MIDLAND PHOENIX CORPORATION

HIGHTOWER BUILDING
600 W. ILLINOIS, SUITE 1002
MIDLAND, TEXAS 79701
(915) 687-0457

November 2, 1989

Enron Oil & Gas Company
P. O. Box 2267
Midland, Texas 79702

Attn: Gary Thomas

RE: Madera "34" Fed Com #1
1980' FSL & 1980' FEL
Section 34, T-24-S, R-34-E
Lea County, New Mexico

Gentlemen:

Midland Phoenix Corporation proposes the drilling of a 15,800' Morrow test at the above captioned location, thus being a standard legal location in an east-half proration unit. We invite you to participate in this joint venture with your interest as would be calculated for an E/2 proration unit after December 7, 1989. Enclosed for your review and/or approval is Midland Phoenix Corporation's drilling AFE for the proposed operation.

In lieu of your participating in this joint venture, Midland Phoenix would be willing to accept a farmout of your interest with you delivering a 75% NRI with the option to convert your retained override to a 25% working interest after payout, proportionately reduced to your ownership in the E/2 of Section 34. A well capable of producing oil and/or gas in commercial quantities would earn 100% of your working interest until payout.

As you are well aware, compulsory pooling applications both by Midland Phoenix and Enron have been filed in this matter (Case Nos. 9667 and 9669). These applications have been heard by the Examiner's Office and the Oil Conservation Commission for the State of New Mexico. In both cases, Midland Phoenix Corporation has prevailed. Enclosed for your review is a copy of the "Order of the Commission", granting Midland Phoenix Corporation's application for compulsory pooling.

If there is no response to this letter by Enron Oil & Gas Company, it will be assumed that Enron Oil & Gas Company will take a non-consent position and be bound by Order No. R-8959-A referenced above. It is the intent of Midland Phoenix to begin drilling operations on or before January 1, 1990 as set out in said order, but in no event will operations begin before December 8, 1989.

We respectfully request a response to this proposal at your earliest convenience.

Very truly yours,

MIDLAND PHOENIX CORPORATION

Robert O. Canon

Robert O. Canon

encls.

cc: State of New Mexico
Oil Conservation Commission
Forrest Hoglund

CAMPBELL & BLACK, P.A.
LAWYERS

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To Carl file

September 14, 1989

HAND-DELIVERED

RECEIVED
SEP 14 1989
OIL CONSERVATION DIVISION

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

Re: Case No. 9667:
Application of Midland Phoenix Corporation for an Unorthodox Gas Well Location and Compulsory Pooling, Lea County, New Mexico

and

Case No. 9669:
Application of Enron Oil & Gas Company for Compulsory Pooling, Unorthodox Gas Well Location, and Non-Standard Gas Proration Unit, Lea County, New Mexico

Dear Mr. LeMay:

Enclosed is a proposed Order of Enron Oil & Gas Company in the above-referenced cases.

Enron requests that the Order in these consolidated cases be entered at the earliest possible date. As reviewed at the hearing, due to recent top leasing in the area, delay in the entry of an Order and the subsequent development of the property will result in impairment of the correlative rights of Enron Oil & Gas Company.

If you need anything further from Enron to proceed with your decision in this matter, please advise.

Very truly yours,

WILLIAM F. CARR

WFC:mlh
Enclosure
cc w/enclosure: Ernest L. Padilla, Esq.

Mr. Frank Estep
Mr. Gary Thomas
Mr. Billy Helmes
Enron Oil & Gas Company

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NOS. 9667 and 9669
ORDER NO. R-8959-A

APPLICATION OF MIDLAND PHOENIX
CORPORATION FOR AN UNORTHODOX
GAS WELL LOCATION AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

APPLICATION OF ENRON OIL & GAS
COMPANY FOR COMPULSORY POOLING,
UNORTHODOX GAS WELL LOCATION,
AND NON-STANDARD GAS PRORATION
UNIT, LEA COUNTY, NEW MEXICO.

ENRON OIL & GAS COMPANY'S
PROPOSED ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on August 17, 1989, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this _____ day of September, 1989, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant in Case 9667, Midland Phoenix Corporation, seeks an order pooling all mineral interests in the Undesignated Pitchfork Ranch-Atoka Gas Pool and the Undesignated Pitchfork Ranch-Morrow Gas Pool underlying the E/2 of Section 34, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico, to form a standard 320-acre gas spacing and proration unit for both pools.

Said unit is proposed to be dedicated to a well to be drilled at an unorthodox gas well location 660 feet from the South line and 1980 feet from the East line (Unit O) of said Section 34.

(3) The applicant in Case 9669, Enron Oil & Gas Company, seeks an order pooling all mineral interests in the Undesignated Pitchfork Ranch-Morrow Gas Pool underlying the S/2 of Section 34, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit for said pool. The applicant in this matter further seeks an order pooling all mineral interests in the Undesignated Pitchfork Ranch-Atoka Gas Pool underlying the SE/4 of said Section 34 forming a non-standard 160-acre gas spacing and proration unit for said pool. Both aforementioned units are to be dedicated to a single well to be drilled at a location which is standard for the Morrow zone and unorthodox for the Atoka zone, 660 feet from the South line and 1980 feet from the East line (Unit O) of said Section 34.

(4) Each applicant, Midland Phoenix Corporation and Enron Oil & Gas Company, seeks to be named the operator of the unit each seeks to have pooled. Also each applicant has the right to drill and both propose to drill a well upon their respective units, as described above, to a depth sufficient to test the Atoka and Morrow formations.

(5) Case Nos. 9667 and 9669 were consolidated for purposes of hearing and should be consolidated for purpose of issuing an order inasmuch as the cases involve certain common acreage and the granting of one application would necessarily require the concomitant denial of the other.

(6) During the proceedings, Midland Phoenix Corporation requested that its portion of the application requesting an unorthodox gas well location be dismissed inasmuch as they are now proposing to drill at a standard gas well location 1980 feet from the South and East lines (Unit J) of said Section 34.

(7) There are interest owners in both proposed proration units who have not agreed to pool their interests.

(8) Enron's primary objectives in the S/2 of Section 34 are the Morrow Sinatra Sand, the Atoka Reef and the Atoka Sand.

(9) Midland Phoenix's primary objectives in the E/2 of Section 34 are the Atoka Sand, the Morrow "A" Sand and the Morrow "C" Sand.

(10) The HNG Moore "34" Com. #1 Well in the NE/4 of Section 34 (Unit G) was completed using the same techniques utilized in completing other commercial producers from the Atoka and Morrow in these pools but is had no porosity and no productive potential in the Atoka formation and was production tested and was found to be tight in both the Morrow "A" and "C" zones.

(11) The NE/4 of said Section 34 has been condemned by the HNG Moore 34 Com. #1 Well and cannot reasonably be expected to contribute reserves to a well to be drilled in the SE/4 of Section 34 at either the location proposed by Enron or by Midland Phoenix.

(12) The geologic evidence presented by Enron established that no formation in the NE/4 of Section 34 could reasonably be expected to contain commercial reserves in any formation that is the subject of either the Enron or Midland Phoenix application.

(13) Inclusion of the NE/4 of Section 34 in an E/2 spacing unit for either Atoka or Morrow production will result in the dedication of non-productive acreage to the well to be drilled in the SE/4 of said Section 34, and a dilution of the interests of the owners of productive acreage in the SE/4 of Section 34 thereby denying those owners an opportunity to produce their just and equitable share of the reserves under the SE/4 which would impair their correlative rights.

(14) Creation of a non-standard spacing unit in the Atoka will not impair the correlative rights of the owners in the NE/4 of said Section 34 for the evidence established that there were no producible reserves under that acreage.

(15) There is potential for commercial reserves from the Atoka formation under the SE/4 of Section 34 in the Atoka Sand and the Atoka Reef and a 160-acre non-standard spacing unit in the SE/4 of Section 34 in the Atoka formation should be approved.

(16) Enron has made a reasonable attempt to secure voluntary agreement with the other interest owners in the S/2 of Section 34 for the development of this acreage and the owners of 87.5% of the working interest in the Morrow formation (S/2 of Section 34) and 75% of the working interest in the Atoka formation (SE/4 of Section 34) have voluntarily agreed to Enron's plan for development.

(17) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste and to afford to the owner of each interest in the S/2 of said Section 34 in the Morrow formation and the SE/4 of Section 34 in the Atoka formation, the opportunity

to recover or receive without its just and fair reserves in any formation covered by this order, the subject application of Enron Oil & Gas Company should be **approved** by pooling all mineral interests, whatever they may be, in the Morrow formation under the S/2 of Section 34 and in the Atoka formation under the SE/4 of Section 34, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico.

(18) Both Enron and Midland Phoenix propose wells on acreage operated by Enron and the geologic evidence presented by Enron at the hearing indicates the well drilled at the location proposed by Enron (1980 feet from the East line and 660 feet from the South line of Section 34) should encounter a greater amount of net pay and porosity within the Morrow and Atoka formations than a well drilled at the location proposed by Midland Phoenix (1980 feet from the South and East lines of Section 34), thereby increasing the likelihood of obtaining a commercial producing well at Enron's proposed location, and the location proposed by Enron should therefore be approved.

(19) The evidence in this case further shows that Enron is the offset operator in the N/2 of Section 3, Township 25 South, Range 34 East, NMPM, which is the acreage affected by the proposed Atoka location and proration unit.

(20) A well at the proposed location is at a standard set back from the South line of Section 34 (660 feet) and is offset to the South by an Atoka Well 660 feet from the North line of Section 3.

(21) No penalty should be assessed against the production from this well in the Atoka formation for a penalty would authorize drainage from the South which could not be offset with counter drainage thereby impairing the correlative rights of the Atoka interest owners in the SE/4 of Section 34.

(22) Enron should be designated the operator of the subject well and unit.

(23) Any nonconsenting 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.

(24) Since the interests of the parties are different in each formation, it will be necessary to estimate well costs on the basis of a well to the Atoka formation drilled to 14,250 feet and a well drilled on to 15,800 feet to the Morrow formation.

(25) When the ownership varies between completion formation of a well, the owners in each interval derive some benefit from the drilling of the well.

(26) Looking at only the lower interval, those benefits, exclusive of special equipment or drilling cost attributable to either individual interval, may be defined and quantified by the following logic:

(a) If no hole to a shallower interval would be drilled, the value would be zero.

(b) If the depth to the shallower interval would be an absolute minimum distance above the lower interval, the value would be essentially 50 percent of the well costs.

(c) This concept may be restated that the value of the costs of drilling to the shallower interval to the owners in the lower interval should be a percentage of the costs equal to one-half the percentage derived by dividing the depth to the upper interval by the total depth.

(d) The owners of interest in the deeper interval should be responsible for 100 percent of the costs of drilling from the shallower interval to total depth.

(27) The depth to the shallower interval and the total depth in the well in question in this case are 14,250 feet and 15,800 feet respectively.

(28) Based upon Finding Nos. 25 and 26 above, the allocation of original tangible and intangible well costs, exclusive of any costs attributable and chargeable solely to either individual zone, should be as follows:

(a) owners of interests in the shallow interval should pay for 55% percent of the costs of drilling to the depth of 14,250 feet; and

(b) owners of interests in the deeper interval should pay for 45% percent of the costs of drilling to the depth of 14,250 feet and 100 percent of the costs for drilling from 15,800 feet to total depth.

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

(30) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

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

(32) $5992.00 per month while drilling and $599.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); 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.

(33) 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.

(34) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before November 15, 1989, the order pooling said unit should become null and void and of no effect whatsoever.

(35) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(36) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) The application of Midland Phoenix Corporation in Case 9667 for an order pooling all mineral interests in the Undesignated Pitchfork Ranch-Atoka Gas Pool and the Undesignated Pitchfork Ranch-Morrow Gas Pool underlying the E/2 of Section 34, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico, to form a standard 320-acre gas spacing and proration unit for both pools to be dedicated to a well to be drilled at a standard location 1980 feet from the South and East lines (Unit J) of Section 34, is hereby **denied**.

(2) The application of Enron Oil & Gas Company for an unorthodox location for a well for the Atoka formation at a point 660 feet from the South line and 1980 feet from the East line of Section 34, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico is hereby **approved**.

(3) A 160-acre non-standard gas spacing and proration unit comprising the SE/4 of said Section 34 for the Atoka formation is hereby **approved**.

(4) All mineral interests, whatever they may be, in the Morrow formation underlying the S/2 of Section 34, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a 320-acre Morrow gas spacing and proration unit to be dedicated to a well to be drilled at a standard location 660 feet from the South line and 1980 feet from the East line of said Section 34.

(5) All mineral interests, whatever they may be, in the Atoka formation underlying the SE/4 of Section 34, Township 24 South, Range 34 East, NMPM, Lea County, New Mexico, are hereby pooled to form a 160-acre non-standard Atoka gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 660 feet from the South line and 1980 feet from the East line of said Section 34.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 15th day of November 1989, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Atoka and Morrow formations.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 15th day of November, 1989 Order Nos. (4) and (5) 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 Nos. (4) and (5) of this order should not be rescinded.

(6) Enron Oil & Gas Company is hereby designated the operator of the subject well and units.

(7) After the effective date of this order and within 90-days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs prepared in accordance with Finding No. 28 of this order.

(8) 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 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.

(9) 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; 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.

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

(11) 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.

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

(13) $5,992.00 per month while drilling and $599.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); 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.

(14) Any ~~unserved~~ 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.

(15) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

(17) Should all parties to this force pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force pooling provisions of this order.

(19) Jurisdiction of this cause is retained for 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 COMMISSION

WILLIAM J. LeMAY, Director

WILLIAM R. HUMPHRIES, Member

S E A L

STATE OF NEW MEXICO

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

October 11, 1989

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SANTA FE, NEW MEXICO 87501
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Mr. Ernest L. Padilla
Padilla & Snyder
Attorneys at Law
Post Office Box 2523
Santa Fe, New Mexico

Re: CASE NO. 9667 and 9669
ORDER NO. R-8959-A

Applicant:
Midland Phoenix Corporation and Enron Oil & Gas Company

Dear Sir:

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

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other William F. Carr, W. Perry Pearce