

MILNESAND ABO FIELD  
LEA AND ROOSEVELT COUNTIES, NEW MEXICO  
ECONOMICS OF DRILLING ON  
40 ACRE VS 80 ACRE SPACING

1. 80 ACRE SPACING:

RECOVERABLE RESERVES = 130,000 BARRELS OF OIL  
DRILLING COST = \$510,000

ECONOMICS:

INCOME 130,000 X .80 X 20 X .925 = \$1,924,000  
OPERATING EXPENSE 15 X 12 X 2500 = 450,000  
NET OPERATING INCOME = 1,474,000  
DRILLING COST = 510,000  
NET PROFIT = \$964,000

PROFIT TO INVESTMENT RATIO =  $\frac{964,000}{510,000} = 1.89$

2. 40 ACRE SPACING:

RECOVERABLE RESERVES = 65,000 BARRELS OF OIL  
DRILLING COST = \$500,000

ECONOMICS:

INCOME 65,000 X .80 X 20 X .925 = \$962,000  
OPERATING EXPENSE 10 X 12 X 2500 = 300,000  
NET OPERATING INCOME = 662,000  
DRILLING COST = 500,000  
NET PROFIT = 162,000

PROFIT TO INVESTMENT RATIO =  $\frac{162,000}{500,000} = .32$

NOTE THAT THE PROFIT TO INVESTMENT RATIO IS JUST BARELY ACCEPTABLE FOR EIGHTY ACRE SPACING, AND THAT THE PROFIT TO INVESTMENT RATIO IS COMPLETELY UNACCEPTABLE FOR FORTY ACRE SPACING. THIS FIELD CANNOT BE ECONOMICALLY DEVELOPED ON ANY SPACING LESS THAN 80 ACRES.

BEFORE EXAMINER CATANACH  
OIL CONSERVATION DIVISION  
KNY EXHIBIT NO. 7  
CASE NO. 10280

Post-It™ brand fax transmittal memo 7671 # of pages 1

To <i>Mary Alice Knox</i>	From <i>Frank Novy</i>
Co.	Co.
Dept.	Phone #
Fax #	Fax #

**KNOX INDUSTRIES, INC.**



POST OFFICE BOX 3023 • MIDLAND, TEXAS 797

M. A. KNOX  
PRESIDENT

TELEPHONE: (915) 682-62  
FAX: (915) 682-31

September 12, 1991

Petroleum Production Management, Inc.  
209 E. Williams, Suite 200  
Wichita, Kansas 67202

Attention: Frank Novy

Re: Milnesand Abo Field  
Lea & Roosevelt Counties,  
New Mexico

Dear Frank:

Knox Industries, Inc. is applying for 80 acre spacing in the above referenced field.

If PPM concurs that one (1) well every 80 acres will sufficiently drain this field, please so indicate by signing in the space provided below.

Sincerely,

Gordon S. Votaw  
Land Department

GSV/jp

AGREED AND ACCEPTED:

By: *Frank E. Novy - Sr. V.P.*  
Petroleum Production Management, Inc.

GSV-PPM

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
<u>KNOX</u>	EXHIBIT NO. <u>8</u>
CASE NO. <u>10280</u>	