

Casa No.

858

Application, Transcript,
Small Exhibits, Etc.

NOTICE OF PUBLICATION
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION
SANTA FE - NEW MEXICO

The State of New Mexico by its Oil Conservation Commission hereby gives notice pursuant to law and the Rules and Regulations of said Commission promulgated thereunder of the following public hearings to be held at 9 o'clock a.m. on March 16, 1955, at Mabry Hall, State Capitol, Santa Fe, New Mexico.

STATE OF NEW MEXICO TO:

All named parties and persons
having any right, title, interest
or claim in the following cases,
and notice to the public.

CASE 858:

In the matter of the application of Wood River Oil and Refining Co., Inc., and The Eldorado Refining Company for compulsory communitization of the SW/4 of Section 16, Township 26 North, Range 9 West, San Juan County, New Mexico; or, in the alternative, for approval of a non-standard gas proration unit.

Applicants, in the above-styled cause, seek an order directing and compelling the following named companies, to whom particular notice is hereby given, namely:

New Mexico Western Oil and Gas Company
Mercantile National Bank Building
Dallas, Texas;

Stanolind Oil and Gas Company
Box 1410
Ft. Worth, Texas;

Slick Oil and Gas Company, Ltd.
Milam Building
San Antonio, Texas;

El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas

to communitize or pool their royalty interests, or any interest which may exist by virtue of sales agreement or unitization agreement, in the SE/4 SW/4 of Section 16, Township 26 North, Range 9 West, San Juan County, New Mexico, consisting of 40 acres, more or less, pursuant to the terms of a certain communitization agreement on file in the office of the Oil Conservation Commission at Santa Fe, New Mexico, to form a communitized unit consisting of SW/4 of Section 16, Township 26 North, Range 9 West, containing approximately 160 acres, more or less, for the purpose and intention of developing and producing dry gas and liquid hydrocarbons from the Pictured Cliffs formation; or in the alternative, for the approval of a non-standard drilling and proration unit consisting of N/2 SW/4 and SW/4 SW/4 Section 16, Township 26 North, Range 9 West, a total of 120 acres.

GIVEN under the seal of the Oil Conservation Commission at Santa Fe, New Mexico, on this 25th day of February, 1955.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

W. B. MACEY
SECRETARY

S E A L

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

April 22, 1955

Mr. Thomas McKenna, Attorney
302 East Palace Avenue
SANTA FE, N M

Dear Sir:

In behalf of your clients, Wood River Oil and Refining Company and El Dorado Refining Company, we enclose copies of Order R-626 issued by this Commission in Case 858 under date of April 20, 1955.

Very truly yours,

W. B. Macey
Secretary - Director

WBM:nr

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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. 858
Order No. R-626

THE MATTER OF THE APPLICATION
OF WOOD RIVER OIL AND REFINING
COMPANY, INC., AND THE EL DORADO
REFINING COMPANY FOR THE
COMPULSORY COMMUNITIZATION OF
THE SW/4 OF SECTION 16, TOWNSHIP 26
NORTH, RANGE 9 WEST, NMPM, SAN
JUAN COUNTY, NEW MEXICO, OR, IN
THE ALTERNATIVE, FOR UNORTHODOX
DRILLING UNIT CONSISTING OF THE N/2
SW/4 AND SW/4 SW/4 OF SECTION 16,
TOWNSHIP 26 NORTH, RANGE 9 WEST,
NMPM, IN THE BALLARD-PICTURED CLIFFS
GAS POOL.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a. m. on March 16, 1955, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 20th day of April, 1955, the Commission, a quorum being present, having considered the testimony adduced and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

1. That due notice of the time and place of hearing and the purpose thereof having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
2. That applicants, Wood River Oil and Refining Company and The El Dorado Refining Company, are the owners of State of New Mexico Oil and Gas Lease B-10894-6, which lease includes the N/2 SW/4 and the SW/4 SW/4 of Section 16, Township 26 North, Range 9 West, NMPM, San Juan County, New Mexico.
3. That the above-described lands are situated within the boundaries of the Huerfano Unit but are not committed to said unit.
4. That the SE/4 SW/4 of Section 16, Township 26 North, Range 9 West, NMPM, San Juan County, New Mexico, is held under a State of New Mexico Oil and Gas Lease executed in favor of New Mexico Western Oil and Gas Company.

5. That those lands described in Finding 4 above are situated within the boundaries of the Huerfano Unit and are committed to the unit.

6. That in order to form a standard 160-acre drilling unit in the SW/4 of Section 16, Township 26 North, Range 9 West, NMPM, it would be necessary for the applicants to communitize those lands held by the applicants and described in Finding 2 above with those lands held by New Mexico Western Oil and Gas Company, which lands are described in Finding 4 above and which lands are committed to the Huerfano Unit Agreement.

7. That it is neither advisable nor practical to effect the communitization of lands committed to a unit agreement with lands not committed to that agreement.

8. That New Mexico Western Oil and Gas Company and the El Paso Natural Gas Company have entered an objection to the formation of a 120-acre non-standard drilling unit as proposed by Wood River Oil and Refining Company and The El Dorado Refining Company.

9. That, despite the objection, it is necessary to provide applicants with a non-standard 120-acre drilling unit so that they may be afforded the opportunity to drill a well on the acreage described in Finding 2 above.

10. That the formation of such 120-acre non-standard proration unit will be in the best interests of conservation and will promote the orderly development of the area.

IT IS THEREFORE ORDERED:

1. That the application of the Wood River Oil and Refining Company and The El Dorado Refining Company for approval of a 120-acre unorthodox drilling unit consisting of the following described acreage,

TOWNSHIP 26 NORTH, RANGE 9 WEST, NMPM
N/2 SW/4, SW/4 SW/4 of Section 16

be and the same hereby is approved, and a drilling unit consisting of the aforesaid acreage is hereby created.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

John F. Simms
JOHN F. SIMMS, Chairman

E. S. Walker
E. S. WALKER, Member

W. B. Macey
W. B. MACEY, Member and Secretary



BEFORE THE
Oil Conservation Commission
SANTA FE, NEW MEXICO
March 16, 1945

IN THE MATTER OF:

CASE NO. 858 - Regular Hearing

TRANSCRIPT OF PROCEEDINGS

ADA DEARNLEY AND ASSOCIATES
COURT REPORTERS
ROOMS 105, 106, 107 EL CORTEZ BUILDING
TELEPHONE 7-9546
ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
March 16, 1955

IN THE MATTER OF:

The application of Wood River Oil and Refining Company, Inc., and the Colorado Refining Company for compulsory communitization of the SW/4 of Section 16, Township 26 North, Range 9 West, San Juan County, New Mexico; or, in the alternative, for approval of a non-standard gas proration unit.

Applicants, in the above-styled cause, seek an order directing and compelling the following named companies, to whom particular notice is hereby given, namely:

New Mexico Western Oil and Gas Company
Mercantile National Bank Bldg.,
Dallas, Texas;

Stanolind Oil and Gas Company
Box 1410
Ft. Worth, Texas;

Slick Oil and Gas Company, Ltd.
Milam Building,
San Antonio, Texas;

El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas

Case No. 858

to communitize or pool their royalty interests, or any interest which may exist by virtue of sales agreement or unitization agreement, in the SE/4 SW/4 of Section 16, Township 26 North, Range 9 West, San Juan County, New Mexico, consisting of 40 acres, more or less, pursuant to the terms of a certain communitization agreement on file in the office of the Oil Conservation Commission at Santa Fe, New Mexico, to form a communitized unit consisting of SW/4 of Section 16, Township 26 North, Range 9 West, containing approximately 160 acres, more or less, for the purpose and intention of developing and producing dry gas and liquid hydrocarbons from the

Pictured Cliffs formation; or in the alter-
native, for the approval of a non-standard
drilling and proration unit consisting of
N/2 SW/4 and SW/4 SW/4 Section 16, Township
26 North, Range 9 West, a total of 120 acres

BEFORE:

Honorable John F. Simms
Mr. E. S. (Johnny) Walker
Mr. William B. Macey

TRANSCRIPT OF HEARING

MR. MACEY: The next case on the docket is Case 858.

C. C. CHAPIN,

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. McKENNA:

Q Will you state your name, please?

A C. C. Chapin.

Q What is your position with the Wood River Oil and Refining Company, whom I understand you work for?

A Manager of the Production Department.

Q Are you also here representing the Eldorado Refining Company in this matter?

A Yes, sir.

Q Is it true that Wood River Oil and Refining and Eldorado hold the working rights on the north half of the ³ southwest quarter and the southwest quarter southwest quarter of Section 16 in Township 26 North, Range 9 West?

A Yes, they do.

Q That is under a State lease?

A Yes, sir.

Q It is your desire, or is it not your desire to drill a Pictured Cliffs Well in that southwest quarter of Section 16?

A Yes.

Q It is true that you own the 120 acres in the south, said southwest quarter, but you are lacking the 40 acres, namely the southeast quarter of the southeast quarter?

A That is right.

Q Is it your information and belief that the said southeast quarter of the southeast quarter is owned by the New Mexico Oil and Gas Company?

A We understand it is.

Q It is your information that these 40 acres are in the Huerfano Unit?

A Yes.

Q Whereas your 120 acres are not?

A They are not.

Q It is your purpose today to proceed in conformity with the unusual rules and to have an orthodox pooling of 160 acres, is that your purpose here today?

A Yes.

Q You would like to ask this Commission for compulsory communitization of the southwest quarter, is that correct?

A Yes, sir.

Q Or in the alternative, that if such is not allowed, that you be allowed an unorthodox pooling or proration unit of 120 acres, comprising the 120 acres that you own, is that correct?

A Yes, sir.

Q Have you attached to your application a form, communiti-

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zation agreement and operating agreement?

A Yes, sir.

Q It is your purpose here today to ask the Commission for compulsory communitization of the southwest quarter, or in the alternative an unorthodox location of 120 acres?

A Yes, one of the two.

MR. McKENNA: That is all.

MR. MACEY: Any questions of the witness?

MR. WEBB: William G. Webb, representing New Mexico Western.

CROSS EXAMINATION

By MR. WEBB:

Q Mr. Chapin, I believe you stated that you were familiar with the Huerfano Unit?

A Yes, sir.

Q And that your acreage is not committed to that unit?

A No, it is not.

Q The acreage of New Mexico Western is committed?

A I don't know.

Q Assuming for the purpose of the record that New Mexico Western's interest is committed to the Huerfano Unit, was Wood River or Eldorado ever requested to join the Huerfano Unit?

A Yes.

Q You saw fit not to do so?

A Yes, we didn't want to join it.

Q Do you have any particular reason for not joining the Huerfano Unit?

A We just think we can operate the properties better ourselves. We would like to operate our own properties.

Q Aren't you requesting the New Mexico Western do the same thing here?

A Well, they haven't done anything, Huerfano Unit hasn't done anything in here. We want to drill a well, nobody else has drilled any. We don't care how it is done. There is 120 acres we would like to develop.

Q If you want to drill a well, wouldn't it be simpler to commit your acreage to the Unit?

A No.

Q Isn't Stanolind Oil and Gas Company a competent operator?

A I would say so.

Q Assuming for the purposes of the record that Stanolind is a competent operator, it seems to us that it would be much easier for all parties concerned, for Wood River to commit it 120 acres to the Huerfano Unit and thereby have a 160 acre location in the southwest quarter of Section 16 upon which to drill a well.

A We just don't think so.

Q Are you familiar with all the terms and provisions of the Huerfano Unit?

A We have them in our records at Wichita. I am not familiar with them. I don't have them here.

Q Are you in general familiar with the terms of Federal type of units?

A Yes.

Q Do you, of your own knowledge, know whether or not there is any provision in the unit agreement itself, or the unit operating agreement whereby acreage which is once committed to a unit may be removed for causes other than proved to be non-productive?

A I don't know.

Q If the Commission saw fit to grant your application for compulsory pooling in the southwest quarter, would Wood River assume the obligation and duty of securing all necessary parties to the communitization?

A No.

Q Who would perform that duty?

A The owners of the 40 acres.

Q Don't you think that is rather burdensome?

A It is your property, you benefit, we don't.

Q Haven't I stated previously that the ready remedy was available?

A Well, maybe all ready remedies aren't the best.

Q As an alternative to your application to this Commission you have stated that you be granted a 120-acre spacing unit comprising the north half of the southwest quarter, and the southwest quarter of the southwest quarter of Section 16, is that correct?

A State it again. I lost track of it there.

Q I believe as an alternative of your application to this Commission, you requested that if the forced pooling was not granted, that you be given the opportunity to drill on an unorthodox 120 acres in the southwest quarter?

A Yes.

Q Are you familiar with the Statutes of the State of New Mexico, and the regulation of this Commission upon which such unorthodox spacing units are to be granted?

A No.

Q Are you familiar, or have you seen a copy of the notice

issued by the Oil Conservation Commission to New Mexico Western Oil and Gas Company, Stanclind Oil and Gas Company, Blich Oil and Gas Company and El Paso Natural Gas Company in this matter?

A No.

Q Were not those same four parties the parties named in your application to the Commission?

A Yes, I believe so.

Q Wouldn't it appear to you that all working interest owners in the Huerfano Unit would be necessary parties to this hearing?

A I don't know.

MR. MACEY: Anyone else?

MR. McKENNA: I have a couple of questions.

RE-DIRECT EXAMINATION

By MR. McKENNA:

Q Isn't it true that, have you not, before coming to this Commission, asked the record title owner of the working 40 acres to communitize and pool?

A Yes.

Q Isn't it also true that you have asked to work out a trade for that 40 acres with your 40 acres over in the southeast quarter? Is that correct?

A Yes.

Q They have refused to do that?

A Yes.

Q It is your purpose here to come in, after making every effort that you can by virtue of those lines, come here and ask the Commission for compulsory communitization, or unorthodox location?

A That is right.

Q Isn't it true that your only purpose is the desire to drill a well?

A Yes, we want to drill a well on the southwest quarter of Section 16, Pictured Cliffs Well.

MR. McKENNA: I would like to make a statement to the Commission that I believe anything concerning this unit agreement is not applicable to this hearing. We are interested only in trying to drill a well. Wood River and Eldorado have not committed their acreage to the unit and it is a past matter.

Q Is it not true, Mr. Witness, that you have a well in the northeast quarter of the same section?

A Yes, we have one up there.

Q That is not in the unit either?

A No.

MR. WEBB: If I could ask one further question.

RE-CROSS EXAMINATION

By MR. WEBB:

Q The well in the northeast quarter, is that on 160 acres, do you own the entire 160 acres?

A Eldorado and Wood River own it.

Q The same facts that are applicable to that well are applicable in this case?

A Yes.

Q Are you familiar with the terms and provisions of the Huerfano Unit Operating Agreement?

A We have it at the office. I read it, but I don't remember

all the terms of it.

Q Do you know the provisions of that agreement with reference to the assignment by the parties to it to any outside party?

A No.

MR. WEPB: That is all.

By MR. RHODES:

Q Do I understand you to say that you have 40 acres down in the southeast quarter?

A Yes, we have 40 in the southeast, southeast of 16.

Q Is that committed to the unit?

A No, sir.

Q What is the status of this land?

A Beg pardon?

Q Is it State land?

A Yes, it is State acreage. New Mexico is the royalty owner. The State of New Mexico is a royalty owner under Section 16.

MR. RHODES: That is all I have.

MR. MACEY: Anyone else? If this Commission saw fit to grant you 120-acre proration unit, you would be limited in allowable in this particular instance to 120, 160, either. That creates an odd-shaped proration unit in the other portion of the south half of Section 16. In order to protect the unit, the Huerfano Unit from drainage, it would probably be necessary for the unit operator to drill a well offsetting your proposed well. Would you have any objection to the dedication of 200 acres to the offset well to the east?

A Well, they would get five-fourths of allowable, wouldn't they?

MR. MACEY: Including your 40?

A Our 40 would be in there.

MR. MACEY: Yes, sir.

A Well, now, our 40 would get one-fifth of the allowable then, wouldn't it?

MR. MACEY: Your 40 would get one-fifth of the income from the well?

A Yes.

MR. MACEY: I don't know what the operating agreement states, or how the income from that particular well drilled within the unit would be spread out. What I am trying to get at is, would it be agreeable to the unit operator and to you to allow your well to have 160 acres dedicated to it, and an offset well have 160 acres dedicated to it? You both own 160 acres in the south half of the section.

A Yes, it would be all right with us.

MR. MACEY: That way one well wouldn't be getting three-fourths of an allowable and the other well getting five-fourths.

A That would be a very good solution. We would be happy to do that.

MR. MACEY: Any further questions of the witness? If not the witness may be excused.

(Witness excused.)

MR. MACEY: Mr. Howell?

MR. HOWELL: Ben Howell, representing El Paso Natural Gas Company. Our interest in this particular case is that we have a contract with New Mexico Western under which New Mexico Western would have the option at a later date, to deliver this acreage to

us and we are also one of the working interest owners in the Huerfano Unit. It seems to us that there are probably two or more alternatives, because this is a problem that we don't know the answer to, frankly. We would have no objection to the Commission entering an order communitizing the entire southwest quarter, if the Commission feels it has the authority to do so, where that 40 acres is committed to a Federal unit. We would object to the unorthodox location which would leave the 40 acres without the immediate possibility of obtaining an allowable.

If the Commission feels that it does not have the authority to issue an order of compulsory communitization, we suggest that possibly the applicant could obtain the concurrence of all of the working interest owners in the Huerfano Unit because as an individual working interest owner, we are sure that New Mexico Western doesn't have the power either to make a change or to agree to the communitization; that it does require the concurrence of all the working interest owners. As one of them, we would be perfectly willing to do either, but we would not be willing to assume the responsibility of getting the 30 working interest owners into an agreement. So, that another alternative suggests itself that the applicant might possibly join the Huerfano Unit and solve the problem. We would have, too, no objection to the order of compulsory communitization if the Commission believes it has that power.

MR. MACEY: Mr. Webb?

MR. WEBB: If the Commission please, in addition to concurring with everything that Mr. Howell stated, I want to point out the provisions of the unit operating agreement which made a trade of the acreage, which offhand appears to be the most logical

thing to do. The two 40 acre tracts, as far as New Mexico Western are concerned, cannot be exchanged in view of Sections 20 and 21 of the Unit Operating Agreement, which is on file with the Commission. Section 20 provides that any assignment of acreage committed to the unit must be made subject to the unit, so that would leave Wood River right back to where they started.

Section 21 provides that if a working interest owner seeks to withdraw any acreage from the unit, the only way it can be withdrawn, or any way any party can withdraw, is by assigning the acreage to the remaining working interest owners. In other words, if somebody wants to get out of the unit they can't pull the acreage out, they have to give the acreage to the other working interest owners. So, the trade of acreage, for all practical purposes, as far as New Mexico Western is concerned, is an impossibility.

As Mr. Howell has stated, we do not know, and we are unwilling to accept the responsibility of determining whether or not this Commission, without the concurrence of the Commissioner of Public Lands, the United States Geological Survey and all other working interest owners, has the authority to grant this communitization. It is not provided for specifically in the unit agreement, we do not know whether the power is inherent in the Commission or not. If Wood River would assume the responsibility of getting all the other working interest owners to execute a suitable communitization agreement, we would be willing to go along. As far as attempting to commit all the unit ourselves, we cannot do so.

Further in connection with the forced pooling of the 120 acres and 40 acres, we would like to direct the Commission's attention to its Order No. 836, issued in Case No. 195 which was the order

approving the Huerfano Unit. In that order the Commission found that the Huerfano Unit plan of development was necessary and advisable for the prevention of waste, protection of correlative rights and et cetera, all of which is shown by the Commission's Order. It is our interpretation of the Statutes of the State of New Mexico, and this Commission's regulations, that the only way forced pooling can be granted is to find the same things to be true which it has already found under its Order No. 836. We believe that an order at this time finding the same thing to be true would indeed be an inconsistent order with a prior order of the Commission.

MR. McKENNA: I would like to make a brief answer to that. I would like to point out we are not in the unit. We are not subject to the terms of the unit. We have rights in the matter, too, and the applicants are here before the Commission for the purpose of seeking authority in conjunction and in conformity with its rules for drilling a well.

If the Commission feels as if, according to its rules, that 160 acres is necessary, we are here for the compulsory communitization. If it doesn't think it is necessary, we would like to have the unorthodox location. As I previously mentioned, I don't believe that the question of the unit is directly involved here. We are not members of the unit and it is purely a question of getting sufficient authority in order to drill our well.

MR. MACEY: Anyone have anything further in this case? We will take the case under advisement.

STATE OF NEW MEXICO)
: ss.
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, do hereby
certify that the foregoing and attached transcript of proceedings
before the New Mexico Oil Conservation Commission at Santa Fe,
New Mexico, is a true and correct record to the best of my
knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial
seal this 20th day of March, 1954.


Notary Public, Court Reporter

My Commission Expires:

June 19, 1955

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

Case No. 858

IN THE MATTER OF the Application of	:	
Wood River Oil and Refining Co., Inc.	:	
and The El Dorado Refining Co. for the	:	
Compulsory Communitization of the SW $\frac{1}{4}$ of	:	
Sec. 16, T. 26 N., R. 9 W., N.M.P.M.	:	
San Juan County, New Mexico, or In the	:	Applicants
Alternative, For Unorthodox Location or	:	
Spacing Unit Comprising N $\frac{1}{2}$ SW $\frac{1}{4}$ and SW $\frac{1}{4}$ SW $\frac{1}{4}$:	
of Sec. 16, T. 26 N., R. 9 W., N.M.P.M.	:	
	:	
vs.	:	
	:	
New Mexico Western Oil and Gas Company,	:	
Stanolind Oil & Gas Company,	:	
Slick Oil Company, Ltd., a Partnership,	:	Respondents
El Paso Natural Gas Company.	:	

A P P L I C A T I O N

TO THE Honorable Commission:

1. Applicants Wood River Oil and Refining Co., Inc., a Kansas corporation, authorized to do business in New Mexico and The El Dorado Refining Co., a Kansas corporation, authorized to do business in New Mexico, represent that they are the owners of leasehold rights on the following lands under the following described oil and gas lease:

N $\frac{1}{2}$ SW $\frac{1}{4}$ of Sec. 16., T. 26 N., R. 9 W., N.M.P.M.
San Juan County, New Mexico, under New Mexico Producing
State Lease B-10894-6, dated January 4, 1944.

2. (A) Applicants are informed and thus believe that New Mexico Western Oil & Gas Company, Dallas, Texas is the present owner and holder of leasehold rights to the base of the Pictured Cliff Formation on the following described land under the following described oil and gas lease:

SE $\frac{1}{4}$ SW $\frac{1}{4}$ of Sec. 16, T. 26 N., R. 9 W., N.M.P.M.
State of New Mexico Lease B-9320-5;

(B) Applicants are informed that the above described forty acres are under a contract of sale agreement to El Paso Natural Gas Company, El Paso, Texas;

(C) Applicants are informed and believe that the Slick Oil Co., Ltd., a limited partnership, owns an undivided 1/4 net working interest as to such forty acres covering all formations below the top of the Pennsylvania Formation, and also owns a 6 $\frac{1}{4}$ % overriding royalty on said forty acres from the surface to the top of the Pennsylvania Formation.

(D) Applicants are informed and believe that the said forty acres have been committed to the Hucrfano Unit Agreement of which Stanolind Oil & Gas Co., Tulsa, Oklahoma, is the operator;

3. Applicants represent that they have agreed to communitize and pool their 120 acres described in 1 for the purpose of forming a drilling unit for the production of dry gas and liquid hydrocarbons extracted therefrom from the surface to the base of the Pictured Cliff Formation;

4. Applicants further represent that they have tried to enter into a pooling or communitization agreement with New Mexico Western Oil & Gas Company for the purpose of pooling said $SE\frac{1}{4}SW\frac{1}{4}$ of Sec. 16 with their 120 acres, all without success; further that they have tried to work out a trade with said New Mexico Western Oil & Gas Company, offering to trade the $SE\frac{1}{4}SE\frac{1}{4}$ of said Section 16, in exchange for the $SE\frac{1}{4}$ of the said $SW\frac{1}{4}$, all without success;

5. Applicants further represent that a regular subdivision of 160 acres has been established by this Commission for drilling a gas well to the Pictured Cliff formation in San Juan County, New Mexico, and that applicants desire to allocate the $SW\frac{1}{4}$ of Sec. 16, T. 26 N., R. 9 W. as a drilling or spacing unit for a Pictured Cliff gas well.

6. Applicants further represent that they, who desire to communitize or pool to form a uniform drilling or operating unit, will be deprived of their opportunity to recover their just and equitable share of the natural gas in the, or lying under the, $SW\frac{1}{4}$ of said Sec. 16 unless this Commission requires the owner, and such other interested parties as may be necessary, to pool its or their interests in the $SW\frac{1}{4}$ to form a regular spacing unit;

7. Applicants further state that the attached Communitization Agreement and Operating Agreement, Exhibits A and B hereto, are fair and proper in all respects and that they are willing to enter in such agreements with the owner of said $SE\frac{1}{4}$ of the $SW\frac{1}{4}$ of Sec. 16, and such other party respondents as may be necessary, or that they will enter into such other similar agreement as would be fair and proper;

Wherefore, Applicants respectfully request that an appropriate order be entered by the Commission directing New Mexico Western Oil and Gas Company and such other respondent parties as may be necessary, to communitize or pool its or their interests with that of the Applicants pursuant to the terms of

LAW OFFICES
MCKENNA & SOMMER
SANTA FE, NEW MEXICO

the Communitization and Operating Agreements made a part of this application, or pursuant to such other terms as would be proper and fair in the premises, or in the alternative, Applicants request that if this Commission determines that it will not order compulsory pooling of the SW $\frac{1}{4}$ of Sec. 16, T. 26 N., R. 9 W., then, in that event, the Commission issue an appropriate order designating the following 120 acres more or less, to-wit: N $\frac{1}{2}$ SW $\frac{1}{4}$ and SW $\frac{1}{4}$ SW $\frac{1}{4}$ of Sec. 16, T. 26 N., R. 9 W., as an unorthodox drilling or spacing unit, and permit the Applicants to drill and produce gas therefrom.

Wood River Oil & Refining Co., Inc.

The El Dorado Refining Co.

By Thomas F. McKenna
Thomas F. McKenna

McKenna & Sommer
Attorneys at Law
302 E. Palace Ave.
Santa Fe, New Mexico

LAW OFFICES
MCKENNA & SOMMER
SANTA FE, NEW MEXICO

"EXHIBIT A"

COMMUNITIZATION AGREEMENT

This agreement made and entered into this 14th day of January, 1955 by and between Wood River Oil & Refining Co., Inc., a corporation of 321 West Douglas Avenue, Wichita, Kansas (hereinafter referred to as "Operator"); El Dorado Refining Company, a corporation of El Dorado, Kansas; New Mexico Western Oil and Gas Company, a corporation of Dallas, Texas, (the foregoing parties hereinafter referred to as "Lessees"); Al Greer of Aztec, N.M., and George H. Krause, P.O. Box 1107, Colorado Springs, Colo., and Slick Oil Company, Ltd., a partnership of Milam Building, San Antonio, Texas (hereinafter referred to as "Overriding Royalty Owners"), in order to form a co-operative drilling unit of 160 acres, more or less, for the purpose of complying with existing rules and regulations, covering well spacing and conserving the oil and/or gas resources thereunder,

WITNESSETH:

WHEREAS Wood River Oil & Refining Co., Inc., and El Dorado Refining Company are the present owners and holders of State of New Mexico Lease No. B10894, executed in favor of Al Greer as lessee under date of January 4, 1944 embracing the following described land in San Juan County, N.M.:

Twp. 26N, Rge. 9W.,
Sec. 16: N/2SW/4; SW/4SW/4

and,

WHEREAS Al Greer and George H. Krause are the present owners and holders of an overriding royalty under said State of New Mexico Lease B10894 of 2½% of the value, based upon the field market price at the well of all oil and/or gas produced, saved and marketed from the above described land under said lease, and

WHEREAS, New Mexico Western Oil and Gas Company is the present owner and holder of State of New Mexico Lease No. _____ executed in favor of _____, as lessee, under date of _____

_____ by the State of New Mexico, as Lessor, (embracing among other lands) the following described land in New Mexico:

Twp. 26N, Rge. 9W.,
Sec. 16: SE/4SW/4

insofar as same covers and includes the Pictured Cliffs formation underlying same, and

WHEREAS Slick Oil Company, Ltd., a partnership, is the present owner and holder of an overriding royalty under said State of New Mexico oil and gas Lease No. _____, of 6 $\frac{1}{4}$ % of the value based upon the field market price at the well, of all oil and/or gas produced, saved and marketed from the Pictured Cliffs formation under the last above described land under said lease, and

WHEREAS said overriding royalty interests hereinabove described constitute all overriding royalty interests existing on the above described leases and acreage; and

WHEREAS said oil and gas leases insofar as same cover the lands above described are presently in good standing with all rentals and royalties paid to date, and

WHEREAS parties desire to form a co-operative drilling tract or unit, embracing all of the above described lands for the purpose of more profitably conserving the gas reserves thereunder and desire to drill and operate said leases as a unit for the production of dry gas and condensate therefrom in accordance with the terms and conditions hereinafter contained,

NOW THEREFORE, in consideration of the premises and the mutual covenants of the parties, it is agreed as follows:

FIRST: The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

Twp. 26N, Rge. 9W., N.M.P.M.
Sec. 16: SW/4
containing 160 acres more or less

and this agreement shall extend to and include only the Pictured Cliffs formation underlying said land and the dry gas and associated

liquid hydrocarbons (hereinafter referred to as "communitized substances"), producible from such formation. The operator of the communitized area shall be Wood River Oil & Refining Co., Inc., and all matters of operation shall be governed by the operator under and pursuant to the terms of this agreement and any operating agreement entered into with respect to the communitized area.

SECOND: The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising such area in the proportion that the acreage interest of each leasehold bears to the entire acreage committed to this agreement. It is agreed that the burden of any overriding royalty, production payments, carried working interests, net profit obligations and other similar payments shall be borne and paid solely by the party owning the lease to which such interest shall apply subsequent to the execution of this agreement.

THIRD: The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may hereinbe otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and executed.

FOURTH: There shall be no obligation to offset any dry gas well completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to

measure separately communitized substances by reason of the diverse ownership thereof.

FIFTH: The commencement, completion, continued operation or production of the well or wells for communitized substances on the communitized area, shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

SIXTH: This agreement shall be effective upon approval of the unit by the New Mexico Oil and Gas Conservation Commission and shall remain in force and effect for a period of two years and so long thereafter as communitized substances are produced from the communitized area in paying quantities.

SEVENTH: Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or state statutes. This agreement shall be subject to all applicable Federal and state laws or executive orders, rules and regulations and no party hereto shall suffer a forfeiture or be liable for damages for failure to comply with any provisions of this agreement if such compliance is prevented by or if such failure results from compliance with any such laws, rules or regulations.

EIGHTH: The covenants hereinabove set forth shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any transfer or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee or other successor in interest.

NINTH: This agreement shall be binding upon the parties hereto and shall extend to and be binding on their respective heirs, personal representatives, successors and assigns.

TENTH: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by special instrument in writing, specifically referring hereto and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

DATE: _____

Attest: _____

Secretary

WOOD RIVER OIL & REFINING CO., INC.

By _____

President

DATE: _____

Attest: _____

Secretary

EL DORADO REFINING COMPANY

By _____

President

DATE: _____

Attest: _____

Secretary

NEW MEXICO WESTERN OIL AND GAS COMPANY

By _____

President

DATE: _____

SLICK OIL COMPANY, LTD.

By _____

General Partner

Date: _____

Al Greer

Date: _____

George H. Krause

STATE OF KANSAS)
(SS:
COUNTY OF SEDGWICK)

On this _____ day of _____, 1955, before me appeared _____ to me personally known, who, being by me duly sworn, did say that he is the _____ president of WOOD RIVER OIL & REFINING CO., INC., and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors and said _____ acknowledged said instrument to be the free act and deed of said corporation.

My commission expires: _____

Notary Public

STATE OF KANSAS)
(SS:
COUNTY OF _____)

On this _____ day of _____, 1955, before me appeared _____ to me personally known, who, being by me duly sworn, did say that he is the _____ president of EL DORADO REFINING COMPANY, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors and said _____ acknowledged said instrument to be the free act and deed of said corporation.

My commission expires: _____

Notary Public

STATE OF _____)
(SS:
COUNTY OF _____)

On this _____ day of _____, 1955, before me appeared _____ to me personally known, who, being by me duly sworn, did say that he is the _____ president of NEW MEXICO WESTERN OIL AND GAS COMPANY, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors and said _____ acknowledged said instrument to be the free act and deed of said corporation.

My commission expires: _____

Notary Public

STATE OF _____)
(SS:
COUNTY OF _____)

On this _____ day of _____, 1955, personally appeared before me _____, personally known to me to be a member of the firm of SLICK OIL COMPANY, LTD., and to me known to be the person described in and who executed the foregoing instrument in the firm name of SLICK OIL COMPANY, LTD., and he acknowledged that he executed the same as the act and deed of said firm of SLICK OIL COMPANY, LTD., for the uses and purposes therein mentioned.

My commission expires: _____

Notary Public

STATE OF _____)
COUNTY OF _____) SS:

On this _____ day of _____, 1955 before me personally appeared Al Greer to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

My commission expires: _____

Notary Public

STATE OF _____)
COUNTY OF _____) SS:

On this _____ day of _____, 1955, before me personally appeared George H. Krause to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

My commission expires: _____

Notary Public

"EXHIBIT B"

OPERATING AGREEMENT

THIS AGREEMENT made and entered into this 14th day of January, 1955, by and between WOOD RIVER OIL & REFINING CO., INC., a corporation of 321 West Douglas Avenue, Wichita, Kansas, hereinafter variously referred to as "WOOD RIVER" or "OPERATOR; EL DORADO REFINING COMPANY, a corporation of El Dorado, Kansas and NEW MEXICO WESTERN OIL AND GAS COMPANY, a corporation of Dallas, Texas, hereinafter collectively referred to as "NON-OPERATOR",

WITNESSETH THAT

WHEREAS, El Dorado and Wood River are the joint owners of a certain leasehold estate under State of New Mexico Lease B-10894 insofar as same covers the following described land in San Juan County, State of New Mexico:

Twp. 26N, Rge. 9W.,
Sec. 16: N/2SW/4; SW/4SW/4

and,

WHEREAS New Mexico Western Oil and Gas Company is the present owner and holder of State of New Mexico Lease No. _____ insofar as same covers and includes the Pictured Cliffs formation under the following described land in San Juan County, New Mexico:

Twp. 26N, Rge. 9W.,
Sec. 16: SE/4SW/4

and,

WHEREAS it is the desire of the parties to enter into an Operating Agreement, covering the development and operation of the leasehold acreage above described from the surface down to and including the Pictured Cliffs formation and the dry gas and associated liquid hydrocarbons producible therefrom,

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter contained to be kept and performed by the parties hereto, said parties do hereby agree as follows:

FIRST: Wood River is hereby designated and shall act as Operator and shall have the sole and exclusive management of the future development and operation of the leasehold premises as such. The cost and expenses of developing, reworking and operating the jointly owned premises shall be borne by the parties in the proportions that they are the owners thereof, that is:

Wood River	-	9/16
El Dorado	-	3/16
New Mexico Western-		1/4

All costs and expenses shall be paid in the first instance by Wood River and Non-Operator agrees to reimburse Wood River for its proportionate part of any expenses made or incurred under the provisions hereof or the accounting procedure hereto attached as a part hereof.

SECOND: Operator is authorized to pay as operating expenses, all taxes and other lawful expenses incurred against the jointly owned acreage and the production therefrom, to settle, compromise, pay and discharge any and all damages and claims therefor which may be alleged to result from the operation of and production from the premises. The authority of Operator herein granted shall include but not be limited to the employment of counsel to prosecute, defend, compromise and settle, any and all litigation in any manner whatsoever, affecting the premises or the proceeds and revenue derived therefrom.

THIRD: Wood River shall bill Non-Operator on or before the 15th of each month for Non-Operator's proportionate share of the cost and expenses incurred during the preceding month. Itemized statement shall accompany such bills and Non-Operator shall pay its respective proportionate part thereof on or before the 1st day of the succeeding month. Payment of such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof.

FOURTH: Wood River shall have a lien on the interest of Non-Operator in such jointly owned lease, the production therefrom or the proceeds thereof and Non-Operator's interest in the material and equipment therein and thereon to secure the payment of Non-Operator's proportionate part of all operating expenses chargeable to it and the purchaser and taker of the gas and associated liquid hydrocarbons produced and sold from the jointly owned acreage is hereby authorized and directed to pay to Operator the proportion from the proceeds of the sale which would otherwise be payable to Non-Operator or either of them to satisfy any unpaid portion of such operating expenses chargeable to Non-Operator, all if and upon Operator's serving upon such pipe line taker or purchaser, demand in writing therefor. Said pipe line purchaser is hereby released of any responsibility or liability on account of compliance with the provisions of this agreement.

FIFTH: All costs, expenses, credits and related matters and the method of handling the accounting with respect thereto shall be fixed and determined in accordance with the provisions of the Accounting Procedure attached hereto as Exhibit "A" and made a part hereof for all purposes. However, should there be any conflict between the terms of this agreement and said Exhibit "A", the terms of this agreement shall prevail.

SIXTH: Non-Operator shall have the right at all reasonable times to inspect all books and accounts and all records of Operator pertaining to well or wells drilled or drilling and expenditures made as they apply to the acreage. Non-Operator shall also have access at all reasonable times to the lease premises and shall be furnished with such logs and other information pertaining thereto as it may request.

SEVENTH: Operator shall make no single expenditure in excess of \$1,000 without the consent of Non-Operator. No well shall be drilled on the acreage jointly owned unless upon the mutual consent of Non-Operator except where such well is required to be drilled by the State of New Mexico in order to protect correlative rights or preserve the leasehold acreage. The approval of the drilling of a well, however, shall include all expenditures for the drilling, completing, testing and equipping such well.

EIGHTH: Each of the parties hereto shall own and have the right at its own expense to take in kind or separately dispose of its proportionate part of all gas and associated liquid hydrocarbons produced and saved from the acreage covered hereby, exclusive of the production which may be used by Operator in developing and continuing operations on the premises and of production unavoidably lost, provided that each of the parties hereto shall pay or secure the payment of royalty interests, overriding royalty interests, payments out of production and other similar interests, if any, from its proportionate part of said production.

NINTH: Upon the termination of this agreement, either by its terms or by the consent of the parties hereto, all machinery, fixtures, houses and other structures, pipe, equipment and other property placed on the premises under the provisions of this agreement shall be divided in the proportion of the interest of the parties therein or at Operator's option the proceeds from the sale or the reasonable salvage value shall be distributed to the parties according to their interest therein.

TENTH: The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint nor collective, it being the express purpose and intention of the parties hereto that their ownership of said acreage shall be as tenants in common; nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, association or trust or as imposing upon either party hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations as set out in this agreement. Operator shall incur no liability of any character whatsoever to Non-Operator by acting as Operator hereunder.

ELEVENTH: This agreement shall be subject to all valid and applicable state and federal laws, rules, regulations and orders and the operations conducted hereunder shall be performed in accordance with said laws, rules, regulations and orders. In event this agreement or any provision hereof is or the operations contemplated hereby are found to be inconsistent with or contrary to any such rules, law, regulation or order, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

TWELFTH: No party to this agreement shall be liable to the other party for any delay or default of performance under this agreement due to any cause beyond its control or without its fault or negligence including but not restricted to acts of God or the public enemy or acts or requests of the State or Federal government or any Federal or state officer purporting to act under duly constituted authority, floods, wars, fires, storms, strikes, interruptions of transportation, freight embargos or failures, exhaustion or unavailability, or delays in delivery of, any materials, equipment or service necessary to the performance of any provisions hereof, or the loss of holes, blowouts, or happenings of any unforeseen accident, misfortune or casualty whereby performance hereunder is delayed or prevented.

THIRTEENTH: All notices and other correspondence required and necessary by the terms of this agreement shall be deemed to have been properly served and addressed if sent by mail or telegram as follows:

WOOD RIVER OIL & REFINING CO., INC.
321 West Douglas Avenue
Wichita 2, Kansas

EL DORADO REFINING COMPANY
El Dorado, Kansas

NEW MEXICO WESTERN OIL AND GAS COMPANY
Mercantile National Bank Building
Dallas, Texas

FOURTEENTH: All of the provisions of this agreement shall extend to and be binding upon the parties hereto, their successors and assigns and such provisions shall be deemed to be covenants running with the land covered hereby.

IN WITNESS WHEREOF the parties hereto have executed this agreement as of the day and year first above written.

ATTEST:

WOOD RIVER OIL & REFINING CO., INC.

Secretary

By _____
President

"OPERATOR"

ATTEST:

EL DORADO REFINING COMPANY

Secretary

By _____
President

ATTEST:

NEW MEXICO WESTERN OIL AND GAS COMPANY

Secretary

By _____
President

"NON-OPERATOR"

Attached to and made a part of Operating Agreement between Wood River Oil & Refining Co., Inc., El Dorado Refining Company and New Mexico Western Oil and Gas Company dated Jan. 14, 1955

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

The term "joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account.

The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. Statements and Billings

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Sub-Paragraph below:

A. Statement in detail of all charges and credits to the joint account.

B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.

C. Statements, as follows:

(1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;

(2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Statement of any other receipts and credits.

3. Payments by Non-Operator

Each party 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 six per cent (6%) per annum until paid.

4. Audits

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. 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, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. Rentals and Royalties

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid direct to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. Labor, Transportation, and Services

Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under Part (B) of this paragraph shall not exceed five per cent (5%) of the total of such labor charged to the joint account.

3. Material

Material, equipment, and supplies purchased or furnished by Operator, for use of 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 required for immediate use, and the accumulation of surplus stocks shall be avoided.

4. Moving Material to Joint Property

Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other properties of Operator, but in either of the last two events 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 such material is available, except by special agreement with Non-Operator.

5. **Moving Surplus Material from Joint Property**
Moving surplus material from the joint property to outside vendees, if sold f.o.b. destination, or minor returns to Operator's warehouse or other storage point. No charge shall be made to the joint account for moving major surplus material to Operator's warehouse or other storage point for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator; and no charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.
6. **Use of Operator's Equipment and Facilities**
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 4, of Section III, "Basis of Charges to Joint Account."
7. **Damages and Losses**
Damages or losses incurred by fire, flood, storm, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damage or losses incurred by fire, storm, flood, or other natural or accidental causes as soon as practicable after report of the same has been received by Operator.
8. **Litigation, Judgments, and Claims**
All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the joint account or the subject matter of this agreement; actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.
 - A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto, and a charge commensurate with the services rendered may be made against the joint account, but no such charge shall be made until approved by the legal department of or attorneys for the respective parties hereto.
 - B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.
9. **Taxes**
All taxes of every kind and nature assessed upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.
10. **Insurance**
 - A. Premiums paid for insurance carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
 - B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.
11. **District and Camp Expense**
A proportionate share of the salaries and expenses of Operator's District Superintendent and other general district or field employees serving the joint property, whose time is not allocated direct to the joint property, and a proportionate share of maintaining and operating a district office and all necessary camps, including housing facilities for employees if necessary, in conducting the operations on the joint property and other leases owned and operated by Operator in the same locality. The expense of, less any revenue from, these facilities shall include depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all leases served on some equitable basis consistent with Operator's accounting practice.
12. **Overhead**
Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of Operator, including the division superintendent, the entire staff and expenses of the division office located at Wichita, Kansas, and any portion of the office expense of the principal business office located at Wichita, Kansas, but which are not in lieu of district or field office expenses incurred in operating any such properties, or any other expenses of Operator incurred in the development and operation of said properties; and Operator shall have the right to assess against the joint property covered hereby the following overhead charges:
 - A. \$ 100.00 per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days
 - B. \$ 35.00 per well per month for the first five (5) producing wells.
 - C. \$ _____ per well per month for the second five (5) producing wells.
 - D. \$ _____ per well per month for all producing wells over ten (10).
 - E. In connection with overhead charges, the status of wells shall be as follows:
 - (1) In-put or key wells shall be included in overhead schedule the same as producing oil wells.
 - (2) Producing gas wells shall be included in overhead schedule the same as producing oil wells.
 - (3) Wells permanently shut down but on which plugging operations are deferred, shall be dropped from overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
 - (4) Wells being plugged back or drilled deeper shall be included in overhead schedule the same as drilling wells.
 - (5) Various wells may be shut down temporarily and later replaced on production. If and when a well is shut down (other than for proration) and not produced or worked upon for a period of a full calendar month, it shall not be included in the overhead schedule for such month.
 - (6) Salt water disposal wells shall not be included in overhead schedule.

- F. The above overhead schedule on producing wells shall be applied to individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project in the interest of economic development, the schedule shall be applied to the total number of wells, irrespective of individual leases.
- G. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

13. Warehouse Handling Charges

14. Other Expenditures

Any other expenditure incurred by Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

Material and equipment purchased and service procured shall be charged at price paid by Operator, after deduction of all discounts actually received.

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")

- (1) New material transferred from Operator's warehouse or other properties shall be priced f. o. b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, rigs, pumps, sucker rods, boilers, and engines. Tubular goods (2" and over), shall be priced on carload basis effective at date of transfer and f. o. b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
- (2) Other material shall be priced on basis of a reputable supply company's Preferential Price List effective at date of transfer and f. o. b. the store or railway receiving point nearest the joint account operation where such material is available.
- (3) Cash discount shall not be allowed.

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

- (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at 75% of new price.
- (2) Material which cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good second hand material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classed as Condition "C" and priced at 50% of new price.
- (3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- (4) Tanks, derricks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and, in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

4. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

- A. Water service, fuel gas, power, and compressor service: At rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.
- B. Automotive Equipment: Rates commensurate with cost of ownership and operation. Such rates should generally be in line with schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck, tractor, and pulling unit rates shall include wages and expenses of driver.
- C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located.
- D. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- E. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. Derricks, tanks, buildings, and other major items shall not be removed by Operator from the joint property without the approval of Non-Operator. Operator shall not sell major items of material to an outside party without giving Non-Operator an opportunity either to purchase same at the price offered or to take Non-Operator's share in kind.

1. **Material Purchased by Operator**
Material purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the material is removed from the joint property.
2. **Material Purchased by Non-Operator**
Material purchased by Non-Operator shall be invoiced by Operator and paid for by Non-Operator to Operator immediately following receipt of invoice. The Operator shall pass credit to the joint account and include the same in the monthly statement of operations.
3. **Division in Kind**
Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party and corresponding credits will be made by the Operator to the joint account, and such credits shall appear in the monthly statement of operations.
4. **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 claims by Vendee for defective material or otherwise shall be charged back to the joint account, if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. **New Price Defined**
New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."
2. **New Material**
New material (Condition "A"), being new material procured for the joint account but never used thereon, at 100% of current new price.
3. **Good Used Material**
Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning,
 - A. At 75% of current new price if material was charged to joint account as new, or
 - B. At 75% of current new price less depreciation consistent with their usage on and service to the joint property, if material was originally charged to the joint property as secondhand at 75% of new price.
4. **Other Used Material**
Used Material (Condition "C"), being used material 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, at 50% of current new price.
5. **Bad-Order Material**
Used material (Condition "D"), being material which cannot be classified as Condition "B" or Condition "C", shall be priced at a value commensurate with its use.
6. **Junk**
Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.
7. **Temporarily Used Material**
When the use of material is of a temporary nature and its service to the joint account does not justify the reduction in price as provided in Paragraph 3B, above, 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.

VI. INVENTORIES

1. **Periodic Inventories**
Periodic inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.
2. **Notice**
Notice of intention to take inventory shall be given by Operator at least ten days before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.
3. **Failure to be Represented**
Failure of Non-Operator to be represented at the physical inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.
4. **Reconciliation of Inventory**
Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.
5. **Adjustment of Inventory**
Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall only be held accountable to Non-Operator for shortages due to lack of reasonable diligence.
6. **Special Inventories**
Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property, and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

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(GPO)

POSTMARK OF DELIVERING OFFICE

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(NAME OF RECIPIENT)
BOX 871
(Street and Number, or Post Office Box.)

REGISTERED ARTICLE
No. **7601**
INSURED PARCEL

Post Office **SANTA FE N M**
State _____

15-1281

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PENALTY FOR PRIVATE USE TO AVOID PAYMENT OF POSTAGE, \$300
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REGISTERED ARTICLE
No. **7600**
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EMPLOY THE HANDICAPPED

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PENALTY FOR PRIVATE USE TO AVOID PAYMENT OF POSTAGE, \$300
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Form 3811
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RETURN RECEIPT

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1 Shut Out & Gas Co.
(Signature or name of addressee)

2 Regal Jones
(Signature of addressee's agent - Agent must make delivery (to make on line ONE above)

Date of delivery MAR 2 1955 1955

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Rev. 1-4-40

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1 EL PASO NATURAL GAS CO.
(Signature or name of addressee)

2 Quila Francisco
(Signature of addressee's agent - Agent must make delivery (to make on line ONE above)

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1 Walter West
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2 Edward Turner
(Signature of addressee's agent - Agent must make delivery (to make on line ONE above)

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2 Doyle A. 200
(Signature of addressee's agent - Agent must make delivery (to make on line ONE above)

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