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May 11, 1994

VIA FACSIMILE AND MAILED

John Whittan and David D. Smith
Samedan Oil Corporation
12600 Northborough, Suite 250
Houston, TX 77067-3299

Re: Oil Conservation Division Case No. 10949
Application of Samedan Oil Corporation for Compulsory Pooling and an Unorthodox Well Location, Lea County, New Mexico

Gentlemen:

Enclosed is a copy of New Mexico Oil Conservation Division Order No. R-10114 which was entered on May 10, 1994 granting the application of Samedan Oil Corporation for compulsory pooling and an unorthodox well location in the above-referenced case.

If you have questions concerning this order, please advise.

I appreciated this opportunity to work for Samedan.

Very truly yours,

William F. Carr

WILLIAM F. CARR

WFC:mlh
Enclosure

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

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

RECEIVED
MAY 11 1994
CAMPBELL, CARR, et. al.

CASE NO. 10949
ORDER NO. R-10114

APPLICATION OF SAMEDAN OIL CORPORATION FOR COMPULSORY POOLING AND AN UNORTHODOX OIL WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 31, 1994, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 10th day of May, 1994, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, 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, Samedan Oil Corporation, seeks an order pooling all mineral interests from the surface to the base of the Undesignated Teague-Ellenburger Pool underlying the NE/4 NW/4 (Unit C) of Section 26, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico, to form a standard 40-acre oil spacing and proration unit.

(3) Said unit is to be dedicated to a well to be drilled at an unorthodox oil well location 1050 feet from the North line and 1650 feet from the West line of said Section 26.

(4) The applicant has a right to develop the subject unit and to recover oil underlying the same, at this time however, not all working interest owners in the proposed 40-acre spacing and proration unit have agreed to pool their interests.

(5) The applicant presented a geological interpretation of the Fusselman formation in the general area of the proposed well with information obtained from two seismic lines that traverse said Section 26. The applicant is proposing to drill the subject well on one of these lines to minimize the uncertainty of drilling off of an interpreted sub-surface structure, thereby increasing the likelihood of intersecting the zone at a more favorable position of encountering oil production.

(6) The shallower Fusselman formation is the primary zone of interest for this well with the deeper Ellenburger zone being secondary.

(7) The offsetting acreage to the south in which the proposed well is encroaching has common ownership to the acreage in the subject 40-acre tract.

(8) No affected party or offset owner or operator appeared at the hearing and/or objected to this application.

(9) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste, 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 in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(10) The applicant should be designated the operator of the subject well and unit.

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

(12) 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.

(13) Any non-consenting 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.

(14) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well 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.

(15) $ 5,146.00 per month while drilling and $ 502.00 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.

(16) 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.

(17) Upon the failure of the operator of said pooled unit to commence drilling of the subject well to which said unit is dedicated on or before August 1, 1994, the order pooling said unit should become null and void and of no effect whatsoever.

(18) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(19) The operator of the well and unit should 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.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Undesignated Teague-Ellenburger Pool underlying the NE/4 NW/4 (Unit C) of Section 26, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit to be dedicated to a well to be drilled at an unorthodox oil well location 1050 feet from the North line and 1650 feet from the West line of said Section 26.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the first day of August, 1994, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Ellenburger formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the first day of August, 1994, Decretory Paragraph No. (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 Decretory Paragraph No. (1) of this order should not be rescinded.

(2) Samedan Oil Corporation is hereby designated the operator of the subject well and unit.

(3) 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.

(4) 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.

(5) 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, 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) 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.

(7) 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; and

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

(9) $ 5,146.00 per month while drilling and $ 502.00 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.

(10) Any unleased 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) 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.

(12) All proceeds from production from the subject well which are not disbursed for any reason shall 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.

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

(14) The operator of the subject 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.

(15) 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

WILLIAM J. LEMAY
Director

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