIL CONSERVATION DIVISION 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:

- ALLOWABLE: (1) Consideration of the allowable production of gas for July, 1978, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
- (2) Consideration of the allowable production of gas for July, 1978, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 6238: (Continued from June 7, 1978, Examiner Hearing)

Application of Barber Oil, Inc., for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for its Saladar Unit Area comprising 240 acres, more or less, of Federal and fee lands in Township 20 South, Range 28 East, Eddy County, New Mexico.

CASE 6276: (Continued from June 7, 1978, Examiner Hearing)

Application of Barber Oil, Inc., for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project on its Saladar Unit, by the injection of water into the Yates formation through five wells located in Units K, L, N and O of Section 33, Township 20 South, Range 28 East, Saladar-Yates Pool, Eddy County, New Mexico.

CASE 6251: Application of Amoco Production 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 S/2 of Section 27, Township 18 South, Range 26 East, Atoka-Pennsylvanian Gas Pool, Eddy County, New Mexico, 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. 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 6252: Application of Holly Energy, Inc., for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its State 14 Well No. 1, a Morrow test to be located 990 feet from the North line and 660 feet from the East line of Section 14, Township 18 South, Range 28 East, Eddy County, New Mexico, the N/2 of said Section 14 to be dedicated to the well.

CASE 6253: Application of Merrion & Bayless for a non-standard proration unit, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for 364.44-acre non-standard gas proration unit comprising the W/2 of Sections 30 and 31, Township 26 North, Range 2 West, Blanco Mesaverde Pool, Rio Arriba County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon.

CASE 6254: Application of Read & Stevens, Inc., for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Bone Spring formation underlying the W/2 SE/4 of Section 7, Township 19 South, Range 35 East, Scharb-Bone Spring Pool, Lea County, New Mexico, to be dedicated to a well drilled at an unorthodox 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. 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 6255: Application of Hanagan Petroleum Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 8, Township 19 South, Range 26 East, Eddy County, New Mexico, 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. 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.

18 1978

LAW OFFICES

LOSEE & CARSON, P.A.

300 AMERICAN HOME BUILDING

P. O. DRAWER 239

ARTESIA, NEW MEXICO 88210

A. J. LOSEE

JOEL M. CARSON

CHAD DICKERSON

AREA CODE 505

746-3508

16 May 1978

Mr. Joe D. Ramey, Director
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Case 6255

Re: Hanagan Petroleum Corporation
Crusader Rabbit No. 1 Well


Dear Mr. Ramey:

Enclosed for filing, please find original and two copies of
Application for Compulsory Pooling of Hanagan Petroleum Cor-
poration.

We ask that this case be set for hearing before an examiner and
that you furnish us with a docket of the hearing. Thank you.

Sincerely yours,

LOSEE, CARSON & DICKERSON, P.A.


Chad Dickerson

CD:pv
Enclosures

cc w/enclosure: Hanagan Petroleum Corporation

WC + Penn

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF HANAGAN PETROLEUM CORPORATION
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

Case No. 6255

APPLICATION

COMES NOW Hanagan Petroleum Corporation, by its attorneys, and in support hereof, respectfully states:

1. Applicant has the right to drill and intends to drill its Crusader Rabbit No. 1 Well at a lawful location to be located in the N/2 Section 8, Township 19 South, Range 26 East, N.M.P.M., Eddy County, New Mexico.

2. If said well is completed at its objective depth in the Morrow formation, applicant intends to dedicate the N/2 of said Section 8 to its said Crusader Rabbit No. 1 Well, and there are interest owners in the proration unit who have not agreed to pool their interests.

3. Applicant should be designated the operator of the well in the proration unit.

4. 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 oil and gas in said unit, all mineral interests, whatever they may be, from the surface through the Morrow formation underlying the N/2 of said Section 8 should be pooled.

5. 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, applicant prays:

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

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the surface through the Morrow formation underlying the N/2 of said Section 8, Township 19 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, to form a 320-acre spacing unit dedicated to applicant's Crusader Rabbit No. 1 Well, or such lesser acreage to which applicant may be entitled upon completion of its well.

C. For such other and further relief as may be proper.

HANAGAN PETROLEUM CORPORATION

By: 
Chad Dickerson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(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.

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#1800⁰⁰ per month while drilling and
#275.⁰⁰ per month while producing

(11) That _____ per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision 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 October 1, 1978, 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 Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 8, Township 19 South, Range 26 East, NMPM, _____, Eddy 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 a standard location thereon

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15th day of October, 1978, 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 October, 1978, 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 Hanagan Petroleum Corporation 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 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.

(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 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 \$1800⁰⁰ per month while drilling and \$275⁰⁰ per month while producing are ~~per month~~ is hereby fixed as a reasonable charge 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.

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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 Eddy 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 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 Division may deem necessary.

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