

1149: CITIZEN SERVICE OIL CO  
compulsory pooling, Bady  
County, New Mexico

CASE No.

5149

Application,

Transcripts,

Small Exhibits

ETC.

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
January 16, 1974

EXAMINER HEARING

IN THE MATTER OF:

Application of Cities Service  
Oil Company for compulsory  
pooling, Eddy County, New Mexico.

Case No. 5149

BEFORE: Richard L. Stamets, Examiner.

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conser-  
vation Commission:

Thomas Derryberry, Esq.  
Legal Counsel for the Com-  
mission  
State Land Office Building  
Santa Fe, New Mexico

For the Applicant:  
(Cities Service Oil Company)

Thomas W. Kellahin, Esq.  
KELLAHIN & FOX  
500 Don Gaspar  
Santa Fe, New Mexico

I N D E X

Page

E. H. LOWRY

Direct Examination by Mr. Kellahin

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Cross Examination by Mr. Stamets

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E X H I B I T S

Marked   Admitted

Applicant's Exhibits Nos. 1, 2 and 3

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MR. STAMETS: Call the next case, 5149.

MR. DERRYBERRY: Case 5149. Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico.

MR. KELLAHIN: Tom Kellahin of Kellahin and Fox, Santa Fe, New Mexico, appearing on behalf of the Applicant, Cities Service Oil Company. I have one witness to be sworn.

MR. STAMETS: Any other appearances? Will the witness stand and be sworn.

(Witness sworn.)

E. H. LOWRY

called as a witness, being first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Please state your name, by whom you are employed, and in what capacity?

A E. H. Lowry, reservoir engineer with Cities Service Oil Company in Midland, Texas.

Q Mr. Lowry, have you previously testified before this Commission?

A Yes, I have.

Q Are you familiar with the facts surrounding this

LOWRY-DIRECT

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particular Application by Cities Service?

A Yes, I am.

MR. KELLAHIN: If the Examiner please, are our witness' qualifications acceptable?

MR. STAMETS: They are.

BY MR. KELLAHIN:

Q Mr. Lowry, would you state briefly what the Applicant seeks?

A Basically, we seek forced pooling of the mineral interests on the north half of Section 33, 21 South, 27 East, Eddy County, for the purpose of forming the standard 340-acre-proration unit and drilling of a well at a standard location.

Q Would you please refer to what has been marked as Exhibit 1 and identify it for us, your unit area?

A The north half of Section 33, outlined in red. The proposed location is identified by the red arrow.

Q What formation are you compulsory pooling?

A The Pennsylvanian Zone and primary objective would be Morrow.

LOWRY-DIRECT

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Q What, if any, interest are outstanding that have not voluntarily agreed to --

A (Interrupting) The very northwest corner of the Section, Section 33. At one point 80 acres belongs to Mrs. Jimenez -- I think that pronunciation is correct -- that is the only acres not consented to join this unit.

Q Cities Service Oil Company will be the operator?

A Yes, that is our request.

Q Will you please refer to what has been marked Exhibit No. 2 and identify this for us?

A Exhibit No. 2 is a copy of a letter sent as dated December 7th, 1973, to Mrs. Martinez Jimenez in Carlsbad, New Mexico. The letter is signed by J. Frank Rieney.

Q What, if any, response have you had from Mrs. Jimenez?

A We've had no response whatever.

Q Would you refer to what has been marked as Exhibit No. 3 and identify it?

A Exhibit No. 3 is a detailed well estimate for which we estimate the completion cost of the producer of \$341,130, an estimated dry hole at \$243,100.

Q Now, Mr. Lowry, I would like to direct your attention to some questions concerning overhead charges and other

LOWRY-DIRECT

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operating costs and charges for supervising this particular project. With regard to those individuals that have already voluntarily agreed, what is the contractual relation -- what is the contractual arrangement with regard to overhead?

A The original contract called for \$188 a month administrative overhead and it has since been escalated to \$202.

Q Is there a particular type of escalation clause used in this contract?

A Yes, it's embodied in Copus 1972, under Section 3, Paragraph 5(d).

Q So as the way this overhead is presently computed, those people have voluntarily agreed are participating on a 220 percent overhead charge?

A \$220 administrative.

Q I'm sorry, \$220.

What is your recommendation with regard to charges for supervision to be assessed against non-consenting individuals here?

A Since the other working interest owners have consented to this arrangement, we feel that this 1.8 acres should also be required, to pay the 202.

We would also request that they be subject to the



LOWRY-DIRECT

Page.....7

escalation clause in Copus 1-72, 1972.

Q Mr. Lowry, do you have any recommendations with regard to a risk factor to be charged?

A Yes, due to the unpredictable nature of the Pennsylvanian, in particularly the Morrow in this area, we requested 200 percent risk factor for this well.

I might mention that the south half of Section 28 has been forced pooled and we got the same lack of response from Jimenez' interest in the south of the very southwest corner of Section 28, there was no response from them there. The forced pooling request was granted.

Q In addition to those items you have already testified to, is City Service requesting the provision for the Applicant to recover its cost of drilling and completion of the well out of production?

A Yes, we would request that we be permitted to withhold from production, from that share of production, the drilling equipment allocated 1.1 acre.

Q In your opinion, would approval of this application prevent waste and not impair correlative rights of others?

A Yes.

Q Exhibits 1, 2 and 3 were prepared by you or under your directions and supervision?

LOWRY-DIRECT  
CROSS

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A Yes, they were.

MR. KELLAHIN: If the Examiner please, we move the introduction of Exhibits 1, 2 and 3.

MR. STAMETS: They will be so admitted.

MR. KELLAHIN: Thank you.

(Whereupon, Applicant's Exhibits  
Nos. 1, 2 and 3 were admitted  
in evidence.)

MR. KELLAHIN: That concludes our Direct Examination.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Lowry, if I understood the testimony right, the other working interest owners in this unit have agreed to the \$202-combined-figure-rate charges?

A Yes, that's correct. The original contract was signed at \$188, but due to the escalation clause in the Copus 1-72 accounting, it still has since been increased to 202.

Q I see that there are a couple of wells in the Section 28 immediately north and some additional gas wells to the south, and this seems to be located between the producing gas wells.

A That's correct.

Q Do you see that the risk of drilling this Morrow

LOWRY-CROSS

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Well is any greater than the risk involved in drilling other Morrow gas wells in the area?

A No, I can't say that Mr. Examiner, other than the inherent risk in drilling completely in Morrow.

MR. STAMETS: Any other questions of the witness?

MR. KELLAHIN: No, sir.

MR. STAMETS: The witness may be excused. If there is nothing further in the case, take it under advisement.

STATE OF NEW MEXICO )

)SS.

COUNTY OF SANTA FE )

I, RICHARD L. NYE, Court Reporter, do hereby certify

that the foregoing and attached Transcript of Hearing before

the New Mexico Oil Conservation Commission was reported by

me, and the same is a true and correct record of the said

proceedings, to the best of my knowledge, skill and ability.

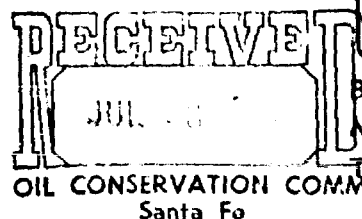
RICHARD L. NYE, Court Reporter

I do hereby say that the foregoing is a complete record of the findings in the Brantley investigation of U. S. No. 5149 heard by me on Jan 16, 1974.

*Richard L. Hammett*, Examiner  
New Mexico Oil Conservation Commission

**THE NYE REPORTING SERVICE**  
STATE-WIDE DEPOSITION NOTARIES  
225 JOHNSON STREET  
SANTA FE, NEW MEXICO 87501  
TEL. (505) 982-0386

CITIES SERVICE OIL COMPANY



Box 1919  
Midland, Texas 79701  
Telephone: 915 684-7131  
July 7, 1974

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

Attention: Mr. A. L. Porter, Jr.

Re: Cities Service Oil Company  
Tracy-A No. 1 - Section 33,  
T-21-S, R-27-E, Eddy County,  
New Mexico

Gentlemen:

As provided in New Mexico Oil Conservation Commission Order R-4719, an itemized schedule of actual well costs is herein presented for the Cities Service Tracy-A No. 1. These figures are complete as of July 2, 1974; however, some late charges may be added, which normally are small. The actual cost of this well is approximately \$117,000 over the original estimate presented at the hearing in Case No. 5149. This overrun was caused primarily because the well was dually completed from the Morrow and Strawn formations while the Drilling Well Estimate was based on a single Morrow completion.

*RLS*

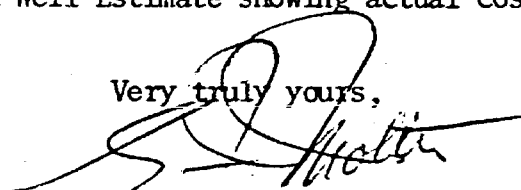
Details on major overruns are as follows:

Item	Amount Over	Comments
Casing	\$18,345	Current unstable tubular goods prices.
Wellhead	4,393	Dual completion.
Tubing	3,741	Unstable tubular goods prices plus Atlas Bradford couplings were installed for a more effective tubing seal.
Packer	2,485	Ran both single and dual packers.

<u>Item</u>	<u>Amount Over</u>	<u>Comments</u>
Stock Tanks	\$12,800	Prices increased substantially over prices at the time of preparation of DWE.
Separator	19,500	Price increase in Stack-pack from \$8500 to \$14,000 each from time DWE was prepared until separator purchased. Used two separators for dual completion.
Unit Time	9,578	Dual completion - extra trips for treating, testing, etc.
DST's, Electric Logs, etc.	4,868	Ran more DST's than originally planned. Ran Coriband Log for permeability determination.
Acidizing, Fracing	4,813	Stimulated two zones.
Perforating	2,591	Perforated two zones.
Misc. Labor	5,500	Hooking up dual surface equipment and tank batteries.
Cement and Cementing Services	6,009	Lost circulation while cementing 11-3/4" casing requiring additional stages.
Drilling Mud	2,728	Lost circulation above Delaware.
Rental Equipment	2,570	Surface equipment used in testing numerous zones.

All non-consenting Working Interest Owners have been furnished a copy of this letter and the attached Detailed Well Estimate showing actual cost to date.

Very truly yours,



E. F. Motter  
Engineering Manager  
Southwest Region  
E & P Division

EFM:mfg

Enc.

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## DETAILED WELL ESTIMATE

WELL NUMBER 1 LEASE Cities Service - Tracy  
 CONTRACTOR Morrow-Strawn LOCATION 660' FNL, 2310' FWL  
 DATE 7/3/74 SECTION 33, T21S, R27E  
 J. O. NO. 11,800 COUNTY Eddy STATE New Mexico

DESCRIPTION	GRADE	SIZE	QUAN.	W	ESTIMATE PRODUCER	ESTIMATE DRY HOLE	REVISED ESTIMATE	ACTUAL COST
<b>TANGIBLES</b>								
Casing set @ 400' H-40 ST&C 16	B		175	65	4450	4450		1741
H-40 ST&C 16	B		204	75				5178
ST&C 10-3/4	A		1525	40.5	10050	10050		0
ST&C 10-3/4	A		1030	45.5	7600	7600		0
ST&C 11-3/4	B		1030	51.0	8500	8500		0
N-80 LT&C 5-1/2	A		3276	60				27688
set @ 11800' N-80 LT&C 5-1/2	A		10511	17	34380			47225
Well head connections			1207	20	9500			10993
Tubing Buttress N-80		2-7/8			8500	2500		12893
Sucker rods			11067	6.4	18650			22391
Bottom hole pump								
Packer								
Engine or motor					1300			3785
Pumping unit								
Electrical equip. inc. Labor & Trans.								
Line pipe, fittings inc. Labor & Trans.								2000
<b>TANK BATTERY</b>								
Stock tanks Coated	A	300	3		2200			15000
G. B., settler, free water K. O. tank								
Separator, heater treater, etc. HSU-10F	A		2		8500			28000
Cost to install T. B.					1500			5432
<b>INTANGIBLES</b>								
Contract Drilg. labor (footage) \$10.50/ft.					110330	110330		126128
Rotary day work 6 Days					9900	9900		6162
Caliper work Unit Time 17 Days					2200			11778
Subsurface casing equipment					3500	2000		3353
D. S. T., electric logs, etc.					12000	12000		16868
Acidizing, fracing					4300			9113
Perforating					2500			5091
Misc. company and contract labor					3000	2000		8500
Road building, location					5000	5000		4536
Cement & cementing service					11000	10000		17009
Cement squeeze jobs					16000	16000		18728
Drilling mud, chemicals					3000	3000		1454
Drilling bits, coreheads, reamers					2000	2000		4570
Mud logging unit					3500	2000		3845
Rental of miscellaneous equip.					10000	10000		7265
Company, contract hauling					5000	3000		9153
Water, fuel								
Miscellaneous incidentals								
Total estimated cost - 100%					318360	220330		435879
Total estimate C. S.								



# OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO  
P. O. BOX 2088 - SANTA FE  
87501

February 13, 1974

GOVERNOR  
BRUCE KING  
CHAIRMAN  
LAND COMMISSIONER  
ALEX J. ARMIJO  
MEMBER  
STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR

Mr. Jason Kellahin  
Kellahin & Fox  
Attorneys at Law  
Post Office Box 1769  
Santa Fe, New Mexico

Re: Case No. 5149  
Order No. R-4719  
Applicant:  
Cities Service Oil Co.

Dear Sir:

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

Very truly yours,

*A. L. Porter, Jr.*  
A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x  
Artesia OCC x  
Aztec OCC       

OTHER Mrs. Martina Jiminez, 14202 Fairgrove Street,  
La Puente, California 71446

U. S. Geological Survey, Roswell, New Mexico



BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE NO. 5149  
Order No. R-4719

APPLICATION OF CITIES SERVICE  
OIL COMPANY FOR COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on January 16, 1974, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 13th day of February, 1974, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Cities Service Oil Company, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the N/2 of Section 33, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill its Tracy Well No. 1, to be located at standard location for said unit.

(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

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CASE NO. 5149

Order No. R-4719

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 140 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 \$202.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that this charge should be adjusted annually based upon the percentage increase or decrease in the average weekly earnings of crude petroleum and gas production workers; that the operator should be authorized to withhold from production the proportionate share of such supervision charge 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 May 1, 1974, 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 Pennsylvanian formation underlying the N/2 of Section 33, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to its Tracy Well No. 1 to be drilled at a standard location for said unit.

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CASE NO. 5149  
Order No. R-4719

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of May, 1974, 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 first day of May, 1974, Order (1) of this order shall be null and void and of no effect whatsoever;

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 Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Cities Service Oil Company 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 Commission 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 Commission 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 Commission and the Commission 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 Commission 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 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.

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CASE NO. 5149  
Order No. R-4719

(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, 140 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 \$202.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates), provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; that the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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 the adjusted charge for supervision (combined fixed rates) shall be filed with the Commission on or before the first day of May of each year.

(11) 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.

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CASE NO. 5149  
Order No. R-4719

(12) 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.

(13) 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 Commission of the name and address of said escrow agent within 90 days from the date of this order.

(14) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

I. R. TRUJILLO, Chairman



ALEX J. ARMIJO, Member

A. L. PORTER, JR., Member & Secretary

S E A L

jr/

*Copy 8/88  
Date 5/14/9*

CITIES SERVICE OIL COMPANY



Box 4906  
Midland, Texas 79701  
Telephone: 915 684-7131

February 21, 1974

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

Re: Compulsory Pooling - N/2 Section 33,  
T-21-S, R-27-E, Eddy County, New  
Mexico, Dedicated to Tracy No. 1

Gentlemen:

Attached hereto is a Drilling Well Estimate in the amount of \$243,100 for a dry hole and \$341,130 for a producer as required in N.M.O.C.C. Order R-4719 for the Cities Service Oil Company Tracy No. 1 to be drilled 1980' FWL and 660' FNL, Section 33, T-21-S, R-27-E, N.M.P.M., Eddy County, New Mexico. Proration unit to be dedicated to the Tracy No. 1 will be composed of the N/2 Section 33.

All non-consenting working interest owners are being furnished a copy of the Drilling Well Estimate. Those working interest owners joining voluntarily were furnished a Drilling Well Estimate along with the Operating Agreement at an earlier date.

Very truly yours,

E. F. Motter  
Engineering Manager  
Southwest Region  
E & P Division

EFM:mfg

Enc.

cc: Mrs. Martina Jiminez  
711 Ortega Street  
Carlsbad, New Mexico 88220

Mr. Mike Martinez  
14202 Fairgrove Street  
La Puente, Calif. 71446

OP 29

## DETAILED WELL ESTIMATE

WELL NUMBER 1 LEASE Cities Service - Tracy  
 CONTRACTOR \_\_\_\_\_ LOCATION 660' FNL, 1980' FNL  
 DATE 1-10-74 (Revised) SECTION 33, T21S, R27E  
 O. NO. \_\_\_\_\_ DEPTH 11,800' COUNTY Hddy STATE New Mexico  
 MORROW

DESCRIPTION	GRADE	SIZE	QUAN.	W	ESTIMATE PRODUCER	ESTIMATE DRY HOLE	REVISED ESTIMATE	ACTUAL COST
<b>TANGIBLES</b>								
Casing								
Set @ 400' H-40 ST&C 16	A		405	65	4,450	4,450		
ST&C 10-3/4	A		1,525	40.5	10,050	10,050		
ST&C 10-3/4	A		1,030	45.5	7,600	7,600		
Set @ 3550' ST&C 10-3/4	A		1,030	51.0	8,500	8,500		
N-80 LT&C 5-1/2	A		9,629	17	9,500	---		
Set @ 11800' N-80 LT&C 5-1/2	A		2,269	20	34,380	---		
Well head connections					8,500	2,500		
Tubing Buttress N-80 2-7/8			11,300	6.4	18,650	---		
Sucker rods								
Bottom hole pump								
Packer					1,300	---		
Engine or motor								
Pumping unit								
Electrical equip. inc. Labor & Trans.								
Line pipe, fittings inc. Labor & Trans.								
<b>TANK BATTERY</b>								
Stock tanks Coated 210	A		1	---	2,200	---		
G. B., settler, free water K. O. tank								
Separator, heater treater, etc.					8,500	---		
Cost to install T. B.					1,500	---		
<b>INTANGIBLES</b>								
Contract Drlg. labor (footage) @ \$11.00/ft.					129,800	129,800		
Rotary day work 6 days @ \$2200/day					13,200	13,200		
<del>Contract labor</del> Unit Time 5 days					2,200	---		
Subsurface casing equipment					3,500	2,000		
D. S. T., electric logs, etc.					12,000	12,000		
Acidizing, fracturing					4,300	---		
Perforating					2,500	---		
Misc. company and contract labor					3,000	2,000		
Road building, location					5,000	5,000		
Cement & cementing service					11,000	11,000		
Cement squeeze jobs								
Drilling mud, chemicals					16,000	16,000		
Drilling bits, coreheads, reamers								
Mud logging unit					3,000	3,000		
Rental of miscellaneous equip.					2,000	2,000		
Company, contract hauling					3,500	2,000		
Water, fuel					10,000	10,000		
Miscellaneous incidentals					5,000	3,000		
Total estimated cost - 160%					341,150	243,100		
Total estimate C. S.								

CASE 5145: Application of Texas Pacific Oil Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Devonian formation in the perforated interval from 10,872 feet to 11,032 feet in its State "B" Well No. 2 located in Unit B of Section 11, Township 12 South, Range 33 East, Bagley Siluro-Devonian Pool, Lea County, New Mexico.

CASE 4969: (Reopened)

In the matter of Case No. 4969 being reopened pursuant to the provisions of Order No. R-4557, which order established a temporary special depth bracket allowable for the Tocito Dome-Pennsylvanian "D" Oil Pool, San Juan County, New Mexico. All interested parties may appear and show cause why the special allowable should be made permanent.

CASE 5146: Application of Midwest Oil Corporation for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Target Unit Area comprising 5120 acres, more or less, of State and Federal lands in Townships 25 and 26 South, Range 25 East, Eddy County, New Mexico.

CASE 5147: Application of Mesa Petroleum Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the S/2 of Section 12, Township 16 South, Range 35 East, North Shoe Bar Field, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location for said unit in Unit O of said Section 12. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5148: Application of Coquina Oil Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill a well at an unorthodox gas well location 990 feet from the North and East lines of Section 16, Township 19 South, Range 25 East, Boyd-Morrow Gas Pool, Eddy County, New Mexico, the N/2 of said Section 16 to be dedicated to said well.

CASE 5149: Application of Cities Service Oil 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 N/2 of Section 33, Township 21 South, Range 27 East, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard Pennsylvanian gas well location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.



- CASE 5150: Application of Hanson Oil Corporation for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Queen formation through 10 wells in its Mescalero Ridge Unit Area in Sections 26 and 35, Township 19 South, Range 34 East, Pearl-Queen Pool, Lea County, New Mexico.
- CASE 5151: Application of Penroc Oil Corporation for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause seeks approval for the dual completion (conventional) of its Dero-Federal A-Com Well No. 1, located in Unit N of Section 35, Township 19 South, Range 28 East, Eddy County, New Mexico, in such a manner as to produce gas from the Winchester-Wolfcamp gas pool and an undesignated Strawn gas pool through the casing-tubing annulus and through tubing.
- CASE 5152: Application of Petro-Lewis Corporation for a Special Depth Bracket Allowable, Media-Entrada Oil Pool, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks a special depth bracket allowable for the Media-Entrada Oil Pool, Township 19 North, Range 3 West, Sandoval County, New Mexico.
- CASE 5140: (Continued from the January 3, 1974, Examiner Hearing)
- Application of Pierce & Dehlinger for compulsory pooling, Vada-Pennsylvanian Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Vada-Pennsylvanian Pool underlying the NW/4 of Section 24, Township 9 South, Range 33 East, Lea County, New Mexico, to be dedicated to the King Resources Sheridan Well No. 1-A located in Unit C of said Section 24. Also to be considered is designation of the applicant as operator of the NW/4 of said Section 24 and the well located thereon, provision for allocation of actual operating costs and charges for supervision, and allocation of costs for reworking said well including a 200% charge attributable to any non-consenting working interest owner's pro rata share of said workover costs, for the risk involved in said workover.
- CASE 4956: (Reopened) (Continued from the January 3, 1974, Examiner Hearing)
- Application of Pierce & Dehlinger for a determination of well costs, Lea County, New Mexico. Applicant, as operator of the Sheridan Well No. 1 located in Unit M of Section 13, Township 9 South, Range 33 East, Lea County, New Mexico, to which well is dedicated the SW/4 of said Section 13, all mineral interests in the Vada-Pennsylvanian Pool thereunder having been pooled by Commission Order No. R-4560, seeks the determination of reasonable well costs attributable to applicant and to King Resources, including, but not limited to, the costs of reworking and placing said Sheridan Well No. 1 back on production and attorneys fees in connection therewith. Applicant further seeks an order assessing, as a charge for the risk involved in the reworking of the well, 120% of the pro rata share of the reasonable well costs attributable to the working interest of King Resources.

DOCKET: EXAMINER HEARING - WEDNESDAY - JANUARY 16, 1974

9 A.M. - OIL CONSERVATION COMMISSION 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 February, 1974, from fifteen prorated pools in Lea, Eddy, Roosevelt and Chaves Counties, New Mexico;
- (2) Consideration of the allowable production of gas from nine prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for February, 1974.

CASE 5110: (Continued from the November 15, 1973, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider extending the horizontal limits of the Washington Ranch-Morrow Gas Pool, Eddy County, New Mexico, to include the S/2 of Section 28, Township 25 South, Range 24 East.

Also to be considered will be the institution of gas prorationing in said pool to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool.

CASE 5111: (Continued from the November 15, 1973, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider extending the horizontal limits of the Burton Flats-Morrow Gas Pool, Eddy County, New Mexico, to include the S/2 of Section 34, Township 20 South, Range 28 East, and the N/2 of Sections 8 and 9, and all of Section 10, Township 21 South, Range 27 East.

Also to be considered will be the institution of gas prorationing in said pool to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool.

CASE 5112: (Continued from the November 15, 1973, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider extending the horizontal limits of the Burton Flats-Strawn Gas Pool, Eddy County, New Mexico, to include all of Section 10, Township 21 South, Range 27 East.

(Case 5112 continued from Page 1)

Also to be considered will be the institution of gas prorationing in said pool to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool.

CASE 5113: (Continued from the November 15, 1973, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the institution of gas prorationing in the Burton Flats-Atoka Gas Pool, Eddy County, New Mexico, and to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool.

CASE 5124: (Continued from the November 28, 1973, Examiner Hearing)

Application of Belco Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying the S/2 of Section 30, Township 20 South, Range 33 East, South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 660 feet from the South line and 1300 feet from the East line of said Section 30. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5143: Application of El Paso Natural Gas Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its proposed Rocky Arroyo "D" Com. Well No. 2 in the center of Unit L of Section 4, Township 22 South, Range 22 East, Rocky Arroyo-Morrow Gas Pool, Eddy County, New Mexico, the S/2 of said Section 4 to be dedicated to the well.

CASE 5144: Application of Depco, Inc. for two waterflood projects, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute two waterflood projects by the injection of water into the Grayburg-San Andres formation through six wells located on applicant's State 647 lease in Sections 31 and 32, Township 17 South, Range 28 East, Artesia Pool, Eddy County, New Mexico, and through one well on the Kersey and Company Ramapo "A" Lease in said Section 32.

DOCKET: EXAMINER HEARING - WEDNESDAY - JANUARY 16, 1974

9 A.M. - OIL CONSERVATION COMMISSION 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 February, 1974, from fifteen prorated pools in Lea, Eddy, Roosevelt and Chaves Counties, New Mexico;
- (2) Consideration of the allowable production of gas from nine prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for February, 1974.

CASE 5110: (Continued from the November 15, 1973, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider extending the horizontal limits of the Washington Ranch-Morrow Gas Pool, Eddy County, New Mexico, to include the S/2 of Section 28, Township 25 South, Range 24 East.

Also to be considered will be the institution of gas prorationing in said pool to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool.

CASE 5111: (Continued from the November 15, 1973, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider extending the horizontal limits of the Burton Flats-Morrow Gas Pool, Eddy County, New Mexico, to include the S/2 of Section 34, Township 20 South, Range 28 East, and the N/2 of Sections 8 and 9, and all of Section 10, Township 21 South, Range 27 East.

Also to be considered will be the institution of gas prorationing in said pool to provide for fixing the total allowable natural gas production from said pool to an amount equal to reasonable market demand and to the capacity of the gas transportation facilities. Also to be considered will be the adoption of special rules and regulations for said pool including a provision for allocating the allowable production among the wells in the pool.

CASE 5112: (Continued from the November 15, 1973, Examiner Hearing)

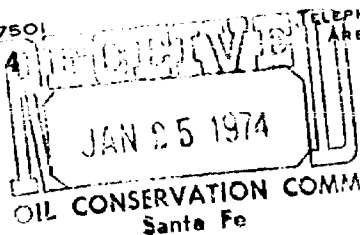
In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider extending the horizontal limits of the Burton Flats-Strawn Gas Pool, Eddy County, New Mexico, to include all of Section 10, Township 21 South, Range 27 East.

JASON W. KELLAHIN  
ROBERT E. FOX  
W. THOMAS KELLAHIN

KELLAHIN AND FOX  
ATTORNEYS AT LAW  
500 DON GASPAR AVENUE  
POST OFFICE BOX 1769

SANTA FE, NEW MEXICO 87501  
January 23, 1974

TELEPHONE 982-4315  
AREA CODE 505



Mr. Richard Stamets  
New Mexico Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Cities Service Oil Company  
OCC 5149, Compulsory Pooling

Dear Dick:

In accordance with your request, please find enclosed a copy of the operating agreement and COPAS 1962 form for the unit area involved in the above application.

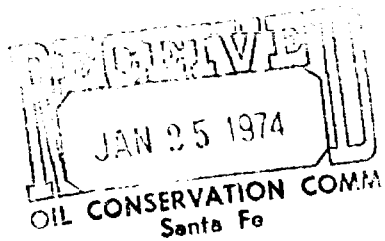
Also enclosed, is a proposed draft for an escalation clause on the charges for supervision.

Very truly yours,

  
W. Thomas Kellahin

WTK:ks

Enclosure



OPERATING AGREEMENT

DATED

September 22, 1972,

FOR UNIT AREA IN TOWNSHIP 21 South, RANGE 27 East,

Eddy COUNTY, STATE OF New Mexico

63 LK

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## OPERATING AGREEMENT

THIS AGREEMENT, entered into this 22nd day of September, 1972, between

Cities Service Oil Company

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

### 1. DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them.

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement. Under Section 2. A., the words "party" or "parties" shall mean only those participating in the drilling of the proposed well.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- (6) The term "drilling unit" shall mean the area fixed for the drilling of one well (or the area which is necessary to obtain a full allowable for such well) under an order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.
- (9) Unless otherwise agreed upon by the parties participating in a well, "Drillsite" shall mean the lease and/or oil and gas interests underlying the proposed well insofar as they are within the drilling unit.

### 2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

#### A. Title Examination:

Each party hereto shall, as to its contribution and upon request, furnish each other party with certified or photostatic copies of all title papers and opinions in its possession.

There shall be no examination of title to leases, or to oil and gas interests, except that title to the drillsite shall be examined on a complete abstract record by Operator's attorney, and the title to the drillsite must be approved by the examining attorney, or accepted by all parties. A copy of the examining attorney's opinion shall be sent to each party immediately after the opinion is written, and, also each party shall be given, as they are written, a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy the examining attorney's requirements shall be made by the party or parties owning the drillsite.

If title to the proposed drillsite is not approved by the examining attorney or the lease is not acceptable for a material reason, and all parties do not accept the title, the parties shall select a new drillsite for the first exploratory well; provided, if the parties are unable to agree upon another drillsite, this agreement shall, in that case, come to an end and all parties shall then forfeit their rights and be relieved of obligations hereunder. If a new drillsite is selected, title shall be examined, and title shall be approved or accepted or rejected in like manner as provided above concerning the drillsite first selected. If title to the second choice drillsite is not approved or accepted, other drillsites shall be successively selected and title examined, until a drillsite is chosen to which title is approved or accepted, or until the parties fail to select another drillsite. As in the case of the drillsite first selected, so



also with successive choices if the time comes that the parties have not approved title and are unable to agree upon an alternate drillsite, the contract shall, in that case and at that time, come to an end and all parties shall forfeit their rights and be relieved of obligations under this contract.

No well other than the first test shall be drilled in the Unit Area until after (1) the title to the drillsite has been examined by an attorney for one of the participating parties, and (2) the title has been approved by the examining attorney or the title has been accepted by all of the parties who are to participate in the drilling of the well.

The examining attorney under this Section 2. A., may accept title papers and another qualified attorney's opinion as the opinion called for above rather than conduct a separate title examination.

#### **B. Failure of Title:**

Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and

- (1) The party whose lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and
- (2) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Unit Area by the amount of the interest lost; and
- (3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the Unit Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and
- (4) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and
- (5) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party whose title failed, or if more than one then by the parties whose title failed, in the same proportions in which they shared in such prior production.

#### **C. Loss of Leases for Causes Other Than Title Failure:**

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the Unit Area. (Joint loss only as to losses occurring after the effective date hereof by reason of acts performed, or not performed, after said date.)

### **3. UNLEASED OIL AND GAS INTERESTS**

If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as "Exhibit D" and for the primary term therein stated. As to such interests, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "D". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest. (See Section 30 A.)

### **4. INTERESTS OF PARTIES**

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

~~Except as otherwise provided in this agreement, if any interest in an oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth (1/8) royalty, the party contributing that interest in the leases shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.~~

### 5. OPERATOR OF UNIT

Cities Service Oil Company shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained, or liabilities incurred, except such as may result from gross negligence or from breach of the provisions of this agreement.

### 6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

### 7. TEST WELL

Subject to Section 2 hereof, and as soon as practicable, Operator shall commence the drilling of a well for oil and gas in the following location:

A location on the South Half (S/2) of Section Twenty-eight (28), Township Twenty-one South, Range Twenty-seven East, Eddy County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to

the Morrow Formation, but not to exceed 11,800 feet,

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

### 3. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of twelve percent (12%) per annum or such maximum rate as permitted by law, whichever is the lesser, until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

#### 9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds from the sale thereof and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

#### 10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

#### 11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Ten Thousand Dollars ( \$10,000.00 ) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$5,000.00, and for any lesser amounts when prepared for Operator's own use.

## 12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value.

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited to reimbursement in the same manner as production is credited, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it and from and after such reversion such Non-Consenting Party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the accounting procedure schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

### **13. RIGHT TO TAKE PRODUCTION IN KIND**

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

#### **14. ACCESS TO UNIT AREA**

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

#### **15. DRILLING CONTRACTS**

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

#### **16. ABANDONMENT OF WELLS**

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

#### 17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS.

Delay rentals and shut-in well payments which may be required under the terms of any lease shall be paid by the party who has subjected such lease to this agreement, at its own expense. Proof of each payment shall be given to Operator at least ten (10) days prior to the rental or shut-in well payment date. Operator shall furnish similar proof to all other parties concerning payments it makes in connection with its leases. Any party may request, and shall be entitled to receive, proper evidence of all such payments. If, through mistake or oversight, any delay rental or shut-in well payment is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to pay a rental or shut-in well payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, the interests of the parties shall be revised on an acreage basis effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Unit Area on account of the ownership of the lease which has terminated. In the event the party who failed to pay the rental or the shut-in well payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

- (1) proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;
- (2) proceeds, less operating expenses thereafter incurred attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which would, in the absence of such lease termination, be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and
- (3) any moneys, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Unit Area or becoming a party to this contract.

Operator shall promptly notify each other party of any well shut in (and the reason therefore) or placed on production; however, there shall be no liability for inadvertent failure to give said notice.

#### 18. PREFERENTIAL RIGHT TO PURCHASE

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

## **19. MAINTENANCE OF UNIT OWNERSHIP**

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit Area and in wells, equipment and production unless such disposition covers either:

- (1) the entire interest of the party in all leases and equipment and production; or
- (2) an equal undivided interest in all leases and equipment and production in the Unit Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties.

If at any time the interest of a party is divided among and owned by four or more co-owners, Operator may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

## **20. RESIGNATION OF OPERATOR**

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

## **21. LIABILITY OF PARTIES**

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

## **22. RENEWAL OR EXTENSION OF LEASES**

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this section shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this section.

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.



### 23. SURRENDER OF LEASES

The leases covered by this agreement, in so far as they embrace acreage in the Unit Area, shall not be surrendered in whole or in part unless all parties consent.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee. The Assignment shall in no event cover any lands outside the Unit Area unless Assignor and Assignee mutually agree thereto.

Any assignment or surrender made under this provision shall not reduce or change the assignors' or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Unit Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

### 24. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

### 25. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement, which by law should be returned for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and it may at its discretion prosecute, or not prosecute, the protest to a final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

## 26. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "B" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "B", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for operator's fully owned automotive equipment.

## 27. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed thirty-five hundred (\$3500.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their interests in the Unit Area.

## 28. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all possible diligence to remove the force majeure as quickly as possible.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure" as here employed shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental restraint, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

## 29. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

**30. OTHER CONDITIONS, IF ANY, ARE:**

A. Unleased oil and gas interests shall be subject to the terms and provisions of this Agreement only for the term set out in Exhibit "D".

If the assigning party or parties under any applicable Section in this Agreement shall be the owner or owners of an unleased oil and gas interest, such party or parties shall execute an oil and gas lease in lieu of an Assignment as therein provided, using in so doing, the form of lease attached hereto as Exhibit "D" which lease shall be for a primary term of One (1) year from the date of execution thereof and so long thereafter as oil or gas or either of them is produced from said land by the Lessee in paying quantities.

B. Title failure or loss of a lease or unleased oil and gas interest, shall not relieve any party from paying its proportionate share of the cost of (1) drilling, testing, completing and equipping or plugging and abandoning the test well, or (2) operations then being conducted on a well in the Unit Area, provided it has previously agreed to participate in said test well or operations.

C. If any party hereafter should create any overriding royalty, production payment, or other burden against its working interest production and if any other party or parties should conduct non-consent operations pursuant to any provision of this Agreement, and as a result, become entitled to receive the working interest production otherwise belonging to a non-participating party, the party or parties entitled to receive the working interest production of a non-participating party shall receive such production free and clear of burdens against such production, which may have been created subsequent to this Agreement and a non-participating party creating such subsequent burdens shall save the participating party or parties harmless with respect to the receipt of such working interest production.

D. In the event any party hereto acquires, prior to the date of commencement of the actual drilling operations of the initial test well, an oil or gas lease or any interest therein covering lands within the Unit Area, such acquisition shall be deemed to have been acquired for the sole benefit of the acquiring party, and the interests of the parties shall be revised accordingly. In the event any party hereto acquires, as of or after the date of commencement of the actual drilling operations of the test well, an oil or gas lease or any interest area covering lands within the Unit Area, the party so acquiring shall promptly notify the other parties hereto of such acquisition including with such notice all pertinent information pertaining thereto, including the cost and expense of such acquisition. The parties receiving such notice shall have a period of fifteen (15) days after receipt thereof in which to notify the acquiring party of their election either to participate in the acquisition to the extent of their interests under this Agreement or not to participate. If the election is to participate, then the parties electing to participate shall, upon receipt of invoice, promptly pay the acquiring party for its proportionate share of the costs thereto and the acquiring party shall execute and deliver an assignment to the parties electing to participate. If less than all parties hereto participate in the acquisition, the interests of the parties as set forth in Exhibit "A" will be revised, separately, as to the drilling unit or units which include the lands covered by any such lease.

E. Union Oil Company of California (hereinafter referred to in this subparagraph E. as "Union") has elected not to participate in the drilling of the test well provided for in Section 7. and, in lieu of actual participation, agrees to assign to the parties participating in the costs of the test well (hereinafter referred to in this subparagraph E. as "drilling party" or "drilling parties"), as set forth in Exhibit "A", all of its working interest in the drilling unit for the test well and an

undivided one-half (1/2) of its interest in the remainder of the Unit Area, subject to the following conditions:

(1) The test well shall be commenced on or before December 26, 1972, and shall be drilled at the sole cost, risk and expense of the drilling parties to a depth sufficient to test the Morrow Formation (contract depth). The test well may be completed at any lesser depth than the Morrow Formation provided the said test well is first drilled to contract depth.

(2) In the event the test well is completed either as a dry hole or if the test well is lost for any reason prior to being drilled to contract depth, the drilling parties are granted the right to commence a substitute well or wells for any well which has been either completed as a dry hole or is lost within thirty (30) days from completion or cessation of operations in the prior well. Any substitute well drilled hereunder shall be drilled subject to the same terms and conditions as provided for the test well and shall be completed in a reasonable time from the date of commencement.

(3) Upon completion of the test well, or any substitute well therefor, as a well capable of producing oil and/or gas in paying quantities, Union shall assign to the drilling parties all of its interest in the drilling unit for said well subject to the reservation of an overriding royalty of an undivided one-sixteenth of eight-eighths (1/16 of 8/8) out of the proportionate share of production from the Unit Area attributable to its interest as set forth in Column 13A of Exhibit "A" with the right to elect to either retain the overriding royalty as hereinafter provided or convert to a working interest.

(4) Each drilling party shall furnish Union notices and well information as provided in this agreement and a monthly itemized statement of the cost of operations, quality and quantity of oil, casinghead gas, condensate and/or distillate and other minerals produced from the test well. Each drilling party shall promptly notify Union when the value of all oil, casinghead gas, gas, distillate and/or condensate and other minerals produced and saved from the test well (together with the proceeds of the sale of any material and equipment from the said well) less royalty, overriding royalty and Union's overriding royalty, equals one hundred percent (100%) of such drilling party's share of the total cost and expense of drilling, testing, completing and equipping the test well (including one hundred percent (100%) of the cost of operations incurred up to the time such value equals the total cost). Such notice shall be furnished to Union at the address reflected in Exhibit "A" and it shall have the option, to be exercised within thirty (30) days from receipt of said notice, either to convert its overriding royalty to a working interest in the percentage as set forth in Column 15A in Exhibit "A" or retain its overriding royalty.

(5) If Union converts to a working interest, the drilling parties shall reassign to Union an undivided one-half (1/2) interest in its leases heretofore assigned covering the drilling unit for the test well, together with an interest as set forth in Exhibit "A", Column 15A in the test well and Union shall release its overriding royalty. The effective date of the acquisition of working interest and the release of overriding royalty shall be the date that the value of production from the test well equals the total cost of the test well as herein provided. (For the purpose of computing the day in which the value of production equals said total cost, the overriding royalty payable to Union and the working interest income, together with all costs and expenses shall be calculated on a daily basis for the actual month in which the said value equals the said total cost. Said cost and expenses, including the overriding royalty payable to Union and/or the working interest income, shall be apportioned on a daily basis for said month and the costs, expenses and revenue shall be adjusted to the day so calculated).

F. J. M. Huber Corporation and Pierce & Davis, in lieu of participating in the test well, agree to assign, upon completion of the test well, or any substitute well therefor, as a producer of oil and/or gas, to the drilling parties, in the proportions as set forth in Exhibit "A", their lease as described in said Exhibit "A" insofar as same covers the fifteen- (15-) acre tract included in the drilling unit for the said test well.

G. In the event the drilling parties fail to commence or complete the test well, or any substitute well, the only liability for such failure will be the loss of right to receive an assignment from Union Oil Company of California, J. M. Huber Corporation and Pierce & Davis.

H. Included in the drilling unit for the test well is an unleased 1.33 acre tract. The drilling parties agree to carry the costs and expenses attributable to the interests represented by the said tract in the proportions as set forth in Exhibit "A".

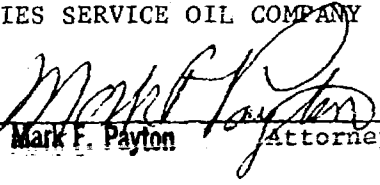
I. The Unit Area under this agreement is separated into three (3) Unit Areas and designated in Exhibit "A" as "Unit Area A", "Unit Area B" and "Unit Area C". Unit Area A covers and includes all leases and lands subject to this agreement with the exception of Section 28, Township 21 South, Range 27 East, Eddy County, New Mexico. Unit Area B covers the South Half (S/2) of said Section 28 and is subject to the terms of the farmout from Union Oil Company of California and is also subject to the terms of the acreage contribution by J. M. Huber Corporation and Pierce & Davis. J. Hiram Moore, Trustee, is participating only in the drilling of the test well on Unit Area B. Unit Area C covers the North Half (N/2) of said Section 28 and is so separated inasmuch as J. M. Huber Corporation and Pierce & Davis will participate only in this Unit Area and may participate in any well proposed on Unit Area C, if they so elect, under the provisions of Section 12. Pursuant to Paragraph D. of Section 30., Unit Area A may be further separated into additional unit areas in the event additional interests are acquired within Unit Area A and less than all of the parties owning interests in Unit Area A elect to participate in such acquisition. Each Unit Area presently designated, or as may be hereafter designated, under this agreement shall be operated and accounted for separately for all purposes as though a separate agreement existed for each Unit Area.

J. Notwithstanding any provision to the contrary in this Agreement, the interests of the parties as set forth in Exhibit "A" (Part II) reflect that costs and expenses are to be borne on a "Participating Interest" basis and income is to be shared on a "Beneficial Interest" basis. "Participating Interest" is that proportion which the net acreage covered by a lease or oil and gas interest contributed hereto by a party bears to the total net acreage contributed hereto by all parties. "Beneficial Interest" is that proportion which the net acres contributed hereto by a party, after deducting therefrom that portion which attributed to royalty or overriding royalty burdens (as set forth in Exhibit "A" (Part III)), bears to the total net acreage contributed hereto by all parties, after deducting therefrom that portion which is attributed to all burdens as set forth in Exhibit "A" (Part III).

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns, upon execution of all parties, and shall be effective as of the date first hereinabove written; provided, however, this agreement shall not become binding or effective unless it is executed by all parties and returned to the Operator within ninety (90) days after said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By

  
Mark F. Payton

Attorney-in-Fact

OPERATOR

ATTEST:

MIDWEST OIL CORPORATION

By \_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

AMARILLO OIL COMPANY

By \_\_\_\_\_  
President

FLAG - REDFERN OIL COMPANY

By \_\_\_\_\_  
President

CHAMPLIN PETROLEUM COMPANY

By \_\_\_\_\_  
President

PATOIL CORPORATION

By \_\_\_\_\_  
President

\_\_\_\_\_  
J. HIRAM MOORE, TRUSTEE

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_  
President

J. M. HUBER CORPORATION

By \_\_\_\_\_  
President

PIERCE & DAVIS

By \_\_\_\_\_

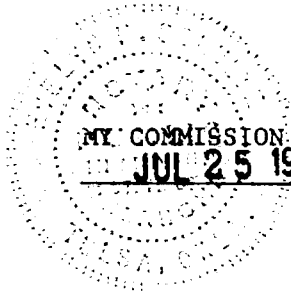
By \_\_\_\_\_

NON-OPERATORS

STATE OF OKLAHOMA )  
 ) SS  
COUNTY OF TULSA )

Before me, Evelyn M. Schultz, a Notary Public on this day personally appeared Mark F. Payton, known to me to be the person whose name is subscribed to the foregoing instrument as an Attorney-in-Fact of CITIES SERVICE OIL COMPANY, the party thereto, and acknowledged to me that he executed the same as Attorney-in-Fact for the said CITIES SERVICE OIL COMPANY and that said CITIES SERVICE OIL COMPANY executed the same by and through him for the purposes and considerations therein expressed.

Given under my hand and seal of office this 10th day of January, 1973.  
~~September, 1972.~~



Evelyn M. Schultz  
Evelyn M. Schultz Notary Public

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of MIDWEST OIL CORPORATION, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of AMARILLO OIL COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of FLAG-REDFERN OIL COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of CHAMPLIN PETROLEUM COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of PATOIL CORPORATION, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_



STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

Before me, \_\_\_\_\_, a Notary Public in and for the above named County and State, on this day personally appeared J. HIRAM MOORE, TRUSTEE, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of UNION OIL COMPANY OF CALIFORNIA, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of J. M. HUBER CORPORATION, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

Before me, \_\_\_\_\_, a Notary Public in and for the above  
named County and State, on this day personally appeared \_\_\_\_\_  
\_\_\_\_\_, known to me to be the person whose name is/are  
subscribed to the foregoing instrument, as PIERCE & DAVIS, a partnership, and acknowl-  
edged to me that he executed the same for the purposes and considerations therein  
expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_,  
1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

H. Included in the drilling unit for the test well is an unleased 1.33 acre tract. The drilling parties agree to carry the costs and expenses attributable to the interests represented by the said tract in the proportions as set forth in Exhibit "A".

I. The Unit Area under this agreement is separated into three (3) Unit Areas and designated in Exhibit "A" as "Unit Area A", "Unit Area B" and "Unit Area C". Unit Area A covers and includes all leases and lands subject to this agreement with the exception of Section 28, Township 21 South, Range 27 East, Eddy County, New Mexico. Unit Area B covers the South Half (S/2) of said Section 28 and is subject to the terms of the farmout from Union Oil Company of California and is also subject to the terms of the acreage contribution by J. M. Huber Corporation and Pierce & Davis. J. Hiram Moore, Trustee, is participating only in the drilling of the test well on Unit Area B. Unit Area C covers the North Half (N/2) of said Section 28 and is so separated inasmuch as J. M. Huber Corporation and Pierce & Davis will participate only in this Unit Area and may participate in any well proposed on Unit Area C, if they so elect, under the provisions of Section 12. Pursuant to Paragraph D. of Section 30., Unit Area A may be further separated into additional unit areas in the event additional interests are acquired within Unit Area A and less than all of the parties owning interests in Unit Area A elect to participate in such acquisition. Each Unit Area presently designated, or as may be hereafter designated, under this agreement shall be operated and accounted for separately for all purposes as though a separate agreement existed for each Unit Area.

J. Notwithstanding any provision to the contrary in this Agreement, the interests of the parties as set forth in Exhibit "A" (Part II) reflect that costs and expenses are to be borne on a "Participating Interest" basis and income is to be shared on a "Beneficial Interest" basis. "Participating Interest" is that proportion which the net acreage covered by a lease or oil and gas interest contributed hereto by a party bears to the total net acreage contributed hereto by all parties. "Beneficial Interest" is that proportion which the net acres contributed hereto by a party, after deducting therefrom that portion which attributed to royalty or overriding royalty burdens (as set forth in Exhibit "A" (Part III)), bears to the total net acreage contributed hereto by all parties, after deducting therefrom that portion which is attributed to all burdens as set forth in Exhibit "A" (Part III).

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns, upon execution of all parties, and shall be effective as of the date first hereinabove written; provided, however, this agreement shall not become binding or effective unless it is executed by all parties and returned to the Operator within ninety (90) days after said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By \_\_\_\_\_  
Attorney-in-Fact

OPERATOR

ATTEST:

MIDWEST OIL CORPORATION

By

Assistant Secretary

President

APPROVED

STATE OF OKLAHOMA )  
 ) SS  
COUNTY OF TULSA )

Before me, \_\_\_\_\_, a Notary Public on this day personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument as an Attorney-in-Fact of CITIES SERVICE OIL COMPANY, the party thereto, and acknowledged to me that he executed the same as Attorney-in-Fact for the said CITIES SERVICE OIL COMPANY and that said CITIES SERVICE OIL COMPANY executed the same by and through him for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of September, 1972.

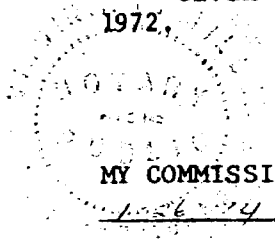
\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF Colorado )  
 ) SS  
COUNTY OF Denver )

Before me, Virginia J. Miller, a Notary Public in and for said County and State, on this day personally appeared R. W. Collins, Vice President of MIDWEST OIL CORPORATION, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this 21st day of November, 1972.

\_\_\_\_\_  
MY COMMISSION EXPIRES:  
1-26-74

Virginia J. Miller  
Notary Public

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of AMARILLO OIL COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

ATTEST:

By J. D. McQuinn  
1937 Secretary

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By \_\_\_\_\_ Secretary

AMARILLO OIL COMPANY

By W. H. Hester President

FLAG - REDFERN OIL COMPANY

By \_\_\_\_\_ President

CHAMPLIN PETROLEUM COMPANY

By \_\_\_\_\_ President

PATOIL CORPORATION

By \_\_\_\_\_ President

J. HIRAM MOORE, TRUSTEE

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_ President

J. M. HUBER CORPORATION

By \_\_\_\_\_ President

PIERCE & DAVIS

By \_\_\_\_\_

By \_\_\_\_\_

NON-OPERATORS



STATE OF OKLAHOMA )  
 ) SS  
COUNTY OF TULSA )

Before me, \_\_\_\_\_, a Notary Public on this day personally appeared \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument as an Attorney-in-Fact of CITIES SERVICE OIL COMPANY, the party thereto, and acknowledged to me that he executed the same as Attorney-in-Fact for the said CITIES SERVICE OIL COMPANY and that said CITIES SERVICE OIL COMPANY executed the same by and through him for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of September, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of MIDWEST OIL CORPORATION, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF Texas )  
 ) SS  
COUNTY OF Potter )

Before me, Mary Coffee, a Notary Public in and for said County and State, on this day personally appeared B. L. Payne, Vice President of AMARILLO OIL COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this 22 day of November, 1972.

Mary Coffee  
Notary Public

MY COMMISSION EXPIRES:  
6-1-73

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By *Frank A. Rogers* Secretary

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By \_\_\_\_\_ Secretary

AMARILLO OIL COMPANY

By \_\_\_\_\_ President

FLAG - REDFERN OIL COMPANY

By *John Redfern* President

CHAMPLIN PETROLEUM COMPANY

By \_\_\_\_\_ President

PATOIL CORPORATION

By \_\_\_\_\_ President

J. HIRAM MOORE, TRUSTEE

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_ President

J. M. HUBER CORPORATION

By \_\_\_\_\_ President

PIERCE & DAVIS

By \_\_\_\_\_

By \_\_\_\_\_

NON-OPERATORS

STATE OF Texas )  
COUNTY OF Midland ) SS

Before me, E. Lynette Franklin a Notary Public in and for said County and State, on this day personally appeared John J. Redfern President of FLAG-REDFERN OIL COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this 25th day of October, 1972.

E. Lynette Franklin  
Notary Public

MY COMMISSION EXPIRES:  
E. LYNETTE FRANKLIN - Notary Public  
Midland County, Texas  
My Commission Expires June 1, 1973

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of CHAMPLIN PETROLEUM COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of PATOIL CORPORATION, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_



ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By *Dean Hill*  
ASSISTANT Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

AMARILLO OIL COMPANY

By \_\_\_\_\_  
President

FLAG - REDFERN OIL COMPANY

By \_\_\_\_\_  
President

CHAMPLIN PETROLEUM COMPANY

By *W. Churchill*  
VICE President

APPROVED	
CH	
LEGAL	
LEAD	
GEOL	
OPR	
ACCTG	

PATOIL CORPORATION

By \_\_\_\_\_  
President

J. HIRAM MOORE, TRUSTEE

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_  
President

J. M. HUBER CORPORATION

By \_\_\_\_\_  
President

PIERCE & DAVIS

By \_\_\_\_\_

By \_\_\_\_\_

NON-OPERATORS

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of FLAG-REDFERN OIL COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF Texas )  
 ) SS  
COUNTY OF Tarrant )

Before me, Joyanne Ramsey, a Notary Public in and for said County and State, on this day personally appeared D. O. CHURCHILL, VICE President of CHAMPLIN PETROLEUM COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this 13th day of December, 1972.

MY COMMISSION EXPIRES:  
JOYANNE RAMSEY  
NOTARY PUBLIC IN AND FOR  
TARRANT COUNTY, TEXAS  
MY COMMISSION EXPIRES JUNE 1, 1973

Joyanne Ramsey  
Notary Public

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of PATOIL CORPORATION, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By *Emma Mae Flannery*  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

AMARILLO OIL COMPANY

By \_\_\_\_\_  
President

FLAG - REDFERN OIL COMPANY

By \_\_\_\_\_  
President

CHAMPLIN PETROLEUM COMPANY

By \_\_\_\_\_  
President

PATOIL CORPORATION

By *W. H. Thompson*  
Vice-President

J. HIRAM MOORE, TRUSTEE

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_  
President

J. M. HUBER CORPORATION

By \_\_\_\_\_  
President

PIERCE & DAVIS

By \_\_\_\_\_

By \_\_\_\_\_

NON-OPERATORS

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of FLAG-REDFERN OIL COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of CHAMPLIN PETROLEUM COMPANY, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

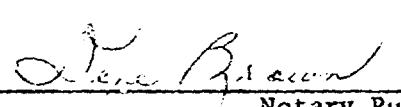
\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF TEXAS )  
 ) SS  
COUNTY OF MIDLAND )

Before me, Dene Brown, a Notary Public in and for said County and State, on this day personally appeared H. de Compiegne, Jr., Vice President of PATOIL CORPORATION, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this 21st day of November, 1972.

  
Notary Public

MY COMMISSION EXPIRES:  
June 1, 1973

DENE BROWN - Notary Public  
In and For Midland County, Texas

ATTEST:

AMARILLO OIL COMPANY

By \_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

ATTEST:

FLAG - REDFERN OIL COMPANY

By \_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

ATTEST:

CHAMPLIN PETROLEUM COMPANY

By \_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

ATTEST:

PATOIL CORPORATION

By \_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

J. Hiram Moore and Betty Jane Moore, Trustees under Indenture of Trust dated July 1, 1971 between J. Hiram Moore and wife, Betty Jane Moore, as Trustors, and J. Hiram Moore, Betty Jane Moore and Michael Harrison Moore, Trustees.

Betty Jane Moore  
Betty Jane Moore, Trustee

J. Hiram Moore  
J. HIRAM MOORE, TRUSTEE

ATTEST:

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

ATTEST:

J. M. HUBER CORPORATION

By \_\_\_\_\_  
Secretary

By \_\_\_\_\_  
President

PIERCE & DAVIS

By \_\_\_\_\_

By \_\_\_\_\_

NON-OPERATORS

STATE OF TEXAS                    )  
                                      ) SS  
COUNTY OF MIDLAND                )

Before me, the undersigned authority, a Notary Public in and for the above named County and State, on this day personally appeared J. HIRAM MOORE AND BETTY JANE MOORE, TRUSTEES, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and considerations therein expressed, and in the capacity therein stated.

Given under my hand and seal of office this 16th day of November, 1972.

Charles H. Hays  
Notary Public

My Commission Expires:  
June 1, 1973

STATE OF \_\_\_\_\_ )  
                                      ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of UNION OIL COMPANY OF CALIFORNIA, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF \_\_\_\_\_ )  
                                      ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of J. M. HUBER CORPORATION, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

~~ATTEST:~~

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

AMARILLO OIL COMPANY

By \_\_\_\_\_  
President

FLAG - REDFERN OIL COMPANY

By \_\_\_\_\_  
President

CHAMPLIN PETROLEUM COMPANY

By \_\_\_\_\_  
President

PATOIL CORPORATION

By \_\_\_\_\_  
President

\_\_\_\_\_  
J. HIRAM MOORE, TRUSTEE

UNION OIL COMPANY OF CALIFORNIA

By John H. Hannon  
Attorney-in-Fact \_\_\_\_\_ ~~President~~ 40

J. M. HUBER CORPORATION

By \_\_\_\_\_  
President

PIERCE & DAVIS

By \_\_\_\_\_

By \_\_\_\_\_

NON-OPERATORS

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for the above named County and State, on this day personally appeared J. HIRAM MOORE, TRUSTEE, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_

STATE OF TEXAS )  
 ) SS  
COUNTY OF MIDLAND )

Before me, Alice Monroe, a Notary Public in and for said County and State, on this day personally appeared ~~JOHN HANSEN, Attorney-in-Fact~~ ~~Presi-~~ ~~dent~~ of UNION OIL COMPANY OF CALIFORNIA, a corporation, known to me to be the person ~~and officer~~ whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this 28th day of November, 1972.

*Alice Monroe*  
Alice Monroe Notary Public

MY COMMISSION EXPIRES:  
June 1, 1973

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

Before me, \_\_\_\_\_, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ President of J. M. HUBER CORPORATION, a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that same was the act of said corporation, and that he executed the same as the act of said corporation for the purposes and considerations therein expressed.

Given under my hand and seal of office this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

\_\_\_\_\_  
Notary Public

MY COMMISSION EXPIRES:  
\_\_\_\_\_



ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By \_\_\_\_\_  
Secretary

ATTEST:

By *W. Lamar Curtis*  
Secretary

W. LAMAR CURTIS, JR.

AMARILLO OIL COMPANY

By \_\_\_\_\_  
President

FLAG - REDFERN OIL COMPANY

By \_\_\_\_\_  
President

CHAMPLIN PETROLEUM COMPANY

By \_\_\_\_\_  
President

PATOIL CORPORATION

By \_\_\_\_\_  
President

J. HIRAM MOORE, TRUSTEE

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_  
President

J. M. HUBER CORPORATION

By *Thomas J. Baker*  
President

PIERCE & DAVIS

By \_\_\_\_\_

By \_\_\_\_\_

NON-OPERATORS

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By \_\_\_\_\_ Secretary

ATTEST:

By \_\_\_\_\_ Secretary

CHAMPLIN PETROLEUM COMPANY

By \_\_\_\_\_ President

PATOIL CORPORATION

By \_\_\_\_\_ President

J. HIRAM MOORE, TRUSTEE

UNION OIL COMPANY OF CALIFORNIA

By \_\_\_\_\_ President

J. M. HUBER CORPORATION

By \_\_\_\_\_ President

PIERCE & DAVIS

By James H. Pierce

By J. H. Davis

NON-OPERATORS

STATE OF TEXAS )  
COUNTY OF MIDLAND ) SS

Before me, Melba Henshaw, a Notary Public in and for the above named County and State, on this day personally appeared James L. Pierce, known to me to be the person whose name is/xxx subscribed to the foregoing instrument, as PIERCE & DAVIS, a partnership, and acknowledged to me that he executed the same for the purposes and considerations therein expressed.

Given under my hand and seal of office this 5 day of December, 1972.

Melba Henshaw  
Notary Public

MY COMMISSION EXPIRES:  
June 1973

STATE OF TEXAS )  
COUNTY OF MIDLAND )

Before me, Melba Henshaw, a Notary Public in and for the above named County and State, on this day personally appeared J. C. Davis, Jr., known to me to be the person whose name is subscribed to the foregoing instrument, as PIERCE & DAVIS, a partnership, an acknowledged to me that he executed the same for the purposes and considerations therein expressed.

Given under my hand and seal of office this 6 day of December, 1972.

Melba Henshaw  
Notary public

MY COMMISSION EXPIRES:  
June 1973

EXHIBIT "A" (Part I) - Attached to and made a part of Operating Agreement dated September 22, 1972 between Cities Service Oil Company, as Operator, and Midwest Oil Corporation et al, as Non-Operators.

1. Lands Subject to Contract (Unit Area) -

- (a) Unit Area A - All of Sections 20, 21, 27, 29, 32, 33 and 34, all in Township 21 South, Range 27 East, Eddy County, New Mexico.
- (b) Unit Area B (and Drilling Unit for the Initial Test Well) - The S/2 of Section 28, Township 21 South, Range 27 East, Eddy County, New Mexico.
- (c) Unit Area C - The N/2 of Section 28, Township 21 South, Range 27 East, Eddy County, New Mexico.

Note: The schedule of lease includes, in addition to the leases and lands covered thereby and contributed by the parties hereto, a description of all open and/or unleased lands within the Unit Area and any lease or interest therein acquired by any party hereto is subject to the provisions of Section 30., Paragraph D.

2. Addresses of Parties to Which Notices Should be Sent -

AMARILLO OIL COMPANY  
401 V & J Tower  
Midland, Texas 79701

CHAMPLIN PETROLEUM COMPANY  
P. O. Box 872  
Midland, Texas 79701

CITIES SERVICE OIL COMPANY  
P. O. Box 300  
Tulsa, Oklahoma 74102

FLAG - REDFERN OIL COMPANY  
P. O. Box 23  
Midland, Texas 79701

J. M. HUBER CORPORATION  
2000 West Loop South  
Houston, Texas 77027

MIDWEST OIL CORPORATION  
1500 Wilco Building  
Midland, Texas 79701

J. HIRAM MOORE  
Suite 314, Gulf Building  
Midland, Texas 79701

PATOIL CORPORATION  
500 Midland National Bank Building  
Midland, Texas 79701

PIERCE & DAVIS  
201 GIHLS Tower West  
Midland, Texas 79701

UNION OIL COMPANY OF CALIFORNIA  
300 Security National Building  
Roswell, New Mexico 88201  
Attn: District Land Manager

EXHIBIT "A" (Part II) - Attached to and made a part of Operating Agreement dated September 22, 1972, between Cities Service Oil Company, as Operator, and Midwest Oil Corporation et al, as Non-Operators.

Parties	Column 1	Column 2	Column 3		Column 4		Column 5		Column 6	
	Acres	Acres	A Acres	B Percentage	A Participating Acres	B Percentage	A Beneficial Acres	B Percentage	A Participating Acres	B Percentage
Cities Service Oil Company	1719.9921	1459.1308	1719.9921	38.39275	5.7589	1.79966	5.0390	1.85033	167.7763	3.25320
Midwest Oil Corporation	1040.0000	878.8000	1040.0000	23.21433	3.4821	1.08817	3.0469	1.11881	101.4467	1.96706
Amarillo Oil Company	780.0000	659.1000	780.0000	17.41074	2.6116	.81613	2.2852	.83910	76.0849	1.47530
Flag - Redfern Oil Company	780.0000	659.1000	780.0000	17.41074	2.6116	.81612	2.2851	.83910	76.0849	1.47530
Champion Petroleum Company	80.0000	67.6000	80.0000	11.78572	.2679	.08371	.2344	.08601	7.8036	.15131
Patoil Corporation	80.0000	65.6250	80.0000	11.78572	.2679	.08371	.2344	.08601	7.8036	.15131
J. Hiram Moore, et al, Trustees	5.0000	4.3750	-	-	-	-	-	-	-	-
Union Oil Company of California	437.0000	355.0625	-	-	-	-	-	-	-	-
J. M. Huber Corporation	27.5000	24.0625	-	-	-	-	-	-	-	-
Pierce & Davis	27.5000	24.0625	-	-	-	-	-	-	-	-
	4976.9921	4196.9183	4479.9921	100.00000	15.0000	4.68750	13.1250	4.81946	437.0000	8.47348

Parties	Column 7		Column 8		Column 9		Column 10		Column 11	
	A Beneficial Acres	B Percentage	A Participating Acres	B Percentage	A Beneficial Acres	B Percentage	A Beneficial Acres	B Percentage	A Beneficial Acres	B Percentage
Cities Service Oil Company	136.3183	3.06996	.1113	.03479	.0975	.03579	1459.1308	35.20713	1459.1308	38.50604
Midwest Oil Corporation	82.4254	1.85626	.0673	.02104	.0389	.02164	878.8000	21.20442	878.8000	23.19128
Amarillo Oil Company	61.8190	1.39219	.0505	.01578	.0442	.01623	659.1000	15.90332	659.1000	17.39346
Flag - Redfern Oil Company	61.8190	1.39219	.0505	.01578	.0442	.01623	659.1000	15.90332	659.1000	17.39346
Champlin Petroleum Company	6.3404	.14279	.0052	.00162	.0045	.00166	67.6000	1.63111	67.6000	1.78394
Patrol Corporation	6.3404	.14279	.0052	.00162	.0045	.00166	65.6250	1.58346	65.6250	1.73182
J. Hiram Moore, et al, Trustees	-	-	-	-	-	-	-	-	-	-
Union Oil Company of California	-	-	-	-	-	-	355.0625	8.56724	-	-
J. M. Huber Corporation	-	-	-	-	-	-	-	-	-	-
Pierce & Davis	-	-	-	-	-	-	-	-	-	-
	355.0625	7.99618	.2900	.09063	.2538	.09322	4144.4183	100.00000	3789.3558	100.00000

Parties	Column 12			Column 13	Column 14	Column 15		
	A	Beneficial		B	Participating Percentage	A	B	C
	Percentage	Percentage		Percentage		Acres	Percentage	Percentage
Cities Service Oil Company	32.91661 + (3.06996 + 1.84802 + .03578) =	37.87037		.21069	37.79287	*1809.7505	36.69195	36.118
Midwest Oil Corporation	19.82490 + (1.85626 + 1.11966 + .02164) =	22.82246		.12739	22.85161	*1094.2728	22.18593	21.839
Amarillo Oil Company	14.86867 + (1.39219 + .83976 + .01623) =	17.11685		.09554	17.13870	* 820.7035	16.63945	16.379
Flag - Redfern Oil Company	14.86867 + (1.39219 + .83976 + .01623) =	17.11685		.09554	17.13870	* 820.7035	16.63945	16.379
Champion Petroleum Company	1.52499 + ( .14279 + .08613 + .00167) =	1.75558		.00980	1.75781	* 84.1749	1.70661	1.679
Patrol Corporation	1.48043 + ( .14279 + .08613 + .00167) =	1.71102		.00980	1.75781	* 84.1749	1.70661	1.679
J. Hiram Moore, et al, Trustees	-	-		-	1.56250	-	-	1.562
Union Oil Company of California	-	-		-	-	218.5000	4.43000	4.360
J. M. Huber Corporation	-	-		-	-	-	-	-
Pierce & Davis	-	-		-	-	-	-	-
	85.48427 (7.99618) (4.81946) (.09322)	100.00000		.54876	100.00000	4932.2821	100.00000	100.000

Parties	Column 16	Column 17			Column 18			Column 19	
	Beneficial Percentage	A Acres	B Participating Percentage	C Percentage	A Acres	B Beneficial Percentage	C Percentage	A Participating Acres	B Percentage
Cities Service Oil Company	36.33539	1809.6392	36.69185	32.10536	1532.3289	36.85660	32.12793	1809.6392	36.69185
Midwest Oil Corporation	21.89433	1094.2055	22.18587	19.41264	923.0596	22.20204	19.35354	1094.2055	22.18587
Amarillo Oil Company	16.42076	820.6540	16.63940	14.55948	692.2946	16.65153	14.51515	820.6540	16.63940
Flag - Redfern Oil Company	16.42076	820.6540	16.63940	14.55948	692.2947	16.65153	14.51515	820.6540	16.63940
Champlin Petroleum Company	1.68418	84.1697	1.70661	1.49328	71.0046	1.70785	1.48873	84.1697	1.70661
Patoll Corporation	1.63962	84.1697	1.70661	1.49328	69.0296	1.66035	1.44733	84.1697	1.70661
J. Hiram Moore, et al, Trustees	1.60687	-	-	-	-	-	-	-	-
Union Oil Company of California	3.99804	218.5000	4.43026	3.87648	177.5313	4.27010	3.72225	218.5000	4.43026
J. M. Huber Corporation	-	-	-	6.25000	-	-	6.41496	-	-
Pierce & Davis	-	-	-	6.25000	-	-	6.41496	-	-
	100.00000	4931.9921	100.00000	100.00000	4157.5433	100.00000	100.00000	4931.9921	100.00000

Part II

-4-



Parties	Column 20		Column 21	Column 22
	A Beneficial Acres	B Percentage	Participating Percentage	Beneficial Percentage
Cities Service Oil Company	1532.3289	36.85660	36.08386	36.29961
Midwest Oil Corporation	923.0596	22.20204	21.81823	21.87269
Amarillo Oil Company	692.2946	16.65153	16.36368	16.40453
Flag - Redfern Oil Company	692.2947	16.65153	16.36368	16.40453
Champion Petroleum Company	71.0046	1.70785	1.67832	1.68251
Patrol Corporation	69.0296	1.66035	1.67332	1.63795
J. Hiram Moore, et al, Trustees	-	-	1.56250	1.60687
Union Oil Company of California	177.5313	4.27010	4.36078	3.95809
J. M. Huber Corporation	-	-	-	-
Pierce & Davis	-	-	-	-
Mrs. Martina Jiminez	-	-	.09063	.09322
	4157.5433	100.00000	100.00000	100.00000

Part II

K E Y

- Column 1 - Net participating acres subject to Operating Agreement.
- Column 2 - Net beneficial acres subject to Operating Agreement.
- Column 3 - Basis of participation in the test well on Unit Area B as to (1) the Acreage Contribution by J. M. Huber Corporation and Pierce & Davis, (2) the Union Oil Company Farmout, and (3) the carried .29 acre interest.
- Column 4 - Share of participating acreage and percentages of the J. M. Huber Corporation and Pierce & Davis contribution to Unit Area B.
- Column 5 - Share of beneficial acreage and percentages of the J. M. Huber Corporation and Pierce & Davis contribution to Unit Area B.
- Column 6 - Share of participation in the Union Oil Company of California Farmout.
- Column 7 - Share of beneficial acreage and percentages of the Union Oil Company of California Farmout in test well on Unit Area B. Union Oil Company of California's actual beneficial interest is 8.56724% (355.0625/4144.4183 X 100), as reflected in Column 10, but this is reduced to reflect the lesser interest in Unit Area B as a result of the participation only in the Unit for the test well (Unit Area B) by J. Hiram Moore, et al, together with the acreage contributed by J. M. Huber Corporation and Pierce & Davis and the carried interest, whose combined beneficial interest in Unit Area B equals 6.46561%. This leaves 93.33439% of the beneficial interest under Unit Area B to be shared by the participating parties (or participating interests under the Union Oil Company of California Farmout) as determined by Column 10.
- Column 8 - Share of participating acreage and percentages to be carried by the parties participating in the test well as to the 0.29 acre carried interest in Unit Area B.
- Column 9 - Share of beneficial acreage and percentages to be credited to the parties participating in the test well as to the 0.29 acre carried interest in Unit Area B.

Column 10 - Beneficial acres and percentages of the parties who are participating in all of the unit areas, including, for the purpose of computation only, the interest of Union Oil Company of California before giving consideration to the terms of the Farmout.

Column 11 - Beneficial acres and percentages of participating parties in Unit Area B only.

Column 12 - Beneficial interest in Unit Area B prior to 100% "payout" of test well cost determined by multiplying Column 11B percentages X 85.48427% (Unit Area A beneficial interests less the total of Columns 5B, 7B and 9B and the interest reflected for J. Hiram Moore, et al, under Column 12B) to arrive at Column 12A.

Column 13 - Union Oil Company of California's overriding royalty  $(437/4976.9921 / \sqrt{8.780407} \times 1/116 (6.25) = 0.54876\%)$ .

Column 14 - Participating interests in Unit Area B and in all costs and expenses in connection with the drilling, testing, completing, equipping and operating the test well prior to 100% "payout" including the carried interest. (Determined by multiplying Column 3B percentages by 98.43750 (100.00000 less the J. Hiram Moore, et al, interest of 1.56250).

Column 15 - Participating interest in Unit Area B in test well after 100% "payout". Column A, as to the parties credited with an interest, includes the acreage figures from Columns 3A, 4A, 8A and one-half of the acreage figure from Column 6A is credited one-half to all listed (except J. Hiram Moore) and one-half to Union Oil Company of California, for computing the interests under Column 15B. Column C percentages, except for the J. Hiram Moore, Trustee, interest, are determined by multiplying the Column 15B interest by 98.43750% (100.00000% - J. Hiram Moore's interest). \*Also credited with proportionate share of 0.29 carried interest.

Column 16 - Beneficial interests in Unit Area B in test well after 100% "payout". (Column 12B percentages after deducting one-half of Column 7B percentages which are credited to Union Oil Company of California. (Unit Area B contains 272.2682 beneficial acres)

Column 17 - Participating interests in Unit Area C. The J. M. Huber Corporation 20 acre interest and Pierce & Davis 20 acre interest in a 320 acre unit equal 6.25000% interest each. Other parties' interest determined by the ratio that their total participating acreage bears to the total participating acres of such parties multiplied by 87.50000% (Unit Area C participating percentage less J. M. Huber Corporation and Pierce & Davis percentages).

Column 18 - Beneficial interest under Unit Area C. Unit Area C contains 272.80 net beneficial acres. The J. M. Huber Corporation 17.5 acre beneficial interest and Pierce & Davis 17.5 acre beneficial interest each equals 6.41496% of the total unit beneficial interests. The other parties in the Unit Area share the remaining 87.17008% of the beneficial interests in Unit Area C based on the interest set forth under Column 18B. (Column 18A acres include applicable Column 2 plus Column 5A figures and 1/2 of Column 7A figures)

Column 19 - Participating interest in Unit Area A.

Column 20 - Beneficial interests in Unit Area A.

Column 21 - Participating interests in Unit Area B after recovery of 150% of costs attributable to carried interest. Carried interest force pooled by New Mexico Conservation Commission Order No. 4431.

Column 22 - Beneficial interests in Unit Area B after recovery of 150% of costs attributable to carried interest. Carried interest force pooled by New Mexico Conservation Commission Order No. 4431.

EXHIBIT "A" (Part III) - Attached to and made a part of Operating Agreement dated September 22, 1972, between Cities Service Oil Company, as Operator, and Midwest Oil Corporation et al, as Non-Operators.

LEASEHOLD INTEREST OF EACH PARTY

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
1	N/2 NE/4, W/2 Sec. 34, SW/4 Sec. 27, NE/4, E/2 NW/4, E/2 SE/4 Sec. 28, SE/4, E/2 SW/4 Sec. 21, SE/4, E/2 SW/4, NW/4 SW/4, NW/4 Sec. 20	1560.0000	4-1-73	12.5%	3.0%	United States of America NM-0354232	Amarillo Oil Company Flag-Kedfern Oil Company	780.0000 780.0000	659.1000 659.1000
2	NE/4 Sec. 20, NW/4 NW/4 Sec. 28, NE/4, N/2 SE/4 & NE/4 NW/4 of Sec. 29	480.0000	8-28-75	1/8	-0-	W. W. Simpson, Jr.	Cities Service Oil Co.	480.0000	420.0000
3	SW/4 SW/4 Sec. 20, NW/4 NW/4 Sec. 29, E/2 SW/4 Sec. 28	160.0000	3-22-76 7-16-76 8-4-76 8-23-76	1/8 1/8 1/8 1/8	-0- -0- -0- -0-	Herbert E. Cawley, Jr. Herbert E. Cawley, Jr. Helen M. Daley Gertrude Montgomery	Cities Service Oil Co. Cities Service Oil Co. Cities Service Oil Co. Cities Service Oil Co.	60.0000 26.6667 26.6667 46.6666	52.5000 23.3333 23.3333 40.8333
4	W/2 SW/4 Sec. 21	80.0000	2-11-77 3-20-77 5-5-77 5-25-77	1/8 1/8 1/8 1/8	-0- -0- -0- -0-	Emmett Barron, et al Coleen Barron Gary et al Virgil B. Barron Betty Guild Lewis	Cities Service Oil Co. Cities Service Oil Co. Cities Service Oil Co. Cities Service Oil Co.	48.0000 8.0000 8.0000 16.0000	42.0000 7.0000 7.0000 14.0000
5	W/2 NW/4 Sec. 21	80.0000	9-7-76	1/8	-0-	Ralph Barron	Cities Service Oil Co.	80.0000	70.0000
6	NE/4, E/2 NW/4 Sec. 21, E/2, NW/4 Sec. 27, N/2 NE/4, SE/4 NE/4, NE/4 SE/4 Sec. 33, S/2 NE/4, N/2 SE/4 Sec. 34	1040.0000	6-1-74	1/8	3.0%	United States of America NM-0553785	Midwest Oil Corporation	1040.0000	878.8000
		(3400.0000)							(2896.9999)

Part III

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Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
7	Tr. of land running 466' N, S, E & W in the SE/c NW/4 SW/4 Sec. 28	5.0000	8-27-76	1/8	3.0%	James William Leman, Sr., et ux	Cities Service Oil Co.	5.0000	4.2250
8	Tr. of land running 1022.5' N & S and 852' E & W in SW/c NW/4 SW/4 Sec. 28	20.0000	3-13-76 7-25-77	1/8 1/8 1/8	3.0% -0- -0-	Pascual O. Elizondo et ux Howell Spear et ux Unleased	Cities Service Oil Co. (1/2) Cities Service Oil Co. (1/4) J. Hiram Moore, Trustee (1/4)	10.0000 5.0000 5.0000	8.4500 4.3750 4.3750
9	SW/4 NW/4 & a 15-acre tr. out of the NE portion of the NW/4 SW/4 of Sec. 28	55.0000	10-20-73	1/8	-0-	Manuel Elizondo et ux	J. M. Huber Corporation Pierce & Davis	27.5000 27.5000	24.0625 24.0625
10	W/2 SW/4 Sec. 28	80.0000	9-2-75	1/8	3.0%	Adele Bujac Tucker, Guardian	Cities Service Oil Co.	80.0000	67.6000
11	**SW/4 SW/4 Sec. 28, 437.0000 W/2 SE/4, SE/4 SE/4, W/2 Sec. 33, less tracts of 2 ac., 9.22 ac., 22.13 ac., 4.25 ac., 2.28 ac., 1.29 ac., and .5 ac.	437.0000	12-27-72	18.75%	-0-	Francis G. Tracy et al	Union Oil Company of California	437.0000	355.0625
	**That part of the SW/4 SW/4 lying North and East of the east side canal of Carlsbad Project U.S.R.S. in Section 28.								
12	2 ac., more or less, out of the SW/c Sec. 28 (.29 ac.) & NW/c Sec. 33 (1.71 ac.)	2.0000							
13	S/2 SE/4 Sec. 32	80.0000	3-6-74	1/8	5.46875%	Frances Virginia Dowling et vtr	Patco Corporation	80.0000	65.6250
	(679.0000)							(677.0000)	(557.8375)

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
14	Tr. 38 out of the SW/c of SW/4 NE/4 of Sec. 33	4.9200	8-31-81	12.5%	-0-	United States of America NM-14303	Cities Service Oil Co.	4.9200	4.3050
15	35.02 ac. in SW/4 NE/4 Sec. 33	35.0800							
16	S/2 SE/4 Sec. 34	80.0000	2-1-82	12.5%	3.0%	United States of America NM-14768	Champlin Petroleum Company	80.0000	67.6000
17	Lots 2, 4, 6, 7, 9, 11, 13 and SW/2 Lot 5, Blk. 20, & Lots 12, 14 & the S 39.6' of Lot 10, Blk. 24, La Huerta, Sec. 32	75.4000	6-30-77	3/16	-0-	City of Carlsbad	Cities Service Oil Co.	75.4000	61.2625
18	Lot 8 & Lot 10 less the S 39.6', 7.21 ac. located in NW/4 SE/4 SW/4, Blk. 24, La Huerta, Sec. 32	12.7400							
19	All of Blks. 111 & 117 as shown by the amended plat of the North Carlsbad Addition, Map Bk. 3, Page 125	26.0000	6-30-77	18.75%	-0-	City of Carlsbad	Cities Service Oil Co.	26.0000	21.1250
(234.1400)									(186.3200) (154.2925)

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
20	12 tracts of land in Sec. 32	333.2086	8-1-76	3/16	-0-	Laura Elizabeth Tracy et al	Cities Service Oil Co.	333.2086	270.7320
21	Railroad right-of-way covering 49.1800 ac. out of the N/2 Sec. 32 and Sec. 33	45.7700	1-21-77	25%	-0-	The Atchison, Topeka & Santa Fe Railway Co.	Cities Service Oil Co.	45.7700	34.3275
22	Lots 5 & 6, less N 100' thereof, Blk. 19, Secs. 31 & 32*	7.1340	3-3-76	1/8	3.0%	L. A. Johnson et ux	Cities Service Oil Co.	7.1340	6.0262
23	Lot 4, Blk. 19, Secs. 31 & 32, La Huerta	4.1950							
24	Lot 3, Blk. 19, Sec. 32, La Huerta	5.3000							
25	Lot 7, Blk. 14 & Lot 4, Blk 29 in Sec. 32	10.5280	7-1-77	1/8	3.0%	Albert B. Gerrells, single	Cities Service Oil Co.	10.5280	8.8961
26	W 283.7' of Lot 2, Blk. 19, Sec. 31 & Sec. 32*	2.1000	6-13-77	1/8	3.0%	Roy Albert Chappler et ux	Cities Service Oil Co.	2.1000	1.7745
27	E 283.7' of Lot 2, Blk. 19, Sec. 32	2.7600	6-13-77	1/8	3.0%	Sammie E. Tschappeler et ux	Cities Service Oil Co.	2.7600	2.3322
28	Tr. A of Lot 1 & W/2 of Tr. B of Blk. 19, Sec. 32	1.7040	6-13-77	1/8	3.0%	Curtis Cox et ux	Cities Service Oil Co.	1.7040	1.4398
		(412.6996)							(403.2046) (325.5303)

Part III



Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
29	E/2 Tr. B and Tr. C, D & G of Sub-division of Lot 1, Blk. 19, Sec. 32	2.9160	6-19-77	1/8	3.0%	Ronald M. Kivela et ux	Cities Service Oil Co.	2.9160	2.4640
30	Tr. F of Subdivi- sion of Lot 1, Blk. 19, Sec. 32	.7340	6-22-77	1/8	3.0%	George N. Loman et ux	Cities Service Oil Co.	.7340	.6202
31	Tr. E of Lot 1, Blk. 19, Sec. 32	.3650	6-29-77	1/8	3.0%	Ronald H. Geckler et ux	Cities Service Oil Co.	.3650	.3084
32	Lot 3, Blk. 29, Sec. 32, La Huerta	5.2600							
33	4.2260 ac., being W 348.5' and S 298.79' of W 55' of E 223.9' of Lot 2, Blk. 32, Sec. 32, La Huerta, and 2 ac. be- ginning 435.3' S of NW/c Sec. 31, thence S 209', E 418', N 209' and W 418' to point of beginning, Sec. 32	6.2260	9-27-77	1/8	3.0%	Kiel Bonnell et ux	Cities Service Oil Co.	6.2260	5.2610
34	E 227' of Lot 1, Blk. 29, Sec. 32, La Huerta	2.0000							
(17.5010)									

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
35	W 113.5' of E 340.5' of Lot 1, Blk. 29, Sec. 32, La Huerta	1.2100							
36	W 227' of Lot 1, Blk. 29, Sec. 32, La Huerta	2.4200							
37	E 567.5' of Lot 2, Blk. 29, Sec. 32, La Huerta	3.6300							
38	W 227' of Lot 2, Blk. 29, Sec. 32, La Huerta	2.7800							
39	S 130' of E 166' of Lot 12, Blk. 31, Sec. 29, La Huerta	.5300	9-27-77	1/8	3.0%	Kiel Bonnell et ux	Cities Service Oil Company	.5300	.4479
40	S 270' of Lot 10 & Lot 12, Blk. 31, Secs. 29 & 32, La Huerta, less .53 ac. in SE/4 SE/4	10.1400							
41	E 113' of Lot 11, Blk. 28, Secs. 29 & 32, La Huerta	1.4044	9-20-77	1/8	3.0%	William A. Wood	Cities Service Oil Company	1.4044	1.1867
42	W 113' of E 226' of Lot 1, Blk. 28, Sec. 29, La Huerta	1.0947							
		(23.2091)						(1.9344)	(1.6346)

Part III

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
43	W 114' of E 335' of Lot 11, Blk. 28, Secs. 29 & 32, La Huerta	1.4047							
44	Lot 9, Blk. 28, Sec. 29, La Huerta	5.3200	10-5-77 10-31-77	1/8	3.0%	James R. Coleman Elizabeth M. Coleman	Cities Service Oil Co. (1/4) (1/4)	1.3300 1.3300	1.1239 1.1239
45	Lot 7, Blk. 28, Sec. 29, La Huerta	5.3200	10-5-77 10-31-77	1/8	3.0%	James R. Coleman Elizabeth M. Coleman	Cities Service Oil Co. (1/4) (1/4)	1.3300 1.3300	1.1239 1.1239
46	Lots 10, 12 & W 2 acres of Lot 11, Blk. 28, Sec. 29 & Sec. 32	13.2550	1-14-76	1/8	3.0%	Fred Russell et ux	Cities Service Oil Co.	13.2550	11.2004
47	Tr. of land running 652.5' N & S and 267.5' E & W in Lot 11, Blk. 25, Secs. 29 & 32	4.7520	1-28-76	1/8	3.0%	William E. Pickens et ux	Cities Service Oil Co.	4.7520	4.0154
48	W 300' of the S 270.789' of Lot 9 & the W 300' of Lot 11, Blk. 25, Secs. 29 & 32	4.7690	6-19-77	1/8	3.0%	Elizabeth Bruhl, single	Cities Service Oil Co.	4.7690	4.0298
49	Lot 12, Blk. 25, Secs. 29 & 32	5.7850	7-1-77	1/8	3.0%	Hazel A. Gerrells et al	Cities Service Oil Co.	5.7850	4.8883
50	E 141.87' of Lot 11, Blk. 22, Secs. 29 & 32	1.6720	4-27-76	1/8	3.0%	Jenson G. Davis et ux	Cities Service Oil Co.	1.6720	1.413
		(42.2777)						(35.5530)	(30.0423)

Part III

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
51	W 141.87' of E/2 of Lot 11, Blk. 22, Secs. 29 & 32	1.3800	4-14-76	1/8	3.0%	James R. Masters et ux	Cities Service Oil Co.	1.3800	1.1661
52	E 141.87' of W/2 of Lot 11, Blk. 22, Secs. 29 & 32	1.3800	3-10-76	1/8	3.0%	Luther L. Green et ux	Cities Service Oil Co.	1.3800	1.1661
53	W 141.87' of Lot 11, Blk. 22, Sec. 29, La Huerta	1.3800							
54	Lot 6 less N 40', Blk. 11, and Lot 12 Blk. 22, Secs. 29, 30 & 32*	5.3020	1-28-76	1/8	3.0%	Carlsbad Municipal School District Number C	Cities Service Oil Co.	5.3020	4.4802
55	E/2 of Lots 9 and 11, Blk. 18, Sec. 29	5.8300	12-16-75	1/8	3.0%	H. H. Schulle et ux	Cities Service Oil Co.	5.8300	4.9263
56	W 405' of Lot 7 & W/2 of Lots 9 & 11, Blk. 18, Secs. 29 & 32	8.8280	7-8-76	1/8	3.0%	Jack L. Suter et ux	Cities Service Oil Co.	8.8280	7.4956
57	Tracts B, C & D, Lot 12, Blk. 18, Secs. 29 & 32, La Huerta	2.9300	8-31-77	1/8	3.0%	W. T. Parker et ux	Cities Service Oil Co.	2.9300	2.4759
58	Tr. A of subdivision of Lot 12 in Blk. 18, Secs. 29, 30, 31 & 32*	1.7400	4-16-76	1/8	3.0%	Dora Lumsford Pate et al	Cities Service Oil Co.	1.7400	1.4703
		(28.7700)						(27.3900)	(23.1805)

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
59	Lot 10 Blk. 18, Secs. 29 & 30*	5.9580	11-30-75	1/8	3.0%	W. T. Parker et ux	Cities Service Oil Co.	5.9580	5.0345
60	Tr. of land out of lot 7, Blk. 18, Sec. 29, La Huerta	.1310	7-17-77	1/8	3.0%	Norman H. Benson et ux	Cities Service Oil Co.	.1310	.1107
61	Tract of land in SE/c of lot 7, Blk. 18, Sec. 29	.4520	6-8-77	1/8	3.0%	Norman H. Benson et ux	Cities Service Oil Co.	.4520	.3819
62	N 249.789' of the E 162.5' of lot 7, Blk. 18, Sec. 29 less a tr. of land in the NE/c of said lot	.3170	7-5-77	1/8	3.0%	Philip H. Wailes, Sr., et ux	Cities Service Oil Co.	.3170	.2678
63	Tr. of land in the NE/c of lot 7, Blk. 18, Sec. 29	.1370	6-6-77	1/8	3.0%	Julia Wailes	Cities Service Oil Co.	.1370	.1157
64	Tr. of land running 220' N & S & 100' E & W in lot 7, Blk. 18, Sec. 29	.6810	6-6-77	1/8	3.0%	Fred J. Weber, Jr.	Cities Service Oil Co.	.6810	.5754
65	Lots 6 & 8 in Blk. 18, Sec. 29	9.1231	12-2-75	1/8	3.0%	Beal R. Willits et ux	Cities Service Oil Co.	9.1231	7.7090
66	N 5 acres lot 1, S 2.7 acres lot 3, & all lot 5, Blk. 18, Sec. 29	13.7000	1-28-76	1/8	3.0%	Vera H. Sikes	Cities Service Oil Co.	13.7000	11.5765
		(30.4991)						(30.4991)	(25.7715)

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
67	S 153.5' Lot 4, Blk. 18, Secs. 29 & 30*	1.8230	12-14-75	1/8	3.0%	Joe Lee Stevens et ux	Cities Service Oil Co.	1.8230	1.5044
68	S 95.9' Lot 2, & Lot 4 less the S 153.5', Blk. 18, Secs. 29 & 30*	4.3900	11-21-75	1/8	3.0%	Traders of Carlsbad, Inc.	Cities Service Oil Co.	4.3900	3.7095
69	S 207' Lot 1 & N 176.5' Lot 3, Blk. 18, Sec. 29	5.2600	11-30-75	1/8	3.0%	Billy F. Basham et ux	Cities Service Oil Co.	5.2600	4.4447
70	N 495.136' of Lot 2, Blk. 18, Secs. 29 & 30*	6.4700	11-19-75	1/8	3.0%	Glen E. Terry et ux	Cities Service Oil Co.	6.4700	5.4671
71	Lots 8 & 10, Blk. 22, Sec. 29	10.5290	2-25-76	1/8	3.0%	Stanley W. Johnston et ux	Cities Service Oil Co.	10.5290	8.8970
72	Lot 9, Blk. 22, Sec. 29	5.3900	11-19-75	1/8	3.0%	Mabel B. Smith, single	Cities Service Oil Co.	5.3900	4.5545
73	Lot 7, Blk. 22, Sec. 29	5.3900	11-23-75	1/8	3.0%	Harold C. Nesbit et ux	Cities Service Oil Co.	5.3900	4.5545
74	Lot 6, Blk. 22, Sec. 29	5.2640	3-10-76	1/8	3.0%	Gale E. Wiley et ux	Cities Service Oil Co.	5.2640	4.4480
75	Lot 5, Blk. 22, Sec. 29	5.2640	12-1-75	1/8	3.0%	Alyce P. Siebenthal	Cities Service Oil Co.	5.2640	4.4480
76	Lots 1 & 2, Blk. 2, Sec. 29, La Huerta	2.3800							
		(52.1600)						(49.7800)	(42.0277)

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
77	Lots 3 & 4, Blk. 1, Unit No. 2, Sec. 29	2.3360	6-14-77	1/8	3.0%	George J. David et ux	Cities Service Oil Co.	2.3360	1.9739
78	Lot 5 and W 36.5' of Lot 6, Blk. 1, Unit No. 2, Sec. 29	1.6250	6-26-77	1/8	3.0%	John G. Hinson et ux	Cities Service Oil Co.	1.6250	1.3731
79	E 93' Lot 1 and all of Lot 2, Blk. 2, Unit No. 2, Sec. 29	2.1800	4-16-76	1/8	3.0%	Charles W. Wood et ux	Cities Service Oil Co.	2.1800	1.8421
80	Tr. of land running 350' N & S & 308.3' E & W in Lot 2, Blk. 22, & W 64' of Lot 1, Blk. 2, Unit No. 2, Sec. 29	3.2400	6-7-77	1/8	3.0%	Richard F. White et ux	Cities Service Oil Co.	3.2400	2.7378
81	Lot 3, Blk. 2, Unit No. 2, Sec. 29, La Huerta	1.2900							
82	S 174' of Lot 8, Blk. 1, Sec. 29, La Huerta	1.1100							
83	Lot 8, Blk. 25, Sec. 29	5.2640	12-8-75	1/8	3.0%	Vernon Joseph Bass et ux	Cities Service Oil Co.	5.2640	4.4480
84	Lot 10, Blk. 25, less .34 ac. out of W portion of said lot, Sec. 29	5.6600	10-7-77	1/8	3.0%	Cresencio G. Fierro et ux	Cities Service Oil Co.	5.6600	4.7827

(22.7050)

(20.3050)

(17.1576)

Part III

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Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
85	A tr. in Lot 10, Blk. 25, running 50' N & S and 150' E & W 100' N of SW/c of said lot, Sec. 29	.1700							
86	A tr. in Lot 10, Blk. 25, running 50' N & S and 150' E & W 50' N of the SW/c of said lot, Sec. 29	.1700	10-11-77	1/8	3.0%	Pablo P. Saenz et ux	Cities Service Oil Co.	.1700	.1437
87	W 1 ac. of N 1.5 ac. of Lot 9, Blk. 25, Sec. 29	1.0000							
88	E .5 ac. of N 1.5 ac. of Lot 9, Blk. 25, Sec. 29	.5000							
89	Lot 7, Blk. 25, Sec. 29	6.4700							
90	Lot 5, Blk. 25, and a tr. in Lot 5, Blk. 28 lying N & E of U.S.R.S. Irrigation Canal in Sec. 29	9.7460	1-14-76	1/8	-3-	W. W. Simpson, Jr.	Cities Service Oil Co.	9.7460	8.5277
91	Tr. of land run- ning 77.75' N & S and 141.51' E & W in the SW/c of Lot 6, Blk. 25, Sec. 29	.2500							

(18.3060)

Part III  
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(9.9160)

(8.6714)



Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
92	N 77.75' of S 155.5' & E 426' of S 77.5' of Lot 6, Blk. 25, Sec. 29	1.7600							
93	S 3 ac. of N 4 ac. of Lot 6, Blk. 25, Sec. 29	3.0000							
94	N 1 ac. of Lot 6, Blk. 25, Sec. 29	1.0000							
95	Lots 6 & 8 & N 117.4' of Lot 10, Blk. 31 & S 322.9' of Lot 17, Blk. 1, Sec. 29	17.5250	12-16-75	1/8	3.0%	Roscoe J. Melvin et ux	Cities Service Oil Co.	17.5250	14.8086
96	Lot 8 less the N 100' and less a tr. of land running 60' N & S & 150' E & W in the SE/c of said lot, Blk. 28, Sec. 29	3.6460	4-8-76	1/8	3.0%	Myrl Dean Reynolds et ux	Cities Service Oil Co. (1/2)	1.8230	1.1540
97	Tr. of land running 60' N & S & 150' E & W in Lot 8, Blk. 28, Sec. 29	.1240	1-28-76	1/8	3.0%	W. E. Pickens et ux	Cities Service Oil Co.	.1240	.1047
98	Lot 6 & a portion of Lot 5 lying SW of the irrigation canal in Blk. 28, Sec. 29	8.2540	4-19-76	1/8	3.0%	K. O. Monk et ux	Cities Service Oil Co.	8.2540	6.9746

(35.3090)

(27.7260)

(23.0419)

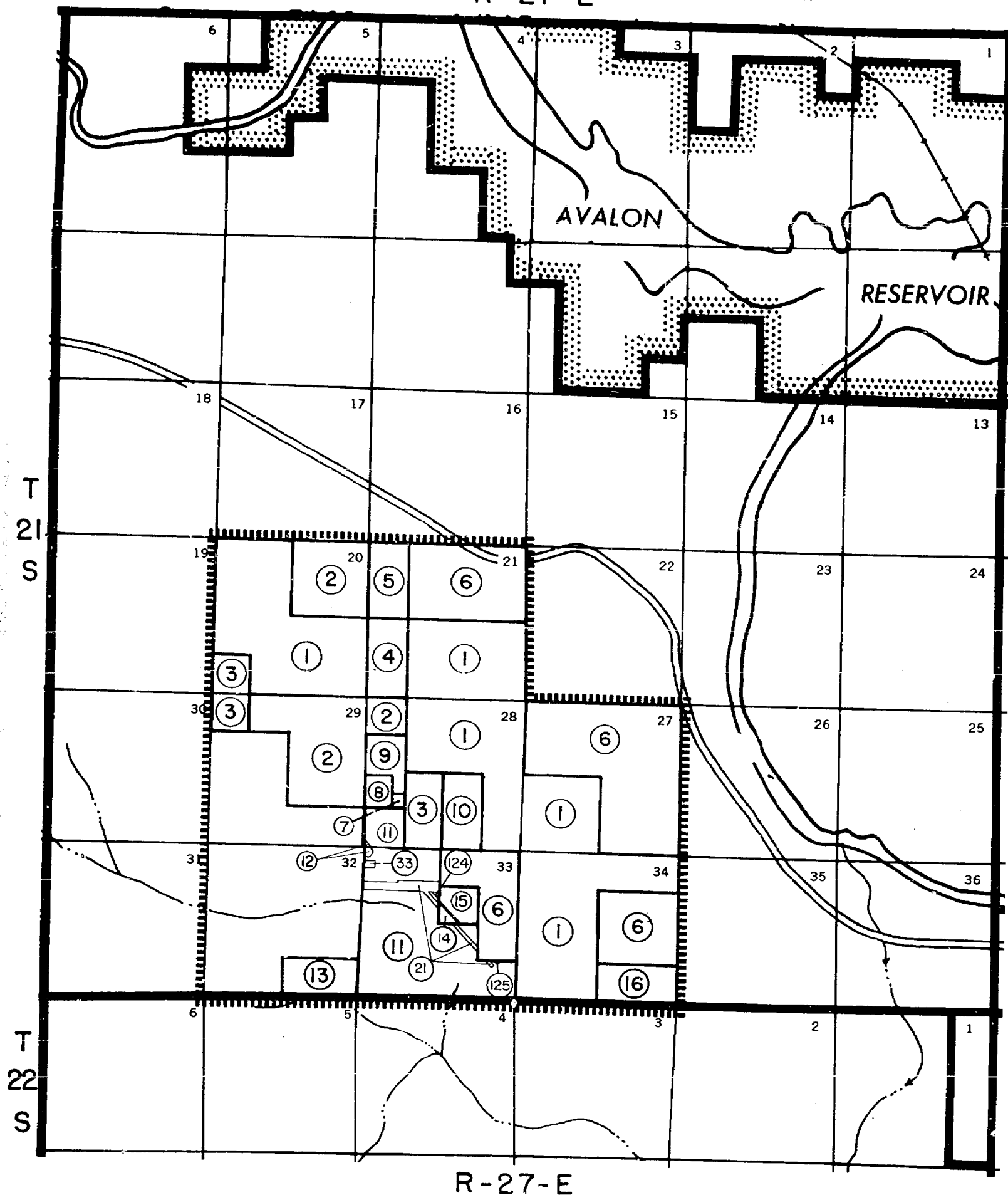
Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
99	N 1.3 ac. of Lot 8, Blk. 28, Sec. 29	1.3000	9-28-77	1/8	3.0%	Wayne Ray Jones	Cities Service Oil Co. (1/2)	.6500	.5493
100	Tr. of land running 174' N & S & 250' E & W in the SE/4 of the NE/4 SW/4 of Sec. 29	1.1000	6-14-77	1/8	3.0%	Ricardo R. Jiminez et ux	Cities Service Oil Co.	1.1000	.9295
101	Tr. of land running 174' N & S & 250' E & W in the NE/4 SW/4 of Sec. 29	1.1000	6-2-76	1/8	3.0%	Robert T. Cornett	Cities Service Oil Co.	1.1000	.9295
102	S/2 SE/4 SE/4 NW/4 & N/2 NE/4 NE/4 SW/4 of Sec. 29	10.2900							
103	9 tr. in Sec. 29	63.6400	10-29-75	1/8	3.0%	Leona Stagner et al	Cities Service Oil Co.	53.6400	53.7842
104	Lot 11, Blk. 17, Sec. 29	4.6440	3-16-76	1/8	3.0%	John T. Stephens, Jr., et ux	Cities Service Oil Co.	4.6440	3.9241
105	Lot 12, Blk. 17, Sec. 29	4.4415							
106	Lot 6, Blk. 1, Sec. 29	.8800	3-16-76	1/8	3.0%	Sherwood T. Dalton et ux	Cities Service Oil Co.	.8800	.7436
107	Lot 7, Blk. 1, Secs. 29 & 30*	.8800	3-23-76	1/8	3.0%	Marcus P. Bell et ux	Cities Service Oil Co.	.8800	.7436
108	1.25 acs. in Lot 8, Blk. 1, Sec. 29	.9900	3-11-76	1/8	3.0%	Roby F. Poovey et ux	Cities Service Oil Co.	.9900	.8365
		(89.2655)						(73.8840)	(62.4403)

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
109	Lot 9 less S 40' Lots 14 & 18, Blk. 1, Secs. 29 & 30*	3.9500	3-25-76	1/8	3.0%	Bill Wilcox et ux	Cities Service Oil Co.	3.9500	3.3378
110	Lot 15, Blk. 1, Secs. 29 & 30*	.8800	3-26-76	1/8	3.0%	Raul L. Urquidez et ux	Cities Service Oil Co.	.8800	.7436
111	Lot 16, Blk. 1, Secs. 29 & 30*	.8800	4-12-76	1/8	3.0%	David A. Hughes et ux	Cities Service Oil Co.	.8800	.7436
112	S 82' of the S 2.5 ac. of the N/2 NW/4 SW/4 NW/4 of Sec. 29	1.2500	8-28-77	1/8	3.0%	Florence M. Glick	Cities Service Oil Co.	1.2500	1.0563
113	N 83' of the S 2.5 ac. of the N/2 NW/4 SW/4 NW/4 of Sec. 29	1.2500	8-25-77	1/8	3.0%	Roy L. Evans et ux	Cities Service Oil Co.	1.2500	1.0563
114	N/2 N/2 NW/4 SW/4 NW/4 Sec. 29	2.5000	6-21-77	1/8	3.0%	Gilbert L. Urquidez et ux	Cities Service Oil Co.	2.5000	2.1125
115	Lot 13, Blk. 1, Sec. 29	1.7000	6-21-77	1/8	3.0%	James R. Ryan et ux	Cities Service Oil Co.	1.7000	1.4365
116	Lot 5, Blk. 1, Sec. 29	1.9400	4-1-76	1/8	3.0%	John A. Dunaway et ux	Cities Service Oil Co.	1.9400	1.6393
117	Lot 4, Blk. 1, Sec. 29	1.9200	3-16-76	1/8	3.0%	Edward L. Green et ux	Cities Service Oil Co.	1.9200	1.6224
118	Lot 3, Blk. 1, Sec. 29	1.9200							
119	Lot 2, Blk. 1, Sec. 29	1.9200							
		(20.1100)						(16.2700)	(13.7483)

Tract No.	Description	Acres	Expiration Date	Royalty	Overriding Royalty	Lessor	Working Interest Owner	Net Gross Acres	Net Working Interest Acres
120	Lot 1, Blk. 1, Sec. 29	1.5180	3-22-76	1/8	3.0%	Theodore Wilks et ux	Cities Service Oil Co.	1.5180	1.2827
121	S 90' of the N 110' of Lot 17, Blk. 1, Sec. 29	.5100							
122	S 40' of Lot 9 & N 20' of Lot 17, Blk. 1, Sec. 29	.3400	4-2-76	1/8	3.0%	Leona Stagner	Cities Service Oil Co.	.3400	.2873
123	Lots 10, 11 & 12, Blk. 1, Sec. 29	5.1110	5-17-76	1/8	3.0%	Clyde V. Pelton et ux	Cities Service Oil Co.	5.1110	4.3187
124	1.29 ac., more or less, out of the SE/4 NW/4 of Sec. 33	1.2900							
125	.50 ac., more or less, out of the SE/4 SE/4 of Sec. 33	.5000							
		(9.2690)						(6.9690)	(5.8887)
		(5115.2210)						(4976.9921)	(4196.9183)

\* Portions of the lands covered by these leases are situated in either Section 30 or Section 31, which are neither covered nor included in this agreement.

R-27-E



## EXHIBIT "A" PART IV

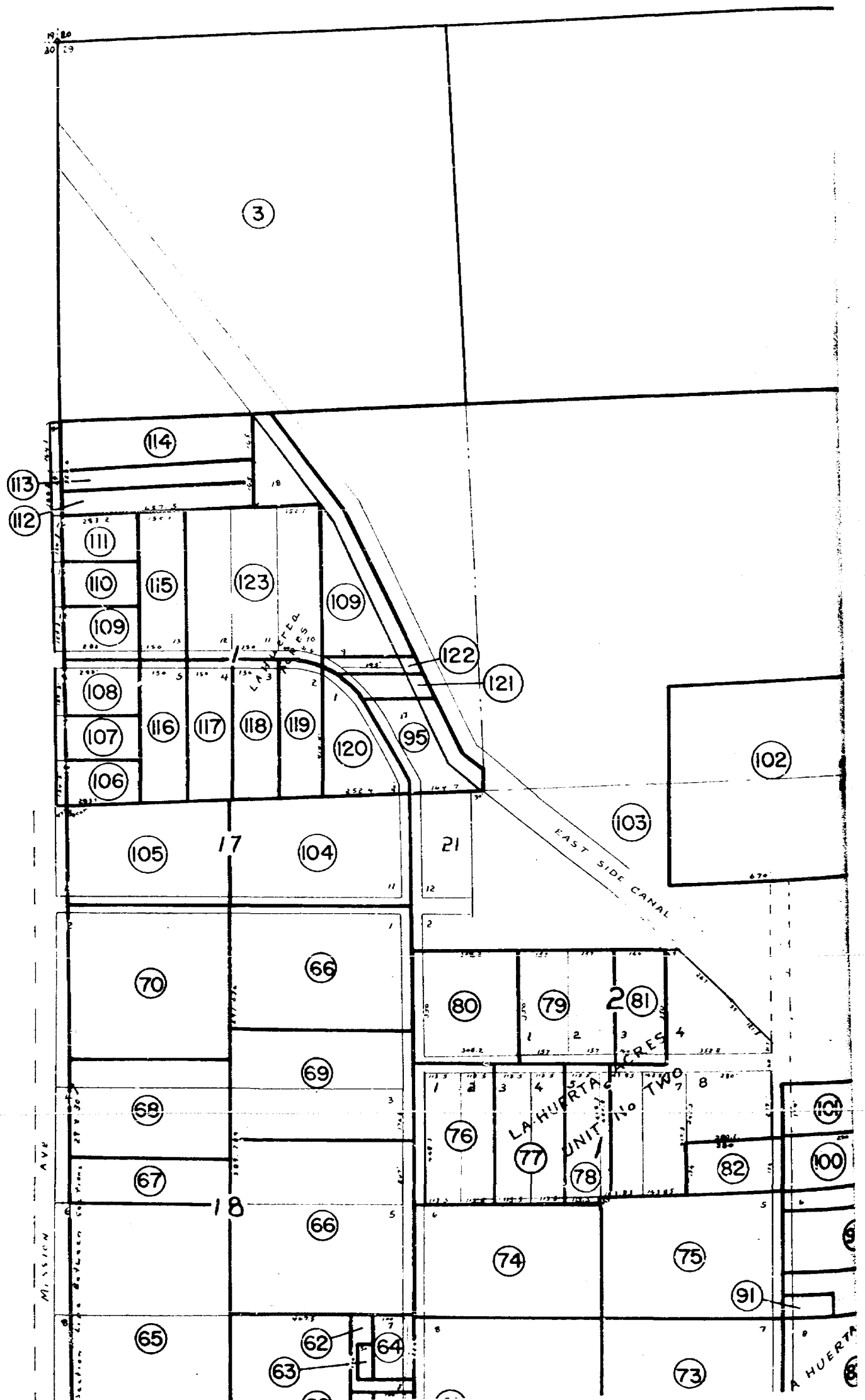
OPERATING AGREEMENT DATED SEPT. 22 1972  
EDDY COUNTY, NEW MEXICO

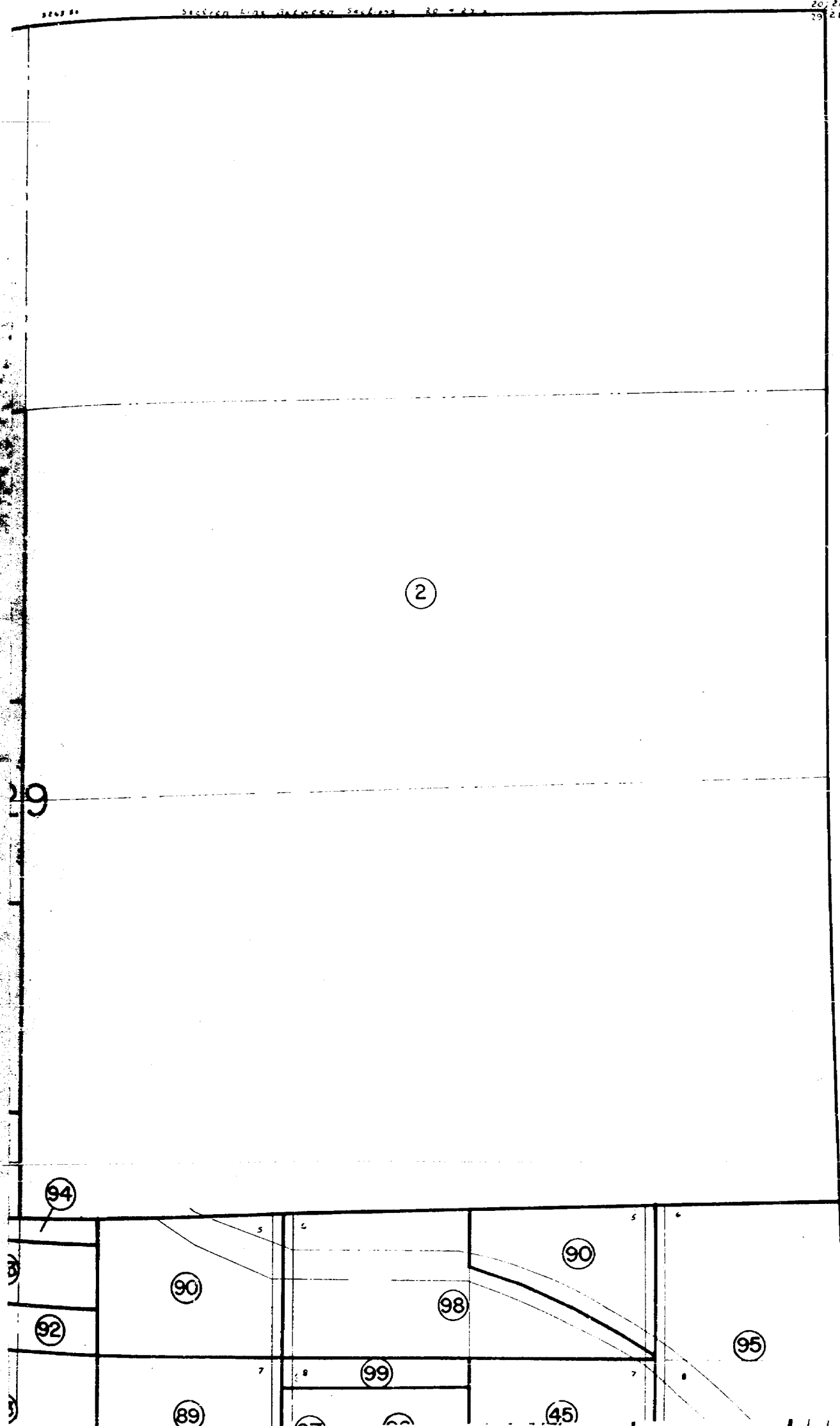
PLAT OF UNIT AREA

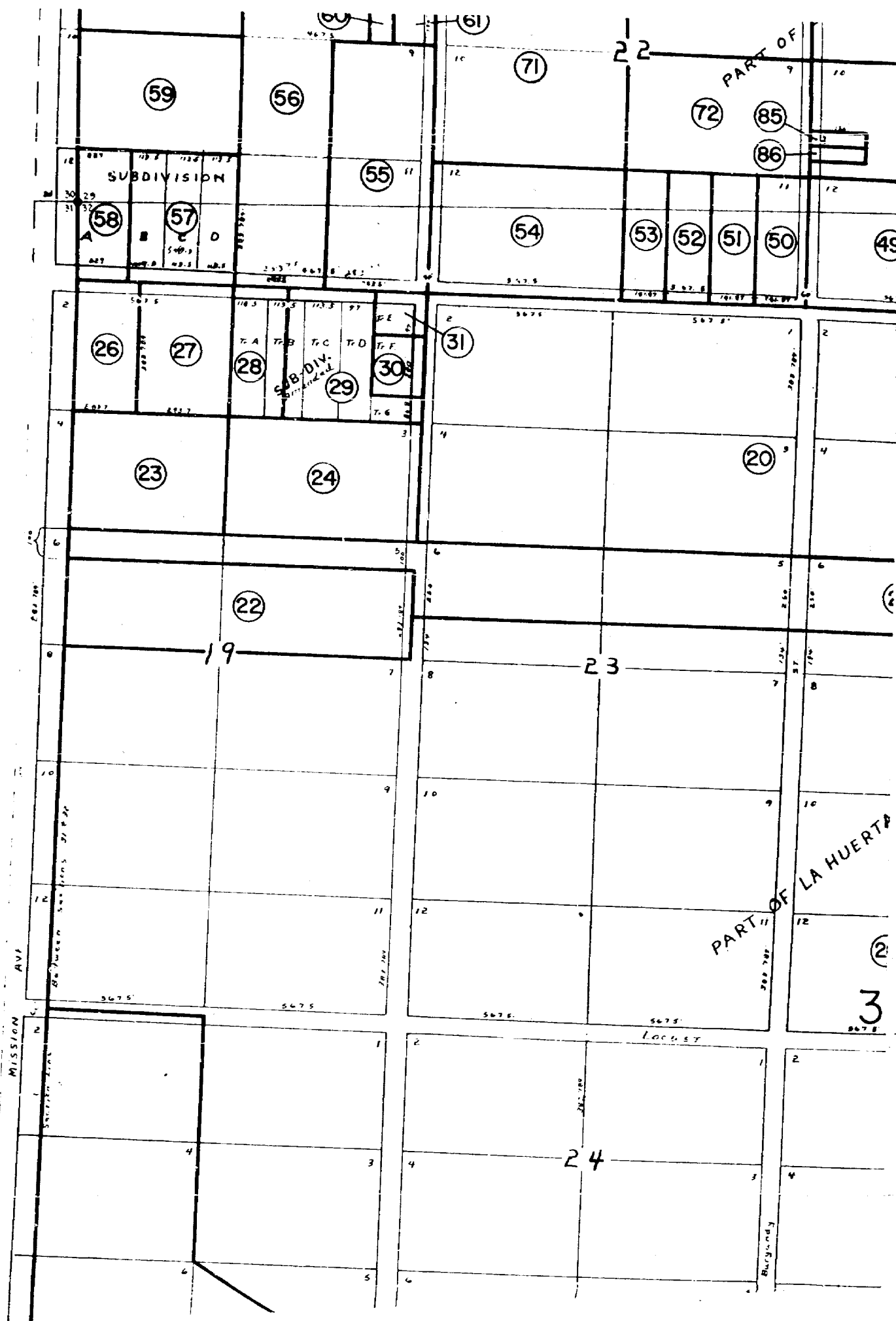
..... UNIT AREA

② TRACT NUMBERS

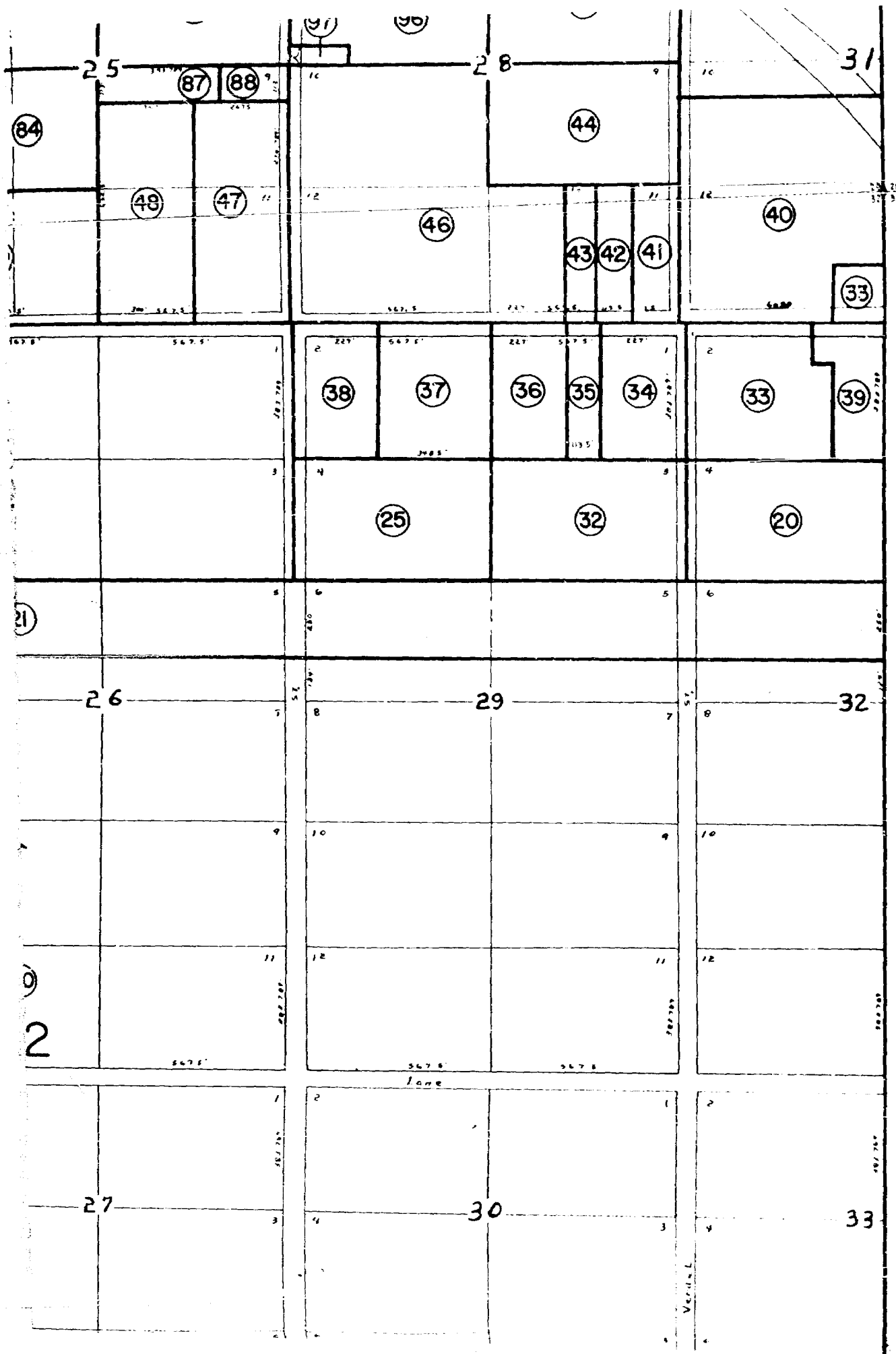
SCALE: 1" = 4000'

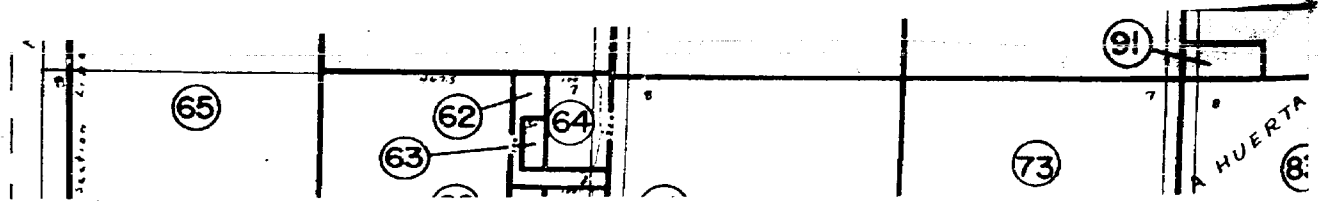
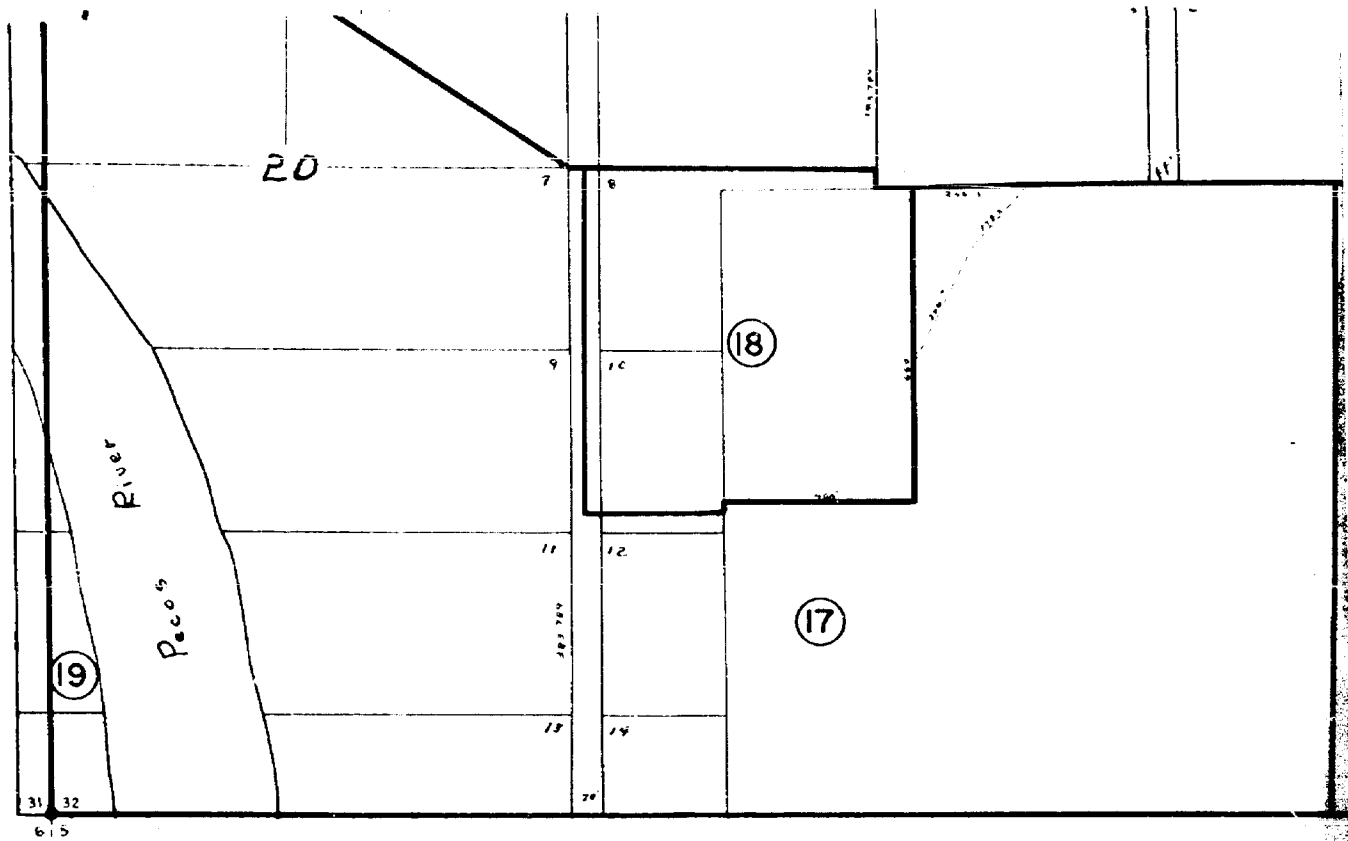


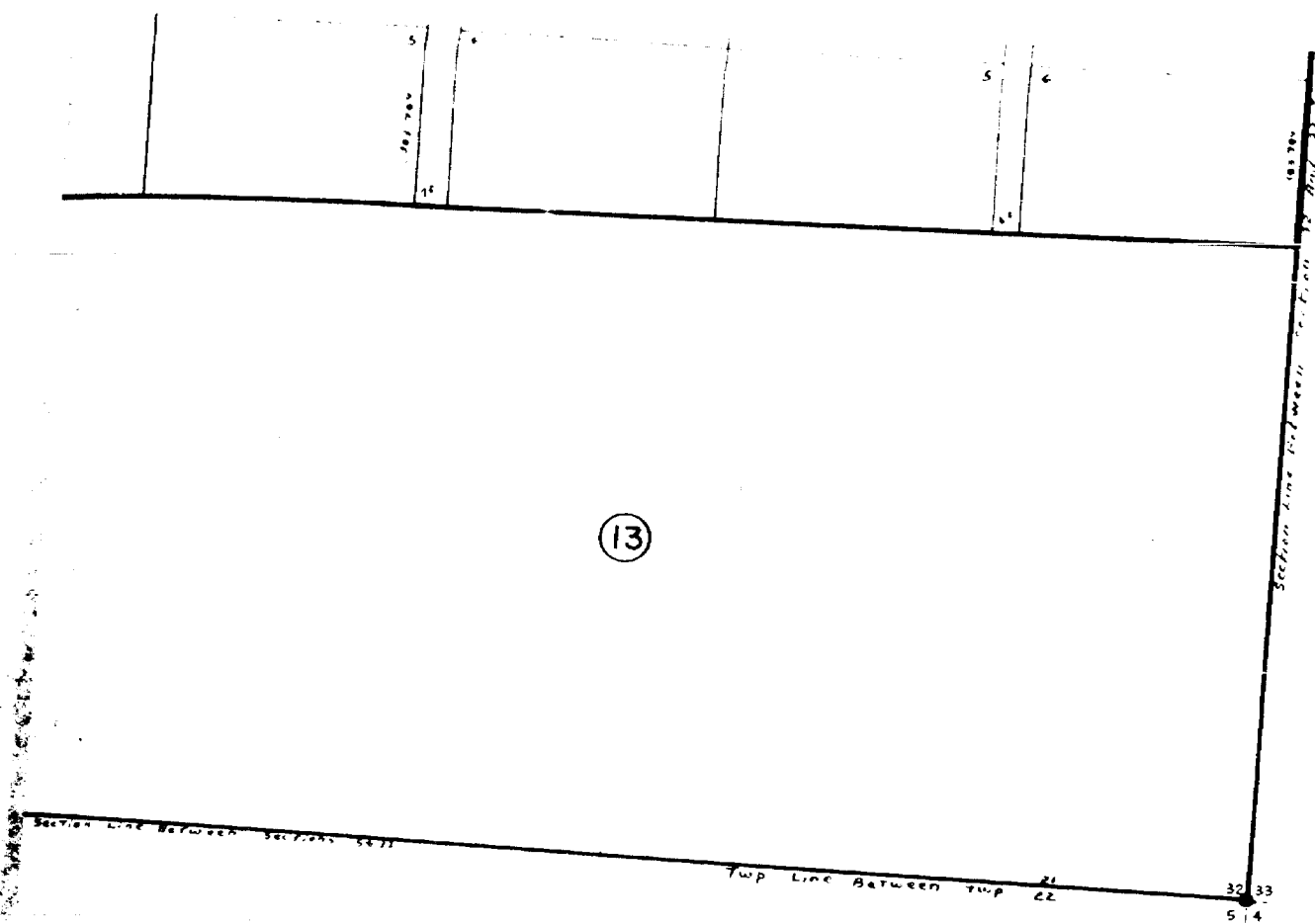












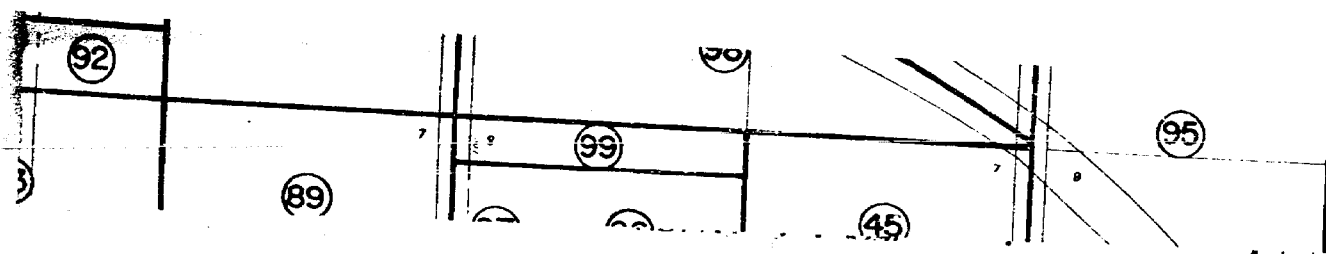
# EXHIBIT "A" PART V

OPERATING AGREEMENT DATED SEPT. 22 1972  
EDDY COUNTY, NEW MEXICO

PLAT OF SUBDIVISIONS OF SEC. 29 & 32 , T-21S R-27E

② TRACT NUMBERS

SCALE: 1"=400'



## EXHIBIT "B"

INSURANCE

Operator shall also purchase or provide for the benefit of the parties hereto:

<u>Type of Coverage</u>		<u>Liability Limits of Not Less Than</u>
(a) Employers' Liability and extension of Workmen's Compensation and Employers' Liability to cover marine operations where applicable.	-	\$100,000 each accident
(b) Comprehensive General Liability (excluding underground property damage but including operation of watercraft where applicable).	- Bodily Injury	\$100,000 each person 300,000 each accident
	- Property Damage	100,000 each accident
(c) Comprehensive Automobile Liability	- Bodily Injury	\$100,000 each person 300,000 each accident
	- Property Damage	100,000 each accident

It is further understood and agreed that the Operator is not a warrantor of the financial responsibility of the insurer with whom such insurance is carried, and that except for willful negligence, Operator shall not be liable to Non-operator for any loss suffered on account of the insufficiency of the insurance carried, or the insurer with whom carried. Operator shall not be liable to Non-operator for any loss accruing by reason of Operator's inability to procure or maintain the insurance above mentioned. Operator agrees that if at any time during the life of this agreement it is unable to obtain or maintain such insurance, it shall immediately notify Non-operator in writing of such fact.

## EXHIBIT " C "

Recommended by the  
Council of Petroleum  
Accountants Societies of  
North America.

Attached to and made a part of Operating Agreement dated  
September 22, 1972, between Cities Service Oil Company, as  
Operator, and Midwest Oil Corporation, et al., as Non-  
Operators.

### ACCOUNTING PROCEDURE (JOINT OPERATIONS)

#### I. GENERAL PROVISIONS

##### 1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this "Accounting Procedure" is attached.  
"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.  
"Operator" shall mean the party designated to conduct the Joint Operations.  
"Non-Operators" shall mean the nonoperating parties, whether one or more.  
"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.  
"Parties" shall mean Operator and Non-Operators.  
"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.  
"Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

##### 2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

##### 3. ~~OPERATOR'S OBLIGATION TO NON-OPERATORS~~

~~Where an agreement between the Operator and Non-Operators is expressly required under this Accounting Procedure and the agreement to which this Accounting Procedure is attached contains no provisions in regard thereto, the agreement or action of a majority in interest of the Non-Operators shall be controlling in all such matters.~~

##### 4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:

- Statement in detail of all charges and credits to the Joint Account.
- Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.
- Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

##### 5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of twelve percent (12% per annum or such maximum rate as permitted by law, whichever is the lesser, until paid.

##### 6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators to protest or question the correctness thereof; provided however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of the Joint Property as provided for in Section VII.

##### 7. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided however, the making of an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

#### II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

##### 1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

##### 2. Labor

- Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.
- Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
- Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

### 3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost; provided however, the total of such charges shall not exceed **fifteen percent (15%)** of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

#### 4. Material

Material purchased or furnished by Operator for use on the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

## 5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
- C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.

## 6. Services

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

## 7. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

## 8. Legal Expense

All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

## 9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

## 10. Insurance Premiums

Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.

## 11. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.

### III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

**OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:**

- ☐ Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- ☒ Paragraph 4. (Combined fixed rate)

### 1. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's

office located at or near \_\_\_\_\_ (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

## 2. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

**WELL BASIS (RATE PER WELL PER MONTH)**

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
1000				
1500				
2000				

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

**3. Operator's Fully Owned Warehouse Operating and Maintenance Expense**  
(Describe fully the agreed procedure to be followed by the Operator.)

N O N E

**4. Combined Fixed Rates**

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

**WELL BASIS (RATE PER WELL PER MONTH)**

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)
	All Wells	All Wells
All Depths	\$1410.00	\$185.00

Said fixed rate (shall) (~~XXXXX~~) include salaries and expenses of production foremen.

**5. Application of Administrative Overhead or Combined Fixed Rates**

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

- (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
- (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
- (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
- (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
- (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
- (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.

C. The well rates shall apply to the total number of wells located on each lease being drilled or operated under the agreement to which this Accounting Procedure is attached.

D. The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator shall charge the Joint Account for the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III.

(9) That ~~\$160~~ <sup>\$200</sup> 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 charge 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.

counts actually received.

**2. Material furnished from Operator's Warehouse or Other Properties**

**A. New Material (Condition "A")**

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

**B. Used Material (Condition "B" and "C")**

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which cannot be classified as Condition "B" but which,
  - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
  - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

(4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

### 3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

### 4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

### 5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

## V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the Joint Property.

### 1. Material Purchased by the Operator or Non-Operators

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

### 2. Division in Kind

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.

### 3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

## VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

### 1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

### 2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

### 3. Good Used Material

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or

B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

### 4. Other Used Material

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

B. Is serviceable for original function but not suitable for reconditioning.

### 5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

### 6. Junk Material

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

### 7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

## VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

### 1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator, who shall in that event furnish Non-Operators with a copy thereof.

### 2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

### 3. Special Inventories

Special inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.



EXHIBIT "D"

Attached to and made a part of Operating Agreement dated September 22, 1972, between Cities Service Oil Company, as Operator, and Midwest Oil Corporation et al, as Non-Operators.

(NO UNLEASED MINERAL INTEREST BEING CONTRIBUTED)

CONSENT AND RATIFICATION  
UNIT OPERATING AGREEMENT DATED SEPTEMBER 22, 1972  
EMBRACING LANDS IN T21S, R27E, EDDY COUNTY, NEW MEXICO

The undersigned Pat Sims hereby acknowledges receipt of a copy of the Operating Agreement dated September 22, 1972 covering among other lands the N/2 Section 33, T21S, R27E and acknowledges that he read the same and is familiar with the terms and conditions thereof.

The said Pat Sims has acquired by mineral deed dated \_\_\_\_\_ the minerals under 32.79 acres of land referred to under Tracts #15 and #124 of the said Operating Agreement and does desire to participate in operations for the development of the N/2 of Section 33, T21S, R27E to the extent of the proportionate interest that the 32.79 acres in said Tracts #15 and #124 bears to the total acreage in the said N/2 of Section 33, T21S, R27E and does hereby consent and ratify all of the terms and provisions of the said Operating Agreement exactly the same as if the undersigned had executed the original of the said Operating Agreement or a counterpart thereof insofar only as same pertains to the lands described in this Consent and Ratification.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

ATTEST:

Address: P. O. Box 1046  
Eunice, New Mexico 88231

STATE OF New Mexico )  
COUNTY OF Eddy ) SS

On this 27 day of December, 1973, before me personally appeared Pat Sims, Alene Sims, Tom Korman, Harold Korman to me known to be the persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My Commission Expires:

April 5, 1976

Thelma Leer  
Notary Public

**CARLSBAD**

1.6 Acres - 31  
Sec 32  
M. Jimines  
Force Pooling

35  
32  
29  
27  
26  
25

CITIES SERVICE  
M. JIMINES  
FORCE POOLING

21-22-23-24-25-26-27-28-29-30-31-32-33-34-35-36-37-38-39-40-41-42-43-44-45-46-47-48-49-50-51-52-53-54-55-56-57-58-59-60-61-62-63-64-65-66-67-68-69-70-71-72-73-74-75-76-77-78-79-80-81-82-83-84-85-86-87-88-89-90-91-92-93-94-95-96-97-98-99-100-101-102-103-104-105-106-107-108-109-110-111-112-113-114-115-116-117-118-119-120-121-122-123-124-125-126-127-128-129-130-131-132-133-134-135-136-137-138-139-140-141-142-143-144-145-146-147-148-149-150-151-152-153-154-155-156-157-158-159-160-161-162-163-164-165-166-167-168-169-170-171-172-173-174-175-176-177-178-179-180-181-182-183-184-185-186-187-188-189-190-191-192-193-194-195-196-197-198-199-200-201-202-203-204-205-206-207-208-209-210-211-212-213-214-215-216-217-218-219-220-221-222-223-224-225-226-227-228-229-230-231-232-233-234-235-236-237-238-239-240-241-242-243-244-245-246-247-248-249-250-251-252-253-254-255-256-257-258-259-260-261-262-263-264-265-266-267-268-269-270-271-272-273-274-275-276-277-278-279-280-281-282-283-284-285-286-287-288-289-290-291-292-293-294-295-296-297-298-299-300-301-302-303-304-305-306-307-308-309-310-311-312-313-314-315-316-317-318-319-320-321-322-323-324-325-326-327-328-329-330-331-332-333-334-335-336-337-338-339-340-341-342-343-344-345-346-347-348-349-350-351-352-353-354-355-356-357-358-359-360-361-362-363-364-365-366-367-368-369-370-371-372-373-374-375-376-377-378-379-380-381-382-383-384-385-386-387-388-389-390-391-392-393-394-395-396-397-398-399-400-401-402-403-404-405-406-407-408-409-410-411-412-413-414-415-416-417-418-419-420-421-422-423-424-425-426-427-428-429-430-431-432-433-434-435-436-437-438-439-440-441-442-443-444-445-446-447-448-449-450-451-452-453-454-455-456-457-458-459-460-461-462-463-464-465-466-467-468-469-470-471-472-473-474-475-476-477-478-479-480-481-482-483-484-485-486-487-488-489-490-491-492-493-494-495-496-497-498-499-500-501-502-503-504-505-506-507-508-509-510-511-512-513-514-515-516-517-518-519-520-521-522-523-524-525-526-527-528-529-530-531-532-533-534-535-536-537-538-539-540-541-542-543-544-545-546-547-548-549-550-551-552-553-554-555-556-557-558-559-560-561-562-563-564-565-566-567-568-569-570-571-572-573-574-575-576-577-578-579-580-581-582-583-584-585-586-587-588-589-590-591-592-593-594-595-596-597-598-599-600-601-602-603-604-605-606-607-608-609-610-611-612-613-614-615-616-617-618-619-620-621-622-623-624-625-626-627-628-629-630-631-632-633-634-635-636-637-638-639-640-641-642-643-644-645-646-647-648-649-650-651-652-653-654-655-656-657-658-659-660-661-662-663-664-665-666-667-668-669-670-671-672-673-674-675-676-677-678-679-680-681-682-683-684-685-686-687-688-689-690-691-692-693-694-695-696-697-698-699-700-701-702-703-704-705-706-707-708-709-710-711-712-713-714-715-716-717-718-719-720-721-722-723-724-725-726-727-728-729-730-731-732-733-734-735-736-737-738-739-740-741-742-743-744-745-746-747-748-749-750-751-752-753-754-755-756-757-758-759-760-761-762-763-764-765-766-767-768-769-770-771-772-773-774-775-776-777-778-779-780-781-782-783-784-785-786-787-788-789-790-791-792-793-794-795-796-797-798-799-800-801-802-803-804-805-806-807-808-809-810-811-812-813-814-815-816-817-818-819-820-821-822-823-824-825-826-827-828-829-830-831-832-833-834-835-836-837-838-839-840-841-842-843-844-845-846-847-848-849-850-851-852-853-854-855-856-857-858-859-860-861-862-863-864-865-866-867-868-869-870-871-872-873-874-875-876-877-878-879-880-881-882-883-884-885-886-887-888-889-890-891-892-893-894-895-896-897-898-899-900-901-902-903-904-905-906-907-908-909-910-911-912-913-914-915-916-917-918-919-920-921-922-923-924-925-926-927-928-929-930-931-932-933-934-935-936-937-938-939-940-941-942-943-944-945-946-947-948-949-950-951-952-953-954-955-956-957-958-959-960-961-962-963-964-965-966-967-968-969-970-971-972-973-974-975-976-977-978-979-980-981-982-983-984-985-986-987-988-989-990-991-992-993-994-995-

AREA Magruder  
T-21-S, R-27-E

COUNTY Eddy

STATE New Mexico

SCALE: 1" = 1 mile

DATE: 11-1-54 BY: W. J. [illegible]



800 Vaughn Building  
Midland, Texas 79701  
Telephone: 915 684-7131  
December 7, 1973

CITIES SERVICE OIL COMPANY

Mrs. Martina Jiminez  
711 Ortega Street  
Carlsbad, NM 88220

Subject: NMC-3571 Proposed Cities Service #1 Tracy Well

11,800' Morrow Test  
NE/4 NW/4, Section 33  
T-21-S, R-27-E  
Eddy County, New Mexico

Dear Mrs. Jiminez:

You will recall the numerous letters and conversations you have had with Mr. Ronnie G. Ward of this office dealing with your tract of land located in the NW/4 NW/4 Section 33 and the SW/4 SW/4 Section 28, T-21-S, R-27-E. You will recall we were unable to acquire an Oil and Gas Lease on these lands and applied to the Oil Conservation Commission of New Mexico for an order pooling all of the mineral interests underlying the S/2 of Section 28, T-21-S, R-27-E. This application was approved by Oil Conservation Commission Order No. R-4431 dated November 2, 1972.

We now propose the drilling of the subject test. We estimate the cost of a producer at \$318,360.00 and the cost of a dry hole at \$220,330.00. We request that you join Cities in the drilling of this proposed test. It appears 1.80 acres of your above mentioned tract is located in the NW/4 NW/4 of Section 33 which lies within the N/2 of Section 33, the Proration Unit for the subject test. 1.8 acres is .5625% of the Proration Unit. .5625% of \$318,360.00 is \$1,790.77, which would be your proportionate share of the estimated producing well cost.

This letter is being forwarded to correct the 1,800' Morrow test shown in the heading of the old letter to 11,800'.

Yours very truly,

CITIES SERVICE OIL COMPANY

J. Frank Riney  
Landman

cc - Mr. Mike Martinez  
14202 Fairgrove Street  
La Puente, CA 71446

PERMISSION TO DRILL	DATE
CITIES	16 Apr 74
OIL CONSERVATION COMMISSION	
CASE NO.	5149
SUBMITTED BY	
HEARING DATE	
APPROVED	

OP 69

## DETAILED WELL ESTIMATE Revised 1-10-74 by George Davis

WELL NUMBER 1 LEASE Cities Service - Tracy  
 CONTRACTOR \_\_\_\_\_ LOCATION 660' FNL, 1980' FNL  
 DATE 1-10-74 (Revised) SECTION 33, T21S, R27E  
 J. O. NO. \_\_\_\_\_ DEPTH 11,800' COUNTY Eddy STATE New Mexico  
Norrow

DESCRIPTION	GRADE	SIZE	QUAN.	W	ESTIMATE PRODUCER	ESTIMATE DRY HOLE	REVISED ESTIMATE	ACTUAL COST
<b>TANGIBLES</b>								
Casing								
Set @ 400' H-40 ST&C 16	A		405	65	4,450	4,450		
ST&C 10-3/4	A		1,525	40.5	10,450	10,050		
ST&C 10-3/4	A		1,030	45.5	7,600	7,600		
Set @ 3550' ST&C 10-3/4	A		1,030	51.0	8,500	8,500		
N-80 LT&C 5-1/2	A		9,629	17	9,500	---		
Set @ 11800' N-80 LT&C 5-1/2	A		2,269	20	34,800	---		
Well head connections					8,500	2,500		
Tubing Buttress N-80 2-7/8			11,300	6.4	18,650	---		
Sucker rods								
Bottom hole pump								
Packer					1,300	---		
Engine or motor								
Pumping unit								
Electrical equip. inc. Labor & Trans.								
Line pipe, fittings inc. Labor & Trans.								
<b>TANK BATTERY</b>								
Stock tanks Coated 210	A		1	--	2,200	---		
G. B., settler, free water K. O. tank								
Separator, heater treater, etc.					8,500	---		
Cost to install T. B.					1,500	---		
<b>INTANGIBLES</b>								
Contract Drlg. labor (footage) @ \$11.00/ft.					129,800	129,800		
Rotary day work 6 days @ \$2200/day					13,200	13,200		
<del>Contract labor</del> Unit Time 5 days					2,200	---		
Subsurface casing equipment					3,500	2,000		
D. S. T., electric logs, etc.					12,000	12,000		
Acidizing, fracing					4,300	---		
Perforating					2,500	---		
Misc. company and contract labor					3,000	2,000		
Road building, location					5,000	5,000		
Cement & cementing service					11,000	11,000		
Cement squeezes jobs								
Drilling mud, chemicals					16,000	16,000		
Drilling bits, coreheads, reamers								
Mud logging unit					3,000	3,000		
Rental of miscellaneous equip.					2,000	2,000		
Company, contract hauling					3,500	2,000		
Water, fuel					10,000	10,000		
Miscellaneous incidentals					5,000	3,000		
Total estimated cost - 100%					341,130	243,100		
Total estimate C. S.								

BEFORE THE  
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION  
OF CITIES SERVICE OIL COMPANY  
FOR AN ORDER FORCE POOLING LANDS  
IN EDDY COUNTY, NEW MEXICO

A P P L I C A T I O N

COMES NOW Cities Service Oil Company and applies to  
the Oil Conservation Commission of New Mexico for an order  
pooling all mineral interest from the surface down to and  
including the Morrow formation underlying the following  
described lands in Eddy County, New Mexico:

Township 21 South, Range 27 East, N.M.P.M.

Section 33 - N/2

to be dedicated to Applicant's proposed No. 1 Tracy Well,  
to be located at a standard location on the unit, and in  
support thereof would show the Commission:

1. Applicant is the owner of the right to drill and  
develop the proposed unit as to all formations sought to  
be pooled, and has obtained voluntary agreements as to all  
mineral interest owners, with the exception of the following  
lands and owners:

1.8 acres out of the NW/4 NE/4 of Section  
33, owned by Mrs. Martina Jiminez, 711  
Ortega Street, Carlsbad, New Mexico 88220  
Copies of correspondence to Mrs. Jiminez  
should also be forwarded to Mr. Mike  
Martinez, 14202 Fairgrove Street, La  
Puente, California 71446

31.5 acres out of the SW/4 NE/4 (GSA Tract  
"A") owned by the General Services Adminis-  
tration, United States Government.

DOCKET MAILED

Date 1-4-78

*Sent to [unclear]*  
*also USGS  
Roa*

1.29 acres out of the SE/4 NW/4 (GSA Tract "B"), owned by the General Services Administration, United States Government.

2. Applicant has sought without success to obtain voluntary agreement from Mrs. Jiminez, and has been unable to do so.

3. The lands owned by the General Services Administration, including the mineral interest, were offered for sale, with bids opened on December 5, 1973 in Fort Worth, Texas. Sale of these lands and mineral interests has not been completed.

4. Because of the availability of a drilling rig it is necessary that a well be commenced on this unit as soon as possible, and applicant is unable to wait until the sale of the government lands has been completed.

WHEREFORE applicant requests that this application be set for hearing at the earliest available examiner hearing, and that after notice and hearing as required by law the Commission enter its order pooling all of the lands as described for the production of oil and gas from the surface down to and including the Morrow formation, together with a provision for applicant to recover its costs of drilling and completing the well out of production, costs of operation and supervision, and a risk factor for drilling the well as provided by law, together with such other and further relief as may be proper.

Respectfully submitted,  
CITIES SERVICE OIL COMPANY

By Jason W. Kellahin  
KELLAHIN & FOX  
P. O. Box 1769  
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

DRAFT

dr/

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

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

CASE NO. 5149

Order No. R-4719

APPLICATION OF CITIES SERVICE  
OIL COMPANY FOR COMPULSORY  
POOLING, EDDY COUNTY, NEW  
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on January 16, 1974  
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this        day of January, 1974, the Commission,  
a quorum being present, 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 Commission has jurisdiction of this cause and the subject  
matter thereof.

(2) That the applicant, Cities Service Oil Company,  
seeks an order pooling all mineral interests in the  
Pennsylvanian formation underlying the N/2  
of Section 33, Township 21 South, Range 27 East,  
NMPM,       , Eddy County, New  
Mexico.



*its Tracy well No. 1, to be located*

(3) That the applicant has the right to drill and proposes to drill ~~a well~~ at a standard location for said unit.

(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 140 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.

-3-  
Case No.  
Order No. R

(11) That \$202.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); ~~that this charge~~ *should be adjusted annually based upon the percentage increase or decrease in the* ~~the~~ *operator should be authorized to withhold from production the* proportionate share of such supervision charge 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 May 1, 1974, 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 Pennsylvanian formation underlying the N/2 of Section 33, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 320- acre gas spacing and proration unit to be dedicated to its Tracy Well No. 1, ~~a well~~ to be drilled at a standard location for said unit.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of May, 1974, 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 first day of May, 1974, Order (1) of this order shall be null and void and of no effect whatsoever;

*weekly earnings of crude petroleum and gas production workers*

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 Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Cities Service Oil Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and <sup>within</sup> ~~at least~~ 30 days prior to commencing said well, the operator shall furnish the Commission 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 Commission 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 Commission and the Commission 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 Commission 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 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, 140 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 \_\_\_\_\_ 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 charge 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.~~

(9)

That \$ 202.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates), provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; that the adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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 the adjusted ~~reasonable~~ charge for supervision (combined fixed rates) ~~shall~~ <sup>shall</sup> be filed with the Commission on or before the ~~first~~ <sup>first</sup> day of May of each year.

-6-

Case No.

Order No. R-

(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.

(12) 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.

(13) 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 Commission of the name and address of said escrow agent within 90 days from the date of this order.

(14) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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