

New Mexico Oil & Gas Commission

Case No. 8038

Exhibit 3

Contents (See Attached):

- 3 A. Letters sent to interest parties in the south half of Section 26, requesting communitization of leases
- 3 B. Support letters from Northwest Pipeline Corporation and Gulf Oil Exploration
- 3 C. Negative responses from Dugan Production Corporation and Jerome P. McHugh & Associates

New Mexico Oil & Gas Commission

Case No. 8038

Exhibit 3

Contents (See Attached):

- 3 A. Letters Sent to Interest Parties in the  
South Half of Section 26, Township 25 North,  
Range 2 West, Rio Arriba County, New Mexico,  
Requesting Communitization of Leases

**E. ALEX PHILLIPS**

1200 PHILTOWER BUILDING

TULSA, OKLAHOMA 74103

December 7, 1983

Northwest Pipeline Company  
Post Office Box 5800  
Terminal Annex  
Denver, Colorado 80217

Re: E. Alex Phillips' Gavilan #2  
S 1/2, Section 26-25N-2W  
Rio Arriba County, New Mexico

Gentlemen:

E. Alex Phillips, desiring to protect its leasehold position in the Gavilan area, will be drilling an 8100 foot Gallup-Dakota test well in the Southwest Quarter of Section 26, Township 25 North, Range 2 West. Your company owns a percentage of the spacing unit and may participate to that extent in this test well.

To facilitate the drilling of our well, I have enclosed two copies of the Model Form Operating Agreement which we submit to you as the Operating Agreement which will be used for drilling the proposed well. I have also enclosed a copy of the estimated drilling costs for the well.

If you find the Operating Agreement to be acceptable, please sign in the appropriate area which has been tabbed and return one copy to me. We did not originally expect that you would be a participant in this well but due to the recent spacing hearing for this area, the New Mexico Oil & Gas Commission has suggested that we approach you for participation which will therewith comply with their anticipated pooling order.

Please let me know as quickly as possible as to your decision to participate. Your help and cooperation will be appreciated.

Very truly yours,

FROM:

Michael L. Wallace, Esquire  
E. ALEX PHILLIPS  
1200 Philtower Building  
Tulsa, Oklahoma 74103

Customer Number, if any:

TO:

Northwest Pipeline Company  
P. O. Box 5800, Terminal Annex  
Denver, Colorado 80217  
Attention: Kathy Michaels

EXPRESS MAIL  
NEXT DAY SERVICE

POST OFFICE  
TO ADDRESSEE

B18227580

ORIGIN

Initials of Receiving Clerk

P.O. ZIP CODE

74103

Date in

12-8-1410

Time in

Return Receipt Service

☐ To Whom & Date Del

☐ To Whom, Date & Address of

SERVICE GUARANTEE:

Domestic mailings under this service made at designated USPS facilities, on or before a specified deposit time, will be delivered by express, shipment to a designated USPS delivery office, having no later than the time specified by the USPS at mailing, USPS standard except for those delayed by strike or other USPS service interruption, to the addressee and not meeting the service guarantee.

INSURANCE COVERAGE

See USPS Publication 38, "National Mail Insurance," for details.

**E. ALEX PHILLIPS**

1200 PHILTOWER BUILDING

TULSA, OKLAHOMA 74103

December 7, 1983

Jerome P. McHugh & Associates  
650 South Cherry, Suite 225  
Denver, Colorado 82022

Re: E. Alex Phillips' Gavilan #2  
S 1/2, Section 26-25N-2W  
Rio Arriba County, New Mexico

Gentlemen:

E. Alex Phillips, desiring to protect its leasehold position in the Gavilan area, will be drilling an 8100 foot Gallup-Dakota test well in the Southeast Quarter of Section 26, Township 25 North, Range 2 West. Your company owns a percentage of the spacing unit and may participate to that extent in this test well.

To facilitate the drilling of our well, I have enclosed two copies of the Model Form Operating Agreement which we submit to you as the Operating Agreement which will be used for drilling the proposed well. I have also enclosed a copy of the estimated drilling costs for the well.

If you find the Operating Agreement to be acceptable, please sign in the appropriate area which has been tabbed and return one copy to me. We did not originally expect that you would be a participant in this well but due to the recent spacing hearing for this area, the New Mexico Oil & Gas Commission has suggested that we approach you for participation which will therewith comply with their anticipated pooling order.

Please let me know as quickly as possible as to your decision to participate. Your help and cooperation will be appreciated.

Very truly yours,

Michael L. Wallace  
Manager & General Counsel

**FROM:**

Michael L. Wallace, Esquire  
E. ALEX PHILLIPS  
1200 Philtower Building  
Tulsa, Oklahoma 74103

Customer Number, if any:

**TO:**  
Jerome P. McHugh & Associates  
650 South Cherry  
Suite 225  
Denver, Colorado 82022

Label 11-B, Jan. 1983 \* U.S.G.P.O.

**EXPRESS MAIL**  
NEXT DAY SERVICE

**POST OFFICE**  
**TO ADDRESSEE**

**B 10313354**

**ORIGIN**

Initials of Receiving Clerk

P.O. ZIP Code

Date in

Time in

Return Receipt Service

☐ To Whom & Date Del

☐ To Whom, Date & Address of Del

**SERVICE GUARANTEE:**  
Domestic mailings under this service made at designated USPS facilities on or before a specified deposit time, will be accepted for express shipment to a designated USPS delivery area. Mail on or before the time specified by the USPS at mailing office. Mail shipments insured under this service and not meeting the USPS Notice 43 for details.  
**INSURANCE COVERAGE:**  
See USPS Notice 7 or Notice 65 for exclusions of coverage. Documents are insured against loss, damage, or theft. \$50,000 per piece, subject to a limit of \$500,000 per mailing. Merchandise insurance: Patterns, die, etc., are insured for damage or theft up to a maximum of \$500 per piece.

**E. ALEX PHILLIPS**  
1200 PHILTOWER BUILDING  
TULSA, OKLAHOMA 74103

December 7, 1983

Dugan Production Corp.  
Post Office Box 208  
Farmington, New Mexico 87499

Re: E. Alex Phillips' Gavilan #2  
S 1/2, Sec. 26-25N-2W  
Rio Arriba County, New Mexico

Gentlemen:

E. Alex Phillips, desiring to protect its leasehold position in the Gavilan area, will be drilling an 8100 foot Gallup-Dakota test well in the Southeast Quarter of Section 26, Township 25 North, Range 2 West. Your company owns a percentage of the spacing unit and may participate to that extent in this test well.

To facilitate the drilling of our well, I have enclosed two copies of the Model Form Operating Agreement which we submit to you as the Operating Agreement which will be used for drilling the proposed well. I have also enclosed a copy of the estimated drilling costs for the well.

If you find the Operating Agreement to be acceptable, please sign in the appropriate area which has been tabbed and return one copy to me. We did not originally expect that you would be a participant in this well but due to the recent spacing hearing for this area, the New Mexico Oil & Gas Commission has suggested that we approach you for participation which will therewith comply with their anticipated pooling order.

Please let me know as quickly as possible as to your decision to participate. Your help and cooperation will be appreciated.

Very truly yours,

Michael L. Wallace  
Land Manager & General Counsel

**FROM:**  
Michael L. Wallace, Esquire  
E. Alex Phillips  
1200 Philtower Building  
Tulsa, Oklahoma 74103

Customer Number, if any:

**TO:**  
Dugan Production Corp.  
P. O. Box 208  
Farmington, New Mexico

**EXPRESS MAIL**  
FIRST DAY SERVICE

**POST OFFICE TO ADDRESSEE**  
B 10313357

**SERVICE GUARANTEE**  
Domestic mail must be sent by 11:00 a.m. for next day delivery. Business days only.

Initials of Receiving Clerk: *JP*  
P.O. ZIP Code: *74101*  
Date in: *12-8* Time in: *10:00*

Label 11-B, Jan. 10-

**E. ALEX PHILLIPS**

1200 PHILTOWER BUILDING

TULSA, OKLAHOMA 74103

December 6, 1983

Gulf Oil Exploration &  
Production  
Post Office Box 1150  
Midland, Texas 79702

Attention: Mr. Charles Frisbee  
Land Agent

Re: E. Alex Phillips' Gavilan #2  
S 1/2, Sec. 26-25N-2W  
Rio Arriba County, New Mexico

Gentlemen:

E. Alex Phillips, desiring to protect its leasehold position in the Gavilan area, will be drilling an 8100 foot Gallup-Dakota test well in the Southeast Quarter of Section 26, Township 25 North, Range 2 West. Your company owns a percentage of the spacing unit and may participate to that extent in this test well.

To facilitate the drilling of our well, I have enclosed two copies of the Model Form Operating Agreement which we submit to you as the Operating Agreement which will be used for drilling the proposed well. I have also enclosed a copy of the estimated drilling costs for the well, as well as additional information that may be passed on to your company's engineering department.

If you find the Operating Agreement to be acceptable, please sign in the appropriate area which has been tabbed and return one copy to me. We did not originally expect that you would be a participant in this well but due to the recent spacing hearing for this area, the New Mexico Oil & Gas Commission has suggested that we approach you for participation which will therewith comply with their anticipated pooling order.

Please let me know as quickly as possible as to your decision to participate. Your help and cooperation will be appreciated.

Very truly yours,

Michael L. Wallace  
Land Manager & General Counsel

MLW:dw  
Enclosures

**E. ALEX PHILLIPS**

1200 PHILTOWER BUILDING

TULSA, OKLAHOMA 74103

December 20, 1983

Mr. Tommy Roberts  
Land Manager  
Dugan Production Corp.  
Post Office Box 208  
Farmington, New Mexico 87499

Re: E. Alex Phillips Gavilan #2  
South Half, Section 26-25N-2W  
Rio Arriba County, New Mexico

Dear Mr. Roberts:

Pursuant to our letter of December 7, 1983, wherein we requested that you join us in our 8100 foot Gallup-Dakota well in the above mentioned section, I have discovered that you have not as yet responded to our inquiry. Therefore, in order to facilitate additional negotiations and to allow you the option of farming out, I hereby suggest the following farmout terms.

Should Dugan Production Corp. choose not to participate in our proposed venture, I would like to offer the option of farming out Dugan's working interest to E. Alex Phillips subject to a  $7\frac{1}{2}\%$  overriding royalty interest during the payout period wherein E. Alex Phillips receives a 100% investment return on all audited drilling and completion costs at which time Dugan may elect to retain its  $7\frac{1}{2}\%$  overriding royalty plus an additional  $\frac{1}{8}$ th of  $\frac{7}{8}$ ths working interest, or Dugan may further elect to terminate its  $7\frac{1}{2}\%$  overriding royalty and therewith convert its overriding royalty to  $\frac{5}{16}$ ths of  $\frac{7}{8}$ ths working interest. All said interest factors shall be proportionate to the interest owned by Dugan in the south half of Section 26. The assumption of our proposal is that you have an  $87\frac{1}{2}\%$  net revenue interest lease, i.e., a  $\frac{1}{8}$ th royalty interest and that you would be delivering initially an 80% net revenue interest.

This proposal has additionally been given to Jerome P. McHugh & Associates as well as Gulf Oil Corporation and Northwest Pipeline Company, who are the other participants in this particular unit.

If you have any questions or need a further clarification of our proposal, please do not hesitate to contact me. I remain,

Very truly yours,

Michael L. Wallace  
Land Manager

MLW:dw

**E. ALEX PHILLIPS**

1200 PHILTOWER BUILDING

TULSA, OKLAHOMA 74103

December 20, 1983

Northwest Pipeline Company  
Post Office Box 5800  
Terminal Annex  
Denver, Colorado 80217

Re: E. Alex Phillips Gavilan #2  
South Half, Section 26-25N-2W  
Rio Arriba County, New Mexico

Gentlemen:

Pursuant to our letter of December 7, 1983, wherein we requested that you join us in our 8100 foot Gallup-Dakota well in the above mentioned section, I have discovered that you have not as yet responded to our inquiry. Therefore, in order to facilitate additional negotiations and to allow you the option of farming out, I hereby suggest the following farmout terms.

Should Northwest Pipeline Company choose not to participate in our proposed venture, I would like to offer the option of farming out Northwest's working interest to E. Alex Phillips subject to a  $7\frac{1}{2}\%$  overriding royalty interest during the payout period wherein E. Alex Phillips receives a 100% investment return on all audited drilling and completion costs at which time Northwest may elect to retain its  $7\frac{1}{2}\%$  overriding royalty plus an additional  $\frac{1}{8}$ th of  $\frac{7}{8}$ ths working interest, or Northwest may further elect to terminate its  $7\frac{1}{2}\%$  overriding royalty and therewith convert its overriding royalty to  $\frac{5}{16}$ ths of  $\frac{7}{8}$ ths working interest. All said interest factors shall be proportionate to the interest owned by Northwest in the south half of Section 26. The assumption of our proposal is that you have an  $87\frac{1}{2}\%$  net revenue interest lease, i.e., a  $\frac{1}{8}$ th royalty interest, and that you would be delivering initially an 80% net revenue interest.

This proposal has additionally been given to Jerome P. McHugh & Associates as well as Gulf Oil Corporation and Dugan Production Corp., who are the other participants in this particular unit.

If you have any questions or need a further clarification of our proposal, please do not hesitate to contact me. I remain,

Very truly yours,

Michael L. Wallace  
Land Manager

MLW:dw



**E. ALEX PHILLIPS**

1200 PHILTOWER BUILDING

TULSA, OKLAHOMA 74103

December 20, 1983

Jerome P. McHugh & Associates  
650 South Cherry, Suite 225  
Denver, Colorado 82022

Re: E. Alex Phillips Gavilan #2  
South Half, Section 26-25N-2W  
Rio Arriba County, New Mexico

Gentlemen:

Pursuant to our letter of December 7, 1983, wherein we requested that you join us in our 8100 foot Gallup-Dakota well in the above mentioned section, I have discovered that you have not as yet responded to our inquiry. Therefore, in order to facilitate additional negotiations and to allow you the option of farming out, I hereby suggest the following farmout terms.

Should Jerome P. McHugh & Associates choose not to participate in our proposed venture, I would like to offer the option of farming out McHugh's working interest to E. Alex Phillips subject to a  $7\frac{1}{2}\%$  overriding royalty interest during the payout period wherein E. Alex Phillips receives a 100% investment return on all audited drilling and completion costs at which time McHugh may elect to retain its  $7\frac{1}{2}\%$  overriding royalty plus an additional  $\frac{1}{8}$ th of  $\frac{7}{8}$ ths working interest, or McHugh may further elect to terminate its  $7\frac{1}{2}\%$  overriding royalty and therewith convert its overriding royalty to  $\frac{5}{16}$ ths of  $\frac{7}{8}$ ths working interest. All said interest factors shall be proportionate to the interest owned by McHugh in the south half of Section 26. The assumption of our proposal is that you have an  $87\frac{1}{2}\%$  net revenue interest lease, i.e., a  $\frac{1}{8}$ th royalty interest, and that you would be delivering initially an 80% net revenue interest.

This proposal has additionally been given to Dugan Production Corp. as well as Gulf Oil Corporation and Northwest Pipeline Company, who are the other participants in this particular unit.

If you have any questions or need a further clarification of our proposal, please do not hesitate to contact me. I remain,

Very truly yours,

Michael L. Wallace  
Land Manager

MLW:dw

New Mexico Oil & Gas Commission

Case No. 8038

Exhibit 3

Contents (See Attached):

- 3 B. Support Letters from Northwest Pipeline Corporation and Gulf Oil Exploration

# NORTHWEST PIPELINE CORPORATION

LAND DEPARTMENT

1125 Seventeenth Street, Suite 2140  
Denver, Colorado 80202  
303-292-4906

December 27, 1983

E. Alex Phillips  
1200 Philtower Building  
Tulsa, Oklahoma 74103

Attn: Michael L. Wallace

Re: Gavilan #2 Well  
S/2, Section 26-T25N-R2W  
Rio Arriba County, New Mexico  
NM-6303

Gentlemen:

We understand that you have made application to the New Mexico Oil Conservation Commission for a forced pooling hearing on January 18, 1984 for certain interests in the S/2 spacing unit. This letter is written in support of your application to drill on a S/2 spacing unit. As you are aware the N/2 of Section 26 is already being operated under an approved communitization agreement and a working interest pooling agreement.

In view of this circumstance it is our opinion that a S/2 spacing unit is the most appropriate way to prevent waste of natural resources and protect your correlative rights in this section.

Very truly yours,

NORTHWEST PIPELINE CORPORATION

NORTHWEST EXPLORATION COMPANY

By Kathy Michael  
Kathy Michael  
Supervisor/Land Department

By Betty R. Burnett  
Betty R. Burnett  
Land Manager

KM:st

# Gulf Oil Exploration and Production Company

D. H. Messer  
MANAGER LAND, WESTERN DIVISION

December 29, 1983

P. O. Box 1150  
Midland, TX 79702

Re: S/2 of Section 26,  
T-25-N, R-2-W,  
N.M.P.M., RIO ARRIBA  
COUNTY, New Mexico

E. Alex Phillips  
1200 Philtower Building  
Tulsa, Oklahoma 74103

Attention: Mr. Michael L. Wallace

Gentlemen:

Reference is made to your letter of December 6, 1983, wherein you requested Gulf join or farmout our interest in the SW/4 SW/4 of Section 26, T-25-N, R-2-W, N.M.P.M, Rio Arriba County, New Mexico. Please be advised Gulf agrees to join or farmout subject to mutually acceptable terms. We will supply you with a more definitive response concerning our decision shortly.

Should you have any questions, please contact me at (915) 687-7211.

Yours very truly,

*Charles D. Frisbie*

CHARLES D. FRISBIE  
Land Agent

CDF/tes



A DIVISION OF GULF OIL CORPORATION

# Gulf Oil Exploration and Production Company

D. H. Messer  
MANAGER LAND, WESTERN DIVISION

January 13, 1984

P. O. Box 1150  
Midland, TX 79702

FEDERAL  
EXPRESS  
this  
date

Re: Gavilan #2 Well,  
S/2 of Section 26,  
T-25-N, R-2-W, N.M.P.M.,  
RIO ARriba County, New Mexico

RECEIVED JAN 16 1984

E. Alex Phillips  
1200 Philtower Building  
Tulsa, Oklahoma 84103

Attention: Mr. Michael L. Wallace

Gentlemen:

Reference is made to your letter of December 6, 1983, wherein you requested Gulf Oil Corporation participate in the drilling of the captioned well. Please be advised we have carefully reviewed your request, and we are willing to join in the drilling of the captioned well subject to the negotiation of a mutually acceptable Operating Agreement.

Gulf has also carefully reviewed the Operating Agreement covering the captioned acreage, and we hereby request you incorporate the following into said Operating Agreement:

- 1) All references to Gulf Oil Exploration and Production Company should be changed to Gulf Oil Corporation.
- 2) Page 1, Article II.F. Exhibit "F" is not a "Non-Discrimination and Certification of Non-Segregated Facilities", but it is an Authority For Expenditure. We believe a "Non-Discrimination and Certification of Non-Segregated Facilities Exhibit" should be included. We have attached a copy of Gulf's for your reference.
- 3) Exhibit "A".1. The lands subject to the Operating Agreement should be the S/2 of Section 26, T-25-N, R-2-W, N.M.P.M., Rio Arriba County, New Mexico. The depth limitation should be from below the base of the Pictured Cliffs Formation to the base of the Dakota Formation.
- 4) Exhibit "C", Page 3, Article III.1.A(1). We believe the Producing Well Rate is excessive. Please adjust said rate to a lower amount.



A DIVISION OF GULF OIL CORPORATION

January 13, 1984

- 5) Exhibit "E", Paragraph 7. This paragraph should be changed to reflect that royalties will be paid by each party just as if each party is taking and selling their respective share of gas. Said paragraph should also indicate taxes will be paid on actual volumes sold by each party from month to month.
- 6) Exhibit "F", D. The unit interests listed are different from those shown on Exhibit "A". Please clarify this discrepancy.

Upon incorporation of these changes, please forward to this office the necessary revised pages of said Operating Agreement. Should you have any questions, please contact me at (915) 687-7211.

Yours very truly,



CHARLES D. FRISBIE  
Land Agent

CDF/tes

Enclosures

New Mexico Oil & Gas Commission

Case No. 8038

Exhibit 3

Contents (See Attached):

- 3 C. Negative Responses from Dugan  
Production Corporation and  
Jerome P. McHugh & Associates

**E. ALEX PHILLIPS**

1200 PHILTOWER BUILDING

TULSA, OKLAHOMA 74103

3 C.

As of the date of this hearing, neither Dugan Production Corporation nor Jerome P. McHugh & Associates have responded in writing, by telephone, or in any other fashion, to our request that they participate or farmout their interest in the South Half of Section 26, Township 25 North, Range 2 West, Rio Arriba County, New Mexico.

E. ALEX PHILLIPS

By: Michael L. Wallace  
Michael L. Wallace  
Land Manager/General Counsel

MLW:dw