Case No.

1001

Application, Transcript,
Small Exhibits, Etc.

Case 1001: El Paso Nat. Gas Co., Application for 277 acres un-orthodox drilling and proration unit in Blanco-Mesaverde Gas Pool.

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BEFORE THE

Oil Conservation Commission

SANTA FE, NEW MEXICO

IN THE MATTER OF:

CASE NO. 1000 & 1001

TRANSCRIPT OF PROCEEDINGS

ADA DEARNLEY AND ASSOCIATES

COURT REPORTERS

605 SIMMS BUILDING

TELEPHONE 3-6691

ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
January 20, 1956

CASE NO 1,000:
Application of Saul A. Yager, et al, for an order compulsorily pooling the NW/4 NW/4 Section 15 with the SW/4, S/2 NW/4 and the NE/4 NW/4 of said Section 15, All in Township 32 North, Range 10 West, Blanco-Mesaverde Gas Pool, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order compulsorily pooling the NW/4 NW/4 of said Section 15 with the balance of the acreage lying within the W/2 of Said Section 15, Township 32 North, Range 10 West. Applicant further desires for the Commission to determine the proper costs of a well to be drilled within the proposed W/2 of said Section 15 and to determine the reasonable charge for supervision of the proposed well.

CASE NO 1,001:
Application of El Paso Natural Gas Company for approval of an unorthodox drilling and proration unit in the Blanco-Mesaverde Gas Pool, San Juan County, New Mexico, or in the alternative an order compulsorily pooling the acreage in question. Applicant, in the above-styled cause, requests an order authorizing an unorthodox drilling and gas proration unit of 277 acres consisting of the following described acreage in Section 15, Township 32 North, Range 10 West, San Juan County, New Mexico: SW/4 NW/4, E/2 NW/4, W/2 SW/4, SE/4 SW/4, all of the NE/4 SW/4 except 3 acres of land lying west of the right-of-way of U. S. Highway 550 as it runs on the south side of the NE/4 of the SW/4. In the alternative, applicant requests that the Commission enter an order pooling the W/2 of Section 15, Township 32 North, Range 10 West, containing 320 acres into an orthodox drilling and proration unit. The above acreage lies within the boundaries of the Blanco-Mesaverde Gas Pool, as heretofore defined by the Oil Conservation Commission.

BEFORE: Mr. E. S. (Johnny) Walker,
Mr. William B. Macey.

TRANSCRIPT OF HEARING

MR. MACEY: The hearing will come to order, please. First

case on the Docket this morning is Case 1000.

It is my understanding that there is a move for consolidation of Case 1000 and Case 1001.

MR. CAMPBELL: If the Commission please, Campbell & Russell, representing the applicant in Case 1000; both the applicant in this case and the applicants in Case 1001, have agreed to consolidate the two cases for the purpose of hearing, and, if it is agreeable with Mr. Howell, I will dictate a stipulation to that effect into the record.

MR. HOWELL: Go ahead.

MR. CAMPBELL: It is stipulated and agreed by and between the parties to Case No. 1000 and 1001, now pending before the Oil Conservation Commission, by their respective attorneys that the said cases may be, by the Commission, consolidated for all purposes of hearing and any review or appeal therefrom.

Is that satisfactory, Mr. Howell?

MR. HOWELL: That is satisfactory.

MR. CAMPBELL: I don't know how the Commission wants to proceed; I have discussed with Mr. Howell, so far as Case 1000 is concerned, and our presentation of that. I have requested of Mr. Howell that we stipulate on some basic facts that are apparently agreed upon between the parties as evidenced by the implications themselves, and, if it is agreeable with Mr. Howell, I will read what I have here. If he has any disagreement with it, of course, we can either agree, or we can delete it, whichever he sees fit.

On behalf of the applicants in Case 1000, it is stipulated and agreed between the parties to the consolidated cases by their respective attorneys, as follows:

1. Saul A. Yager & Associates, shown and named in the applications,

are the owners of the unleased oil, gas and mineral interests underlying the NW/4 NW/4 of Section 15, Township 32 North, Range 10W, San Juan County, New Mexico;

2. El Paso Natural Gas Company, is owner of 160 acres of leases in the W/2 of Section 15, --

MR. HOWELL: I will have to interrupt there; I am not willing to stipulate on the ownership, and prefer to prove it. There is a three acre tract there that is involved in the situation, and to the ownership of leases other than the forty acres, of which Mr. Yager and his associates own the unleased minerals, we would prefer to put on proof.

MR. CAMPBELL: All right, sir. Let me withdraw that, and withdraw No. 2.

2. El Paso Natural Gas Company has asked Yager & Associates if they would be agreeable to communitizing their interests to form a unit comprising the W/2 of Section 15, and pay their proportionate part of the drilling costs, which would be approximately $10,000;

3. Yager has advised El Paso Natural Gas Company that he and his associates are not in a position to pay their part of the drilling costs, that they would be agreeable to communitizing with their proportionate part of the costs of drilling to be taken out of the 7/8's working interest under the forty acre tract owned by them; --

MR. HOWELL: I can't stipulate to that being a 7/8's working interest, since there is no lease on that tract, --

MR. CAMPBELL: Strike out the word "working."

MR. HOWELL: -- and the 7/8's attributed to that tract.

MR. CAMPBELL: 4. El Paso Natrual Gas Company has advised Yager that unless he and his associates pay their proportionate cost

of the drilling costs, El Paso Natural Gas Company would seek forced pooling; Yager has advised El Paso Natural Gas Company, again, he and his associates are not in a position to advance cash, and requested that the costs be taken out of the 7/8's of production, and that is when El Paso Natural Gas Company has advised Yager that they had decided to ask for a non-standard 280 acre unit, rather than forced pooling;

5. Yager then filed application now pending in Case No. 1,000, seeking compulsory pooling, a determination of the estimated costs of the well and an order that --

MR. HOWELL: Mr. Campbell, I think the applications in both cases will speak for themselves. Let's just say the application was filed in Case 1,000, without us stipulating as to the exact contents of it, and you can do the same in 1,001, as they speak for themselves.

MR. CAMPBELL: I was trying to get them in the order, and a statement to the Commission.

6. Yager filed his application in case 1,000, and El Paso Natural Gas Company then filed its application in Case No. 1,001.

Are there any other facts, Mr. Howell, to which you would like to request any stipulation as to the background leading up to the applications?

MR. HOWELL: No.

MR. CAMPBELL: Are those requested stipulations of fact agreeable to you?

MR. HOWELL: Yes.

MR. MACEY: One question, Mr. Howell. I noticed Mr. Campbell mentioned the figure 280 acre non-standard unit; it is actually 277, isn't it?

MR. HOWELL: The letter which went to Mr. Yager was on the assumption that we would be able to get that three acres, and the actual request was for -- or statement, was that we would seek for 280 acres, but the proof will show --

MR. MACEY: The application will speak for itself.

MR. HOWELL: Yes. The proof will show that that three acres is still outstanding.

MR. CAMPBELL: Now, for present purposes, if the Commission please, based upon the stipulated facts here, we have no further testimony at this time to offer. We believe that this, with the possible exception of the cost of the well, is a question, basically, of the extent of the authority of the Commission, and what the Commission wants to do under the law with reference to the application.

We may wish to offer evidence, depending upon the nature of the testimony offered by El Paso Natural Gas Company, but we believe that the simple refusal of a non-consenting working interest owner, which is established by these stipulated facts, is sufficient to justify the Commission in issuing the order requested in case 1,000.

MR. HOWELL: I have two witnesses to be sworn, Mr. Bittick and Mr. Morrell.

(Witnesses sworn.)

If Mr. Anderson, of Pacific Northwest, should arrive, I intend to use him, also.

T. W. BITTICK,

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

D I R E C T E X A M I N A T I O N,

BY MR. HOWELL:

Q Will you state your name for the record, please?

A T. W. Bittick.

Q By whom are you employed?

A El Paso Natural Gas Company.

Q In what capacity?

A Division Land Man.

Q Covering what area?

A San Juan Basin.

Q How long have you been so employed?

A I have been employed in the lease department of El Paso Natural Gas for three years, and position of Area Land Man for about a year and a half.

Q Is the tract of land under discussion here today within the territory that you supervise for the El Paso Natural Gas Company's Lease Department?

A Yes, sir.

Q Are you familiar with the tract of land, the condition of titles and the negotiations towards drilling in this tract?

A Yes, sir.

Q Have you prepared, or had prepared, under your supervision, a plat showing the Section 15, T32N, R10W?

A Yes, sir, I have had a plat prepared under my supervision.

Q Does that correctly reflect the tracts of land in the section?

A Yes, sir.

Q I might ask, with reference to a small triangular tract that is lettered in blue, as to whether or not that is drawn exactly to scale, or an approximate representation.

A That is an approximate representation of a three-acre tract belonging to Dave Clark.

MR. HOWELL: These exhibits have been marked by letters, I believe. Do you have any desire to change those to numbers?

MR. MACEY: No, sir.

Q Referring, now, to El Paso Natural Gas Company's Exhibit "A," will you state for the record the ownership of the various tracts located in the W/2 of Section 15, as shown by all the information which you have been able to accumulate?

A There is a small tract, colored in blue, in the NE/4 of the SW/4, which belongs to Dave Clark, --

Q Is there any oil and gas lease on that tract?

A No, sir, there is not. The NW/4 of the NW/4 is colored in green, belongs to Mr. Saul Yager and his associates, and that is also unleased. The red acreage in the W/2 of Section 15 belongs to El Paso Natural Gas Company, and that covers --

Q Now, let's stop a minute there. By that, do you mean that El Paso Natural Gas has acquired from the owners of the minerals the oil and gas leases on that land?

A Yes, sir, we have acquired oil and gas leases on that land; and the acreage colored in orange, or a --

Q Well, let's call it orange, that is close enough.

A That is under lease to Pacific Northwest Pipeline Corporation, and that covers approximately 103 acres.

Q The railroad right-of-way that goes through there is under lease to whom?

A Pacific Northwest Pipeline Corporation.

Q Now, do you also have a plat prepared which shows the relative locations of wells on the surrounding area?

A Yes, sir, I do.

MR. HOWELL: Will you mark this Exhibit "B"?

(El Paso Natural Gas Company Exhibit "B" marked for identification.)

Q Referring to Exhibit "B", I will ask you if that shows the location of the well drilled on the east half of the section?

A Yes, sir, it does.

Q And what is the depth of that well?

A 5,265 feet.

Q And was it completed as a producing well?

A Yes, sir, it was.

Q What was the initial potential?

A 1,917 MCF per day.

Q Was that well drilled on a unit with El Paso Natural Gas Company as operator? A Yes, sir, it was.

Q Now, referring to Section 22, to the south, directly to the south, what wells have been completed on that section?

A In the NE/4, Section 22, is a well drilled by Southern Union, and it was completed at a total depth of 5,550 feet, with an initial potential of 1,329 MCF; in the SW/4, Stanolind Oil and Gas Company's Sullivan 1-A well, completed at a total depth of 5,300 feet, with an initial potential of 1,755 MCF per day.

Q Now, is there any wells completed on Section 21, which is diagonally to the southwest of Section 15?

A Yes, sir, there is two wells there, Stanolind's Sullivan 1-B in the NE/4, completed to a total depth of 5,610 feet, with an initial potential of 3,720 MCF, and, in the SW/4, Southern Union's Payne No. 2 Well, completed to a total depth of 5,608 feet, with an initial potential of 6,980 MCF.

Q Does El Paso Natural Gas Company own any leasehold rights in either Sections 21 or 22 to the south?

A No, sir, we do not.

Q Are any wells drilled in Section 16, immediately to the west?

A No, sir.

Q Now, then, from your testimony, then, it is apparent that the W/2 of Section 15 is surrounded by producing wells, one located directly to the east, one diagonally to the southeast, one directly to the south, and one directly to the southwest as off-set wells?

A Yes, sir, that's correct.

Q Now, has Pacific Northwest Pipeline Company been approached with reference to communitizing this W/2 of Section 15?

A Yes, sir, they have, and they agreed to communitize with El Paso.

Q Do you know approximately the date at which the agreement was entered by them to communitize?

A Negotiations was commenced with their land department in July, 1955; they received the approval of their operating committee on September 9th, 1955.

Q Are they willing to enter an operating agreement substantially the same as the one we shall introduce later on?

A Yes, sir, they are.

Q You have discussed that with Pacific Northwest?

A Yes, sir, I have.

Q Now, the stipulations in this case shows that Mr. Yager and his associates have been unwilling to contribute, in cash, the share of costs of drilling the well, and, I will ask you, also, if you have been able to get the consent of the owner of the three-acre tract?

A No, sir, we have been unable to obtain his consent.

Q Have you, or persons under your supervision in your department, proposed in writing a communitization to Mr. Dave Clark, the owner of that tract? A Yes, sir, we have.

Q I believe the record shows that Mr. Dave Clark is the owner of the minerals on that tract? A Yes, sir.

Q Have you also approached him personally or through a subordinate of yours?

A Through a subordinate he has been approached, yes, sir.

Q And Mr. Clark is not willing to enter into any communitization agreement or communitize his three acres with the remaining half , the remaining west half of the section? A No, sir, he is not.

Q Now, have you compiled any figures showing the cost and experience of El Paso Natural Gas Company in the average cost of wells drilled to a depth of between 5,265 feet and 5,610 feet, completed in the Mesaverde Formation in the San Juan Basin?

A We do not have any average figures as such, Mr. Howell, we do have the total costs of the Heizer P.U. No. 1, located in the E/2 of Section 15.

Q That is the well which immediately joins this to the east?

A Yes, sir.

Q What were the actual costs of completing that well?

A The well cost $63,610.50.

Q Does that include the direct charges to the well, only?

A That includes all the charges.

Q That includes all charges, including charge for supervision?

A Yes, sir.

Q Now, what experience has El Paso Natural Gas Company had as

to the average cost of supervision, what we term overhead costs, generally?

A Throughout the San Juan Basin, El Paso, and most of the other operators in the Basin, use the figure of $250.00 per month per drilling well, and $45.00 per month for producing wells for overhead charges. That does not include the charges for direct supervision, it does not include direct charges for that well.

Q That is, if the toolpusher spends a day on that well, it is customarily charged as a direct charge to the well, and not carried forward in overhead? A That's correct.

Q So that the average costs which you have mentioned there are generally used by El Paso Natural Gas Company and other companies to reflect the supervisory costs that cannot be pinpointed by direct charges for time of an individual spent on that particular well?

A Yes, sir. That, also in our case, includes -- would include the charges for district and camp expenses.

Q Do you think those figures are fair and reasonable?

A Yes, sir, they are more than fair and reasonable.

Q What do you mean by "more than fair and reasonable"?

A Our accounting department feels we are losing money on that figure.

Q Now, at my request, have you compiled a list of the unit agreements that are in force in the San Juan area, or a substantial number of them? A Yes, sir, I have.

Q Can you tell us which units you have there, that you have investigated to determine certain provisions?

A San Juan 27-4; San Juan 27-5; San Juan 28-4; San Juan 28-5; San Juan 28-6; San Juan 28-7; San Juan 29-4; San Juan 29-5; San Juan

29-6; San Juan 29-7; San Juan 30-4; San Juan 30-5; San Juan 30-6; San Juan 31-6; San Juan 32-5; San Juan 32-7; San Juan 32-8; San Juan 32-9 Units, Allison Unit; Cedar Mesa Unit; Cox Canyon Unit; Huerfano Unit; Huerfanito Unit; Lindrith Unit and the Rincon Unit.

Q Now, do the operating agreements of each of these units contain provisions that cover the recovery which a drilling party will make when a well is drilled to which one of the owners is not willing to consent?

MR. CAMPBELL: If the Commission please, I am going to have to enter an objection to any testimony based upon voluntary agreements in other areas insofar as what the practice may be with regards to charging the cost of wells; we are here concerned with a compulsory pooling application. What some people may desire to enter into as a voluntary agreement depends upon their circumstances at that particular time, depends upon the nature of the area, depends upon a great many factors that may or may not be present here, and I don't believe that what El Paso has been able to do in other areas has any bearing upon the case here.

MR. MACEY: Mr. Campbell, you have raised a very important point, and I think probably we ought to take a short recess and discuss it right now, get it settled.

MR. HOWELL: If the Commission please, I would like to speak a word before discussing it. It is our purpose, in offering this testimony, to show what the majority of operators in the San Juan Basin regard as a fair and customary practice when one party is required to drill a well and furnish costs to be recovered from the other party, and we expect to offer additional testimony in addition to the unit agreements, but the unit agreements are offered as being

one circumstance and one bit of evidence, which, together with others, will show what is fair and reasonable under a situation such as exists here, a fair and reasonable method of proportioning the costs and recovery.

MR. CAMPBELL: May I say that, based upon my objection, that the statutes, with regard to compulsory pooling, which we are involved in here, specifically provide that the costs shall be the lowest actual expenditure plus reasonable supervision; it makes no reference as to how that should be recovered. These voluntary agreements, I realize, provide for 150 per cent, and maybe some people signed up for 200 per cent, but I still contend it is immaterial and irrelevant to the compulsory case now before this Commission.

MR. MACEY: We will take a short recess.

(Short recess.)

MR. MACEY: The hearing will come to order.

Mr. Campbell, your objection is overruled; the Commission feels that the practice of the industry may be a factor, and should be included in any pooling order we might have.

MR. HOWELL: Shall I resume questioning?

MR. MACEY: Yes, sir.

Q Have you, at my request, excerpted from the operating agreements concerning these units that you have listed, the provisions relating to non-consent wells?

A Yes, sir, I have.

Q Will you read the provision that is customarily in the block-type unit?

A You want the entire paragraph?

Q Yes, would you read that?

A "If less than all of such parties elect to join in the

drilling of such well, Unit Operator shall, upon obtaining required governmental approvals, proceed with due diligence to drill such well at the sole cost and risk of the party or parties electing to share in the costs thereof, hereinafter called the "drilling parties." In the event any such well is a dry hole (and is not taken over for plug back or deepening), it shall be plugged and abandoned at the sole cost of the drilling parties. In the event such well is a producer, it shall be tested, completed and equipped to produce by the Unit Operator at the sole cost of the drilling parties, and such drilling parties each in proportion to its contribution to the cost of drilling, testing, completing and equipping the well shall be entitled to receive the proceeds of production from the well, or, if it is capable of producing in paying quantities, shall be entitled to receive the proceeds of production allocable to the interests admitted to the participating area on account of such well, after deducting therefrom all royalties, overriding royalties, production payments and one hundred per cent of the operating expenses attributable thereto, until said drilling parties shall have received therefrom one hundred fifty per cent of the costs of drilling, testing, completing and equipping said well to produce."

Q Now, the block-type unit, I believe, is sometimes termed the Township-type unit in the area? A Yes, sir, that is true.

Q And under the unit agreements which have been filed with the Commission, a drilling unit or a drilling block is set up as either the west half or the east half of a section, as a general rule?

A As a general rule, yes, sir.

Q So that the drilling block referred to in the excerpts, as

a general rule, would be either the east half or west half of a section lying within the unit area? A Yes, sir.

Q Now, do you know which is the closest township-type unit to this particular Section 15?

A Yes, sir. The San Juan 32-9 Unit lies directly to the east.

Q Is the west line of the 32-9 Unit running along the east line of Section 15? A Yes, sir, it does.

Q Now, does Section 15 lie within the defined limits of the Blanco-Mesaverde Pool? A Yes, sir, it does.

MR. HOWELL: If it please the Commission and Mr. Campbell, we have prepared excerpts here, and I suggest, rather than taking the time of the Commission to read them into the record, that we merely introduce these excerpts.

I will ask this witness, Mr. Bittick, if the list which I have marked "Block Type Units," which we shall mark as El Paso Exhibit "C" is a correct transcription of the unit operating provisions, relating to the several units which he has mentioned in his testimony.

A Yes, sir, it is.

(El Paso Natural Gas Company's Exhibit "C" marked for identification.)

Q MR. HOWELL: If there is no objection, I suggest that in the interest of time we merely file this as an exhibit rather than take the time to read these provisions into the record.

MR. CAMPBELL: Well, my basic objection goes to the offering of any evidence with reference to other agreements between El Paso Natural Gas Company and other people in other areas, --

MR. HOWELL: Subject to that,--

MR. CAMPBELL: -- and also, that while I certainly don't

want to bring on the introduction of all these unit agreements, I want to add to that, that I object to introducing portions of agreements which might contain other provisions having a bearing upon the matter.

Q Do you have available copies of the unit operating agreements, Mr. Bittick?

A Yes, sir, I do.

Q In photostatic form?

A No, sir, some of them are conformed copies. They are not ---

Q Are they copies which could be made available to Mr. Campbell?

A Yes, sir.

MR. HOWELL: We would tender to Mr. Campbell conformed or photostatic copies of each of the unit agreements if he so desires.

MR. CAMPBELL: Mr. Howell, you are referring to the unit agreements, or --

MR. HOWELL: Unit operating agreement.

MR. CAMPBELL: Are they identical in form with other provisions, other than the non-consenting owner provision?

MR. HOWELL: I think that by and large the block type or township type units are identical in form, except, of course, with reference to the parties to the unit agreement and the description of the property involved, and I think some of the unit agreements and unit operating agreements contain provisions that are slightly different, relating to irregular sections.

MR. CAMPBELL: Are there any differences with reference to sharing of the production?

MR. HOWELL: I will ask the witness that, since I have not recently read each of the agreements.

A Exactly what do you mean, Mr. Campbell?

MR. CAMPBELL: I may not understand all I should about these agreements, but are they all on a participating area basis, or entire unit basis, or are there variations?

A The block-type units are on a participating. Some of the main, Rincon, Huerfano or Allison Units are on an entire-unit basis rather than a participating as far as working interest is concerned.

MR. CAMPBELL: So there is a difference between these agreements as to the manner in which the production from a particular area may be distributed?

A Those are covered separately in this excerpt.

MR. CAMPBELL: If the Commission please, I will withdraw my objection to this on the proposition that it does not represent the entire agreement. I want to call to the Commission's attention, on the basis of the statement made by the wit. ess, that there are factors present in these agreements that can have a bearing upon the agreement which one of the parties desires to sign relative to the costs of these wells, and, of course, that is the basis of my original objection which was overruled, but I simply want to state it for the record.

MR. MACEY: This exhibit was offered, was it, Mr. Howell?

MR. HOWELL: None of the exhibits have, as yet, been offered; they have all been marked. At this time, I will offer Exhibits "A," "B," and "C."

MR. CAMPBELL: Let my objection be reflected at this point.

MR. MACEY: Mr. Campbell's objection is overruled, and the exhibits will be received.

Q Now, Mr. Bittick, do you have a proposed type of communitization agreement that has been suggested to Pacific Northwest with

reference to this W/2 of Section 15?

A We have a proposed operating agreement.

Q A proposed operating agreement? A Yes, sir.

Q Is that agreement which you have one which El Paso Natural Gas Company has entered into with another company in an instance in which El Paso Natural Gas Company did not desire to advance costs for drilling a well? A Yes, sir, it is.

Q Has that type of agreement actually been entered into with another?

A Yes, sir. This is a photostatic copy of the executed agreement.

MR. HOWELL: We will mark this as Exhibit "D," and offer it as substantially the operating agreement which El Paso Natural Gas Company proposes for this Section 15, this being a photostatic copy of an agreement which has actually been entered into with others covering another tract of land in the vicinity.

(El Paso Natural Gas Company's Exhibit "D" marked for identification.)

Q Now, what provision does this proposed communitized operating agreement have with reference to recovery of costs when a party elects not to pay its share of well costs?

A It provides, in Article 20, beginning on page 9, under "Election as to Joinder," provides for recovery of one hundred fifty per cent of the costs of drilling a well if a party does not desire to join and pay his share of the costs.

Q Has Pacific Northwest Pipeline Company expressed its willingness to enter such agreement on this W/2 of Section 15?

A Yes, sir, they have.

MR. CAMPBELL: If the Commission please, I want my objection renewed there. The factors that may lead El Paso Natural Gas Company and Pacific Northwest Pipeline Corporation to sign could be entirely different to factors that might or might not lead the parties in this case to enter such agreement or the Commission to enter an order under its powers.

MR. KITTS: For what purpose will this be offered, Mr. Howell, for what broad purpose?

MR. HOWELL: It is offered to show the type of agreement which the two major owners of working interests are willing to enter as an operating basis for this particular tract of land.

MR. KITTS: Is it the contention of El Paso that the conditions are identical or the same with conditions in the case here?

MR. HOWELL: No, it is the testimony of El Paso that El Paso, in an instance in which it did not advance costs, specifically that Great Western was willing to enter where the other party would recover one hundred fifty per cent of drilling costs before El Paso came in for recovery of its costs.

MR. CAMPBELL: If the Commission please, at this point I think, obviously, this evidence is all going in, but I want to explain to the Commission the basis for my objection. The question of whether El Paso Natural Gas Company, for reasons of its own, the reasons or basis for which El Paso Natural Gas Company may we willing to pay one hundred fifty per cent of the drilling costs in a particular situation may be entirely different from what the Applicant here wants to do. El Paso Natural Gas Company wants the gas, and that is a factor; they may have a tax situation, there may be any number of reasons, and our point is this, that the Commission, if it has any

authority at all to decide how the costs of this well is going to be paid, we think, under the statute, has to apply the standard of not penalizing anybody who doesn't want to consent to the drilling of a well, and that is why we are objecting to evidence about what other people may want to do in a particular situation; we are non-consenting owners, seeking compulsory pooling and requesting the Commission to have El Paso take it out of our share of production.

Frankly, I'm not sure whether the Commission has that power or not, it may be able to enter compulsory pooling, ordering the well and leave it there. If it enters any order involving the cost of this well and how it is going to be allocated, we do not want the Commission to rely upon what other people did.

MR. WALKER: If your application is granted, and you are willing to take out your costs of the share in production, and there is no production, who is going to pay for it?

MR. CAMPBELL: El Paso Natural Gas Company. There is nothing wrong with that. As a matter of fact, many of the statutes provide that if it is not a producing well, that the producers shall pay for it.

MR. WALKER: If this body doesn't hear evidence, we can't write an order. It takes evidence for us to write a reasonable and just order.

MR. CAMPBELL: You can write an order compulsorily pooling the acreage, you can find what the present estimated cost of the well is whether you enter an order requiring us to pay one hundred fifty per cent out of production or $10,000 in cash, or them to take it out of 7/8's, but if you write one, I think it should be taken out of the 7/8's, and that is what I have requested.

MR. HOWELL: If the Commission please, I don't care to go into any extended argument at this time, but the position which El Paso Natural Gas Company finds itself is that an owner of the minerals and forty acres filed an application for compulsory pooling.

Now, that owner says that he does not want to pay his share of a well on a tract that he wants compulsorily pooled because the initial application in Case 1,000, for compulsory pooling, was filed by Mr. Yager and his associates, and we are offering in evidence the custom of the industry and the history of our own operations as to what is fair and reasonable and equitable in such a situation.

MR. CAMPBELL: If the Commission please, there is one statement I must correct; we are not refusing to pay our costs of the well. We are saying we should not be subject to penalties, because we may not, at this moment, for reasons of our own, desire to have the well drilled, but we are in this unit and I don't think the Commission or El Paso should or really wants to confiscate our property because we want to disagree with them about the well. We are perfectly willing that our costs , share of this well, be taken out of the production. We think the share is limited by the statute.

MR. KITTS: Mr. Campbell, is it your contention that you are a non-consenting owner?

MR. CAMPBELL: Right.

MR. KITTS: I want to ask Mr. Howell a question about these exhibits; are they offered for the purpose, a, showing that this is a reasonable type of interest that the Yager interests should enter into, or, b, are they offered as showing the custom of the industry of determining costs or share of costs where one party is not able or not willing to come up with the cash? In effect, is that the

purpose?

MR. HOWELL: It is offered for both purposes. I may state this, that in the ordinary communitization operating agreement in which parties having a location go together, you don't have non-consent features, because usually the parties have agreed upon the basis on which they are going to drill the well. That is what happens ninety-nine times out of a hundred, so you don't find a great many communitization operating agreements floating around that cover a non-consent situation. We are offering evidence to show the custom of the industry generally upon a non-consent situation, we are offering a specific communitization operating agreement as indicating what certainly this company and another company have done. It is a circumstance showing the custom of the industry, and it shows the willingness of this company, in such a condition, to allow the person or party advancing the cost to recover a hundred fifty per cent of the drilling costs.

MR. GURLEY: You say the custom of the industry. Are all these excerpts taken from your own contracts or your own agreements, that is, between you and other parties?

MR. HOWELL: They are, they are taken, in operating agreements, and a number of other parties within the San Juan Basin area are also parties, and the Commission has in its files, and has approved, the unit operating agreements covering each of these units from which it is apparent that it is a reasonable cross section of the industry that has entered into this type agreement.

MR. GURLEY: But you are party to each one of these agreements?

MR. HOWELL: We are party to each one of these agreements,

is that correct, Mr. Bittick?

A Yes, sir.

MR. HOWELL: That is all of Mr. Bittick's testimony.

MR. MACEY: Mr. Campbell, this Commission has before it an application for a forced pooling order; as I interpret the application, you, as a non-consenting owner, desire to join the unit. There, our statute, and I will quote it, "All orders requiring such pooling shall be on terms and conditions that are just and reasonable," and the documents that El Paso has introduced, such as, I believe, Exhibit "D", will help this Commission determine what is just and reasonable, and I think we should take it in as evidence. The fact that there are a number of circumstances which may or may not have prompted El Paso to enter this agreement or to stay out of the thing, we are aware of that, and, of course, we have got to take that into consideration.

Therefore, I will overrule the objection and accept the exhibits.

I might clarify my point in that this last document may not try to determine whether Mr. Yager should have entered into this contract at all, --

MR. CAMPBELL: Mr. Yager hasn't seen it, to my knowledge.

MR. KITTS: Or this type of agreement.

MR. HOWELL: There is another point I want to get from Mr. Bittick that I overlooked.

MR. MACEY: All right.

Q Mr. Bittick, probably to aid the Commission to write its order, we should identify the several tracts of land that are located in the W/2 of the section with more particularity than we have at the present time. Will you read into the record a description of the

tracts, generally, and give as specific a description as you can of the three-acre tract owned by Dave Clark?

A All right, sir. The El Paso Natural Gas Company is contributing three fee leases to the terms, to the well to be drilled on the W/2 of Section 15; the first one is an oil and gas lease, dated June 26, 1950, from Robert J. Doughtie and wife, Edna Doughtie, lessors, to John F. Sullivan, lessee, embracing, among other lands, 32.5 acres in the SE/4 NW/4 of Section 15, and 47 acres in the N/2 of SW/4 of Section 15, T32N R10W, NMPM; the second lease, dated June 27, 1950, from Robert L. Gadston and wife, Edith Gadston, as lessors, to John F. Sullivan, lessee, embracing, among other lands, the SE/4 of the SW/4 and the East 40 rods of the South 30 rods of the NE/4 of the SW/4 of Section 15, T32N R10W, and containing that tract containing approximately 47 acres. The third lease, dated June 27, 1950, executed by Mary Catherine Heiser, as lessor, to John F. Sullivan, lessee, covering, among other lands, the NE/4 of the NW/4, North 7.5 acres of the SE/4 of the NW/4 of Section 15, T32N R10W, NMPM, covering 47.5 acres, more or less.

The three leases contributed by El Paso covers 147 acres, more or less, in the W/2 of Section 15.

Pacific Northwest Pipeline Corporation is contributing a lease from the Denver & Rio Grand Western Railroad Company, as lessors, to Phillips Petroleum Company, as lessee, covering all of the Denver & Rio Grand Western Railroad Company right-of-way in the W/2 of Section 15. Do you want the description of each specific lease, or just this three-acre tract.

Q Yes, will you go ahead and read into the record the description of the Pacific Northwest leases?

A The second lease contributed by Pacific Northwest Pipeline Corporation, a United States Oil and Gas Lease, bearing serial number Santa Fe 079625, issued to Hazel L. Gentle, as leasee, and covering, among other lands, the SW/4 of the NW/4 of Section 15, T32N R10W, NMPM; the third lease contributed by Pacific Northwest is an oil and gas lease dated December 11, 1951, from Catherine Hendricks, a widow, et al, as lessors, to H. C. Wynne, as lessee, covering the SW/4 SW/4 of Section 15, T32N R10W, NMPM; the fourth lease contributed by Pacific Northwest, an oil and gas lease, April 22, 1954, from Edward E. Miller, and Lena A. Miller, lessors, to Phillips Petroleum Company, lessee, covering a strip of land 30 rods wide over the south side of the N/2 of the SW/4 of Section 15, T32N R10W, NMPM, containing 30 acres, more or less, excepting the existing right-of-way of the Denver & Rio Grand Railroad Company, the right-of-way of State Highway 550, and excepting the East 40 rods in width of said 30 acres, more or less, said East 40 rods being a part of the NE/4 of the SW/4 of said Section 15, and excepting all that part of the above described 30 acres, more or less, lying west of the right-of-way of said State Highway 550, said tract containing 3 acres, more or less, and the last exception covered -- describes the acreage owned by Dave Clark.

Q Does that cover all of the several tracts other than that owned by Mr. Yager and associates?

A Yes, sir, it does.

MR. HOWELL: I think that is all.

MR. MACEY: Any questions of Mr. Bittick?

MR. CAMPBELL: Yes, sir.

MR. KITTS: Just a minute right here. I think the record should show that Mr. Macey's statement as to what purpose Exhibit "D"

was being considered in being received should go to the previous exhibits, "A," "B," and "C" as well.

MR. MACEY: Well, more particularly, Exhibit "C," not "A" and "B", but "C."

C R O S S E X A M I N A T I O N

BY MR. CAMPBELL:

Q Mr. Bittick, I want to be sure that I understand your figures correctly; am I correct that you stated that the total cost of the Heizer Well in the E/2 of Section 15, including the supervisory charges for drilling, was $63,610.50? A Yes, sir.

Q And that the normal overhead cost of items which cannot be specifically set up, that your company adopts $250.00 a month, during drilling, and $45.00 a month after the well is completed?

A Yes, sir, that is correct.

Q Is it then your estimate, based upon that figure, that, barring unforeseen difficulties, that the well in the W/2, if drilled, would cost approximately the same amount?

A According to our engineers it would cost about $3,000 more, Mr. Campbell. We have a well-cost estimate prepared on that well.

Q Just state what the reason for that is, for, the additional estimates there by your engineers, is it deeper?

A I don't know. The estimate here is $66,972.00, and that can be caused by additional road costs. There are many factors that can enter into that.

Q Is that $66,972.00 based upon the total cost in the same manner of the cost of the Heizer Well? A Yes, sir, it is.

Q Now, Mr. Bittick, if you drill that well, at whatever cost is involved, the well is not going to cost El Paso Natural Gas Company

any more or any less whether the tract of Yager's is in it or not, is it, it doesn't affect the basic cost of drilling the well?

A It wouldn't affect the total cost; it will affect who pays it.

Q So that if you take your share, the Yager share of the costs of that well out of production, it will cost El Paso less to drill the well than if the Yager tract isn't in there, would it not?

A You are assuming that there will be production.

Q Didn't you testify that this well was off-set on all sides?

A It is off-set to the south, yes, sir.

Q Do you consider this to be a wildcat well?

A Well, I'm not a geologist, and I don't know how far they would go in saying it is a wildcat well.

Q Now, Mr. Bittick, this brings us down to the question of these agreements that have been offered here with relation to the percentage of costs charged to a non-consenting owner; all of those that you offered here were, as I understand it, involved in Township- or Block-type unit agreements in the San Juan Basin area?

A Yes, sir.

Q Are those normally entered into before there is any drilling on the unit?

A You can't make a general statement on that; some of those would be entered into before there was drilling, some of them would have a great deal of development on them before the unit was formed.

Q Now, Mr. Bittick, as a land man, can't you say that it is true, generally, that the determination of what a non-consenting owner must pay is pased, primarily, beyond the 100 per cent, obviously, on the risk that is involved to the person that is drilling the well?

A Yes, sir, I feel that it is for the risk involved.

Q And a risk in a wildcat area is considerably different than it is in an area which has been developed by offset wells, is it not?

A Yes, sir, there is a difference in the risk.

Q So that you must, in each instance, I assume, as a land man, negotiate that with the people who are involved in that area, isn't that correct? A Yes, sir.

Q And each instance, generally, would have to stand on its own, would it not?

A Not necessarily. You are going to have a similiarity of factors there in almost any instance. For instance, the 29-7 Unit was highly developed before it was formed and it contains the 150 per cent provision.

Q Now, let's persue that similiarity in these agreements a little farther. Isn't it correct that in the area where these unit agreements are involved that the acreage involved there is primarily Federal acreage, percentage wise, isn't the majority of acreage in most of these units involved actually Federal leases?

A I don't think I could say, off hand. There is a great deal of Federal acreage involved, but as far as percentage wise, I wouldn't guess.

Q Now, insofar as any unit agreement involving Federal acreage is concerned, that unit agreement is on a form that has to be approved by the Federal Government?

MR. HOWELL: If the Commission please, we object to that because the agreements we have introduced are unit operating agreements, and does not require approval, and the ones that do require

is immaterial in this case, because it does not contain interests of the working interest and the porportionate costs between them.

Q Well, let me ask you this. You are acquainted with Federal leases, I assume?

A Yes, sir.

Q Isn't it true that under a Federal lease that the working interest owner, if the Government requests it, is required to enter into unit operations?

A That is what they say, but they have never required anybody to enter into one.

Q It is a provision in the lease, you know that?

A Yes, sir.

Q Don't you think that the elements which lead a person not only to join the unit agreement, but to go along on a form of operating agreement that are present under a Federal lease might not be present under a fee?

A I think most Federal ownerships are well acquainted with the fact that they are not required to on a --

Q Mr. Bittick, what I am getting at is this, you know that both the unit and operating agreement, where Federal acreage is involved, have become more or less standardized, have they not?

A Yes, sir.

Q Do you think that the same factors that apply to your trading with people on Federal leases, with reference to their entering into these arrangements, is the same as the people with fee acreage?

A Well, I don't see any material difference in the situation that we are discussing, as far as a provision for 150 per cent recovery is concerned, I don't see whether it is fee, State or Federal enters

into negotiations whether you are going to have to pay 100 per cent or 150 per cent costs of the well.

Q Do you believe that an operator, under these agreements, in a proven area is entitled to recover 150 per cent of the costs of the well?

A Yes, sir, I do, if the other party is not willing to put up the cash.

Q Upon what grounds do you base that?

A Well, in any area there is still an element of risk there, depending on the area. You will have a varying amount of risk; there can be a dry hole in one half section and a good producer in the other half.

Q But where the risk is less, the penalty ought to be less, isn't that correct?

A Well, of course when you get into that, you are going to get into a percentage problem there, how much less is the risk? how much greater? and I don't feel I am qualified to say whether it should be reduced by ten per cent, fifteen per cent. I do know that this type of agreement has been used in a great many areas in the San Juan Basin.

MR. CAMPBELL: That is all.

MR. MACEY: Does anyone else have a question of the witness? Mr. Utz.

C R O S S E X A M I N A T I O N

BY MR. UTZ:

Q Do you know of any dry holes within the pool limits of the Blanco-Mesaverde?

A I don't know whether there are any or not, at this time,

Q The $45.00 a month operating costs that you spoke of, for operating the wells, does that include all costs and supervisory and office clerical help, or . . .

A It includes -- it does not include all costs. If a gas engineer has to go out and spend time on that well, or if we have a geologist out there for some reason, his time is charged directly to that well in addition to the $45.00 a month or the $250.00 a month.

Q Do you have a figure that would include all operating costs?

A No, sir. That I don't believe you can get one figure that would cover it all, because the time that a geologist or petroleum engineer, or gas engineer, might spend on one well would vary, and a gas engineer, for instance, might be out there one day or he may be out there ten days, or it might not be out there at all one month and ten days the next, so I don't believe you can reach any direct figure and say, as far as direct charge is concerned, "This is what it will be." It is based strictly on what is done at the well.

Q It would be a month-to-month proposition?

A Yes, sir.

MR. UTZ: That is all.

MR. MACEY: Does anyone else have a question of the witness?

C R O S S E X A M I N A T I O N

BY MR. MACEY:

Q Mr. Bittick, on one of your exhibits, I believe Exhibit "B," what is the status of the well which is located in Section 10 of 32N, 10W?

A That was a proposed well. It has not been drilled, has not been spudded.

Q In other words, the north end of the proposed unit is not offset by production, either northwest or northeast?

A No, sir. Up in the northeast, in Colorado, I think it is right above Section 8, if I'm not mistaken, there is a dry hole or an abandoned hole 5,200 feet deep, I believe, but there is no production north of there.

Q Turning to your Exhibit "C," which is this document that I have in my hand, I note that after examining the various provisions contained in that Exhibit, that the provisions vary to a certain degree as to the percentage of the total that the drilling party is to receive from the cost of the well. A Yes, sir, it does.

Q Now, briefly, in a block-type unit, what are the participating areas in a block-type unit? In other words, when a well is drilled on a 320-acre drilling tract, do the people who own interests under that tract, do they share just in that well, or in the entire unit?

A They share in the entire unit when that well is taken into the participating area.

Q All right. Now, simply, are there not unit agreements in effect in the Basin which limit the person's interest solely to the 320 acres upon which the well is drilled?

A No, sir. If I understand your question, I don't believe there are any.

Q In other words, in each of these agreements, when a person puts his acreage into a unit and thereby a well is productive in that acreage, he shares in a total of the unit in the proportion that his acreage bears to the total? A Yes, sir.

Q In every instance?

A In these block-type units. Now, he is going to share in an acreage basis on all of them, but in the Rincon Unit, the working interest owners share in the entire share to the proportion that they own in the unit.

Q Now, when a man owns an interest in a block, 320 acre unit, under an agreement, and he agrees to pay his proportionate share of the well to be drilled in that tract, at that time, he knows that whether that well is a good well or a poor well, is not going to materially affect his overall income?

A No, sir, that is not correct. He -- the well has to meet the standard of the unit participating area. If it does not, it will not be taken in, and if it does not, he will have his half section --

Q What are the standard for the minimum?

A That varies. We have no --

MR. HOWELL: Might I interrupt a minute and suggest that this is right next to the 32-9 Unit, and that you ask questions as to what the standards are for commercial wells in the 32-9 Unit area?

MR. MACEY: All right. That would be satisfactory.

A We have adopted a standard of 1,500 MCF from Mesaverde.

Q Open flow? A Open flow.

Q Now, don't you think that it would be a little bit of a different situation if a man knew that he had a reasonably good chance of sharing in a unit, where there wasn't any question as to whether the well was going to make 1,500 MCF, because his interest would be in the total, and the fact that there might be 15- or 20-million foot wells on that area that he is going to share in, don't you think that would govern whether he might join in the drilling of a well or not?

A Yes, sir, that would affect the element of risk as far as

he is concerned.

Q I would like to ask you one question about that element of risk business which I don't think you brought out. In addition to the element of risk as to whether or not from a geological or reservoir standpoint that gas is going to be productive under a certain tract, isn't there a mechanical risk from the standpoint of losing a well when you get about three quarters of the way down?

A Yes, sir, but the estimate on this well is if everything goes right, it could be $150,000.00, you never know.

Q Has El Paso, in the Basin, experienced any amount of difficulty from a mechanical standpoint? Have they lost any wells purely from mechanical reasons, I'm talking about.

A I'm not sure, Mr. Macey. I couldn't give you any specific example. We have participated in some that other people were drilling that ran up to $150,000 or so, due to mechanical difficulties, or so --

MR. MACEY: That is all. Does anyone else have a question of the witness? If not, the witness may be excused.

(Witness excused.)

MR. HOWELL: We will offer in evidence Exhibit "D." I think we have offered "A" and "B" and "C," but not "D."

MR. CAMPBELL: What was "D"?

MR. HOWELL: This contract.

MR. CAMPBELL: My objection goes to that also.

MR. MACEY: The objection will be overruled and the exhibit will be received.

MR. HOWELL: Mr. Morrell, will you take the stand, please?

F O S T E R M O R R E L L,

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

D I R E C T E X A M I N A T I O N

BY MR. HOWELL:

Q State your name for the record, please.

A My name is Foster Morrell.

Q Where is your home, and what is your occupation?

A My home is in Roswell, New Mexico; I am a petroleum consultant.

Q What experience have you had in the oil and gas industry with reference to the San Juan Basin?

A My experience in the industry is 25 years with the United States Geological Survey, and four years, and a majority of the time been spent in operations and administrative matters in the San Juan Basin.

Q Prior to your becoming a petroleum consultant, what position did you have with the U.S.G.S.?

A Regional Oil and Gas Supervisor, Roswell, Southwestern Region.

Q Is that the office that has jurisdiction of the San Juan Basin? A It is.

Q Are you familiar with the develcpment and many of the contracts which have been made with reference to development and drilling of wells in the San Juan Basin? .

A I am personally familiar with them.

Q Did you participate in the preparation of the so-called block-type unit? A I did.

Q And have you been employed by El Paso Natural Gas Company

and other companies, to circulate agreements, unit operating agreements and communitization agreements in the San Juan Basin?

A I have.

Q Would you make an estimate as to how much time you have spent in discussion with both land owners, major companies, and independent operators, the terms of communitization, operation agreements and unit operating agreements?

A During the last four years?

Q During the last four years.

A I would say approximately three years out of the four.

Q Are you familiar with the custom of the industry in the San Juan Basin with reference to the recovery of costs in a drilling block or a drilling unit when one of the owners of the mineral interests or of the leasehold working interest does not care to put up and pay in cash his share of the drilling costs?

A When a party does not put up --

MR. CAMPBELL: If the Commission please, just before he answers that question, please show that I renew my objection to what the custom may be in other situations on the ground that the compulsory pooling statute sets out the basis on which the costs of the well shall be established as the lowest actual expenditure and reasonable cost of supervision. Go ahead.

A When the party does not desire to put up his cost of the drilling, it is a general practice in the San Juan Basin and including the San Juan 32 dash unit agreement which offsets the tract which is the subject of Case 1001, the unit operator is entitled to recover 100 per cent of the operating costs, plus 150 per cent of the drilling costs until the non-consenting party participates.

Q You say the unit operator is entitled to --

A The working interest owners; the unit operators does it on behalf of the owners who do contribute.

Q What does the owner of the minerals who fails to contribute cash receive out of production, as a custom of the industry?

A Under the non-consent provision?

Q Yes.

A He receives nothing until the 150 per cent cost of it is recovered.

Q That is 150 per cent of the drilling parties' costs of drilling that would be attributable to the mineral owners acreage?

A His percentage.

Q That is the part of the block that is being drilled?

A Yes, sir.

Q Are you familiar with any other -- in instances instead of 150 per cent, where there has been interest charged on the unpaid balance?

A Under the terms of the unit agreements, the unit operator is entitled to receive the cost of each mineral owner's or working interest share of the drilling of a well in advance. He may also elect to receive six per cent interest on any unpaid balances that are not received currently.

Q Now, if I understand that, that is that the unit operator that makes any expenditure in behalf of others in the unit, is entitled, under the operating agreements, to be paid six per cent interest on any unpaid amounts? A That's right.

Q Now, with reference to the 150 per cent provision, in your opinion, the provisions which permit drilling parties to recover 150

per cent of the drilling costs before the non-consent or non-drilling party receives his share of production, are those 150 per cent provisions solely connected with risk, or does the value of the money, the use of money, enter into that?

A The value of the use of money is a definite part of it, in addition to risk.

Q Have you actually negotiated agreements covering this 150 per cent with various owners of mineral interests or leasehold working interests?

A I have. A number of them.

Q In your opinion, is it a fair and reasonable provision?

A In my opinion it is a fair and reasonable -- and, in fact, it is based and included in many federal contracts not on the basis of something that is pulled out of the air by the Federal Government, but on the recommendations from operators from all over the United States.

Q In your opinion, is such a provision customary throughout the San Juan Basin in a situation in which one party who owns a portion of the acreage pooled to form a drilling unit is not willing to pay in cash his share of the costs?

A It is used throughout the San Juan Basin.

Q You have heard the testimony of Mr. Bittick as to the overhead costs that are customarily charged by El Paso Natural Gas Company on both drilling and operating wells, have you not?

A Yes, sir, I have.

Q In your opinion, are those overhead costs for supervision fair and reasonable?

A They are fair and reasonable and in general use throughout

the San Juan Basin.

Q Now, with reference to this W/2 of Section 15, the testimony shows, I believe, that there are a number of tracts involved; we have a situation here in which one party has a three acre tract who has refused to participate in any fashion. Will you tell the Commission whether or not in your opinion it would be proper to have an unorthodox unit, excluding that three acres, in order to permit the owners of other tracts within the W/2 to recover their fair and just share of the oil and gas underlying the W/2 of the section?

A It would certainly be my opinion that it would be reasonable to have am unorthodox unit in order to protect the interests of the parties that have leases.

Q And in the event a fair and equitable portion of the costs cannot be achieved, and interests which refuse to participate in such costs by contributing cash, elect not to join in the drilling, would it be necessary to have a smaller unit than the 317 acres, in order to permit those who do desire to participate to get their fair share and recover their fair share of the oil and gas underlying the land?

A It would.

Q I believe that the record shows that this tract of land is located within the Blanco-Mesaverde Pool; can you testify definitely as to that?

A All of Section 15 is included in the Blanco-MesaverdePool by New Mexico Oil Conservation Commission Order 409, dated March 31, 1954.

Q Do you have any other points in connection with this case that you -- statements you would like to make? You have investigated it on behalf of the company.

A I think that the non-consent provision for the 150 per cent recovery for the drilling costs is very reasonable. You come to a matter of six per cent interest; six per cent will numerically double in approximately sixteen years, the payout on some of these Mesaverde wells, including wells of the low initial potentiality, as you have in the area of Section 15, may be in the neighborhood of eight to fifteen years, so that even with the six percent, it could run more than 150 per cent of the drilling costs.

MR. CAMPBELL: I would like the record to show my objection to Mr. Morrell's testifying as to what is good for my client.

MR. HOWELL: That is all.

MR. MACEY: Does anyone else have any questions of Mr. Morrell?

MR. CAMPBELL: Yes, I have.

C R O S S E X A M I N A T I O N

BY MR. CAMPBELL:

Q Mr. Morrell, if the Yager acreage is excluded from this unit, and you get a 277 or 280-acre nonstandard unit, this well that you propose to drill is going to cost exactly the same amount of money, isn't it?

A As far as the actual cost of the well, yes.

Q So that if you recover your share of the Yager costs of the well out of his gas, even 100 per cent, and get that additional gas from the unit, isn't that to some advantage of El Paso Natural Gas Company, or is this all a one-way proposition?

A I say it is no advantage to the El Paso Natural Gas Company.

Q They are getting some help in the payment of their well, are they not?

A They are getting some help in payment of the well by your non-consenting?

Q If a compulsory pooling order is entered, Mr. Morrell, that puts this forty acres in this unit and requires us to pay our share of the costs out of some portion of the production -- forget for the moment the hundred or hundred fifty per cent, but if it is a hundred per cent, El Paso is better off, is it not, to have that contribution to the costs of the well than to have a non-standard unit excluding our acreage and paying the same amount for the well?

A No, because El Paso is taking gas, and the gas that they produce is paying you for your contribution.

Q Well --

A It would not be better for El Paso.

Q --it is a payment out of our gas, is it not?

A But you haven't got the gas to produce, and they drill a well.

Q Another factor, Mr. Morrell, El Paso Natural Gas Company can use the gas, can they not, you will get a larger allowable if you get that?

A Depends on who has the well.

Q But you would get more production allocated if it were a 217 acre and 280 --

A That gets into the market situation, and not what we are involved in here.

Q If you were engaged in private negotiations as you frequently are, in connection with this, those would be factors you would consider, would they not?

A I would always enjoy getting a well paid on production that

somebody else drilled.

Q It just depends on whose foot the shoe is on, doesn't it?

A Well, yes.

MR. CAMPBELL: That is all.

MR. MACEY: Does anyone else have any questions of the witness? Mr. Utz.

C R O S S E X A M I N A T I O N

BY MR. UTZ:

Q Mr. Morrell, are you familiar with the geology of the Blanco-Mesaverde Formation in this area and the wells in this pool?

A To a considerable extent.

Q In your opinion, will one well efficiently and economically drain 320 acres in this pool? A It will.

Q Do you believe that a well drilled in the Blanco-Mesaverde on three acres, which will serve three, or point nine three seven per cent of a 320 acre allowable would be an unnecessary well and thereby --

A A separate well on that three acres would definitely be an unnecessary well.

Q Do you believe that one well drilled through the Mesaverde Formation on the west half of Section 15, 32N 10W would economically and efficiently drain that acreage?

A The three acres or the 320?

Q The 320.

A I think it would.

MR. UTZ: That is all I have.

MR. MACEY: Does anyone else have a question of the witness? If not, the witness may be excused.

A If the Commission please, I might bring up one other point that I think is rather direct to this particular case. We had a similiar situation on a 320 tract that involved some unadvertised land and some non-committed land and they did not seek to lease the land to others or to join a non-consent proposition, and was brought out definitely at that time that an unorthodox unit was granted by the Commission. The parties who did not consent and did not join in that can join at any time by the payment of the share of the costs of the well and enjoy benefits of production from that time on.

MR. CAMPBELL: Mr. Morrell, are you proposing that?

A No, I'm saying it was a case that had some similar characteristics.

MR. MACEY: If there are no further questions of Mr. Morrell, he may be excused.

MR. KITTS: I would like the record to show whether or not Mr. Clark has made an appearance at any time this morning.

MR. MACEY: I don't believe there is anyone here representing Mr. Clark.

MR. KITTS: Is Mr. Clark in the hall now? Apparently not.

MR. HOWELL: If it please the Commission, Mr. Macey handed me a telegram from Pacific Northwest which I ask be made a part of the record, and, with that, we would rest our testimony.

MR. MACEY: Do you want to read it?

MR. CAMPBELL: I have no objection.

MR. MACEY: Please include that telegram in the record.

MR. KITTS: Do you want it read?

MR. MACEY: Go ahead and we can get rid of it.

MR. KITTS: "To W. B. Macey, Oil Conservation Commission,

Capitol Annex Building, Santa Fe. Re: Case No. 1,001 which is to be heard before the Oil Conservation Commission this morning. Pacific Northwestern Pipeline Corporation, on September 6, 1955, agreed with El Paso Natural Gas Company to join in communitizing and developing west half of Section 15, T32N R10W, San Juan County. Pacific also agreed to bear its proportionate share of development costs. (Signed) R. N. Richey, Pacific Northwest Pipeline Corporation." The telegram was sent from Albuquerque at 8:40 a.m., January 20th.

MR. CAMPBELL: I have no objection.

If the Commission please, may I ask Mr. Morrell one question to clarify a matter?

MR. MACEY: Yes, sir.

MR. CAMPBELL: Mr. Morrell, when you were referring to arrangements by which a non-consenting owner pays six per cent interest, is that a situation where the recovery is up to 100 per cent, or is that 150 per cent plus six per cent?

A That is a case where you might advance some, and at the unit operator's election, he may allow a deferred payment at six per cent. That would be on the basis of a hundred per cent cost of the well.

MR. GURLEY: Mr. Morrell, you mean the six per cent is on the money which must be paid in a case like that?

A On the unpaid balance, yes.

MR. GURLEY: What I mean, in case the well were dry, the proportionate cost, share, would be at six per cent?

A Yes.

MR. GURLEY: Where, in this other instance, the operator takes all the risk and in case the well should be dry, the non-consenting interest owner pays nothing, is that correct?

A That's correct.

MR. MACEY: Does anyone else have anything further in this case? Any statements?

MR. CAMPBELL: I think I would like to make a statement.

If the Commission please, in the first place, as I have stated during the course of this hearing, the New Mexico Statute with reference to compulsory pooling, as the Commission well knows, has never been tested in any manner or interpreted, actually, by this Commission or by a Court.

Our statute differs in some respects from the statutes of a number of other states that have compulsory pooling arrangements. For example,the Statute of Oklahoma now contains specific provisions that in the event of a compulsory pooling order, the non-consenting owner's share of the cost of the well shall be paid out of the 7/8's or whatever the leasee's interest is, and they define the leasee's interests underan unleased mineral interest as the 7/8's.

I point that out because I don't want the Commission to get the impression that we are completely unreasonable in suggesting that the costs should be borne out of the 7/8's, because that is exactly the situation that is followed under the Statute in Oklahoma.

Now, I must concede that our statute contains no such specific provision, but it does indicate that that approach has been taken. I believe I am correct in saying that the same general statutory provisions are in effect in Colorado, but I know of no cases up there where an order has been issued though there may have been some. In Oklahoma there have been a number of orders which either require the man to put up the cash or his share of the costs of the well will be taken out of the working interest. In some instances, those

orders provide for 125 per cent. The Oklahoma Statute contains the lowest actual expenditure provision, and, to my knowledge, that has never been tested in Oklahoma, but I point that out to indicate that what approach this Commission takes on this matter, that the attitude and position of the applicant in this case, I don't believe, is an unreasonable one under the circumstances.

Now, I think that this situation can be made an analogy in many respects to a non-consenting tennant in common under an oil and gas lease where one tennant in common wants to drill a well and the other does not. I think it is a recognized principal in law that the owner who wants to drill a well may do so and he is entitled to recover the non-consenting interest out of his share in production, but I don't know of any arrangement in which somebody who does not want to take a risk in any particular situation is penalized for not going along, and that, the question of whether he wants to go along can depend at any particular time on any number of factors: He may not have the money in cash; he may not want to spend money to drill that year; his tax picture may be different from the other party's; he may decide he wants to put his money in some better risk where-- and he may want to wait a few years, hoping he will get a better market price for his gas. There could be other reasons, but I don't think the Conservation Laws contemplate that that owner who is put into the drilling unit and who should be, because if he isn't, you have confiscated his property.

That that owner, because somebody else in that unit wants to drill a well at a particular time, should be penalized; certainly he should bear his costs in that well, but these questions of interest and 150 per cent and so forth, I can't honestly see that that is the

proper approach to non-consenting arrangements in these pooled tracts. What they want to agree to under unit agreements, is, I think, an entirely spearate matter.

So, if the Commission feels that under the general authority to set fair terms and conditions, it can, in its order, provide a method of recovery of costs, I believe that the fair way to do it is to apply it to the 7/8's interest on the 40 acre tract on the basis of the lowest actual expenditure and reasonable costs of supervision.

I'm not certain that the Commission has such power, because our statute stops after it recites that the Commission, in the case of dispute, may determine the costs of the well and the reasonable supervisory charge. It says nothing about determining how the production shall be allocated or how that costs shall be borne, and we may be in a situation where the Commission may want to issue its order compulsorily pooling the acreage, establishing the present estimated costs of the well, retaining jurisdiction in the future to determine the actual costs if there is a dispute, and then leave the parties to their own negotiations or litigations to determine in an accounting action how the fair costs of that well is to be borne, but the impression seems to be created here that the applicants are taking an unreasonable and unfair position. I don't think that is true. I think they have the right to determine, at a particular time, whether they will either make a cash investment or be cut out of these units and be deprived of their gas. I think it is to the advantage of the applicant, El Paso, here, where these non-consenting owner situations arise, if they can't enter into voluntary agreements, and that hasn't been explored here too greatly, but where they run

into those situations, certainly it seems to me that it is to the advantage of El Paso Natural Gas Company to recover part of the costs of the well even if it is 100 per cent and to get the gas.

I believe that is all I have to say at this time.

MR. HOWELL: If it please the Commission. I shall try to be very brief.

It is a pleasure to concur with one statement of Mr. Campbell's and I wish to make it quite clear that El Paso Natural Gas Company does not in this case or does not expect in the future to take the position that it quarrels with any individual who says, "I do not care to put up in cash my share of the costs of drilling a well." I concur completely with Mr. Campbell in saying that any individual or company has the right to say that he does not or does want to share the costs and pay the cash.

Where I differ from Mr. Campbell, and where El Paso Natural Gas Company differs from Mr. Campbel's clients, is the effect that that position has upon the well that may or may not be drilled upon the tract of land. I think the point at issue, generally, can be clarified to these points: Mr. Campbell's clients contend that although they are the owners of the minerals, and under the Statute of New Mexico, are the persons entitled to go upon and drill that particular forty acres, there is no lease outstanding, they own so many acres. We cannot subscribe to their contention that having advanced for them the costs of drilling the well that they should receive 1/8 of the gas attributable to that 40 acres free of charge and to expect us to recover out of 7/8 of the gas attributable to that acreage the money that we have advanced for their account, nor do we think that it is fair and reasonable, as the statute suggests or specifies, the

Commission shall determine with fair and reasonable manner, that any company who invests its funds, puts its cash into the drilling of a well, should be limited to recovering out of production that may or may not result from the drilling of that well, exactly the amount of money it spent without regard to the value of the use of its money during the time that it has been invested for the benefit of another person or without regard to the risk taken by the drilling party in drilling the well.

We think that the statute does not prevent the Commission from making such a determination, and we suggest that the evidence in this case, that the record overwhelmingly and without contradiction, supports the Commission in determining that it is the custom of the industry and that it would be fair and reasonable in entering a compulsory pooling order to permit the parties either to pay their share in cash of the costs of drilling the well, or failing to pay their share in cash, to have their entire share of production retained by the drilling party or until the drilling party has recovered all operating costs and 150 per cent of the drilling costs, at which time the nonconsent party would then come into the full share allocated to that 40-acre tract.

We think that is the fair and equitable and reasonable solution of a problem and is overwhelmingly supported by the records in this case.

Thank you.

MR. MACEY: Does anyone else have anything further in these cases?

If not we will take the cases under advisement.

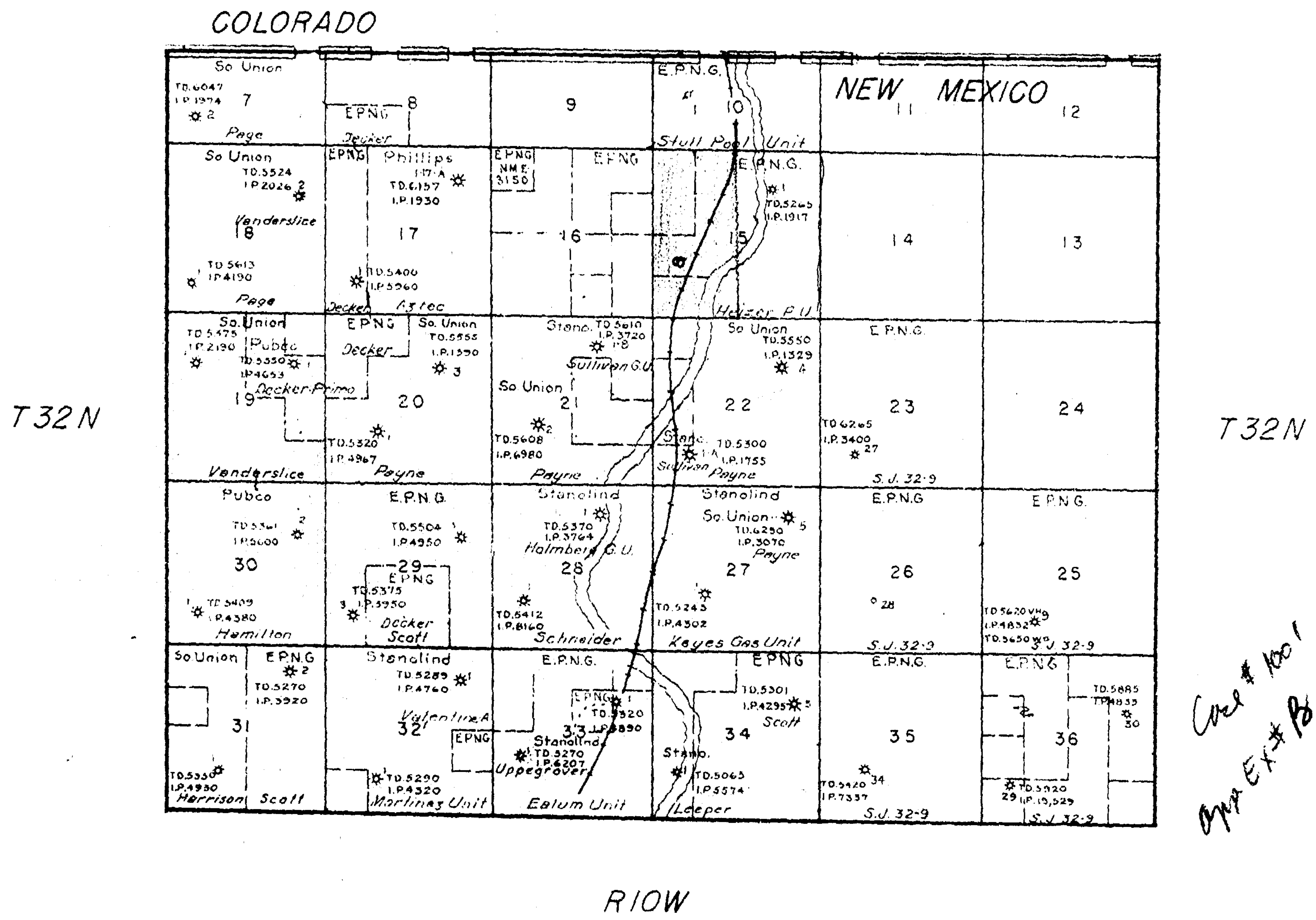
(Recess.)

STATE OF NEW MEXICO)
: ss
COUNTY OF BERNALILLO)

I, THURMAN J MOODY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the Oil Conservation Commission for the State of New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

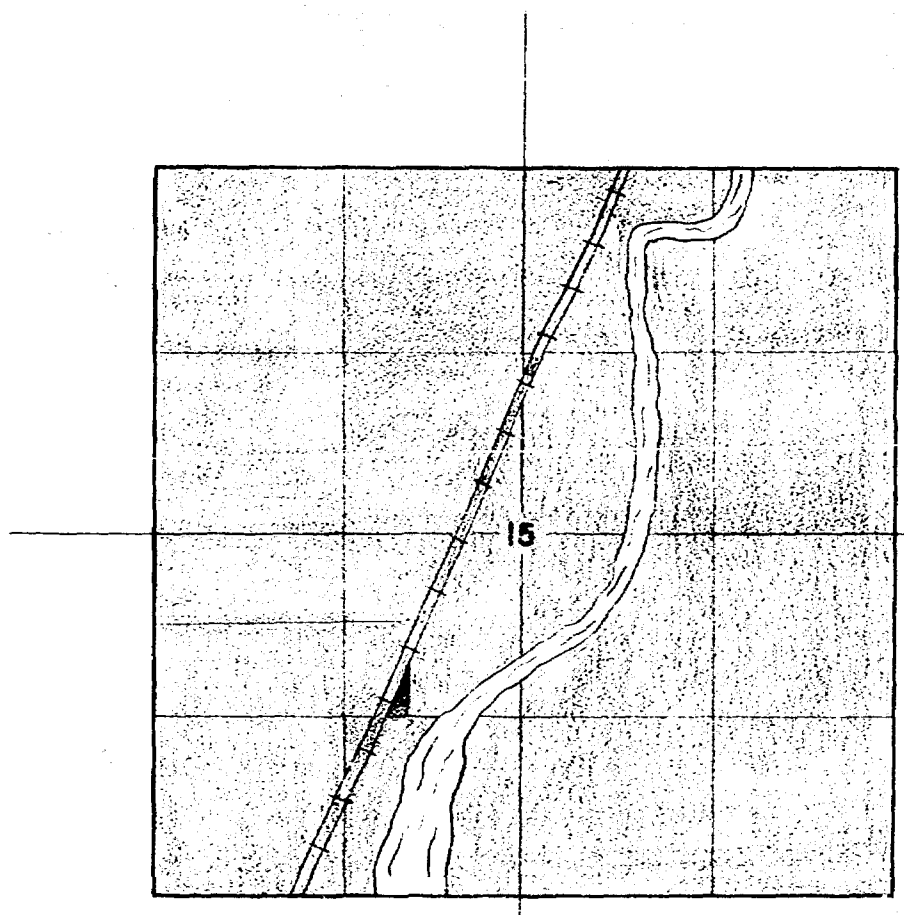
WITNESS MY HAND, this, the 27th day of January, A. D. 1956.

Court Reporter.



Case # 1001
Opp Ex # B

R-10-W



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32
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Exhibit A

To Accompany an Application for Unorthodox

Spacing Unit W/2 Section 15 T-32-N R-10-W N.M.P.M.

E. P. N. G.

Pacific Northwest

Dave Clark

Saul Yager, et al

Scale: 1" = 1/4 mile

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
EPNG EXHIBIT No. A
CASE 1000 & 1001

El Paso Natural Gas Company

El Paso, Texas

1001

December 19, 1955

Mr. William B. Macey
Oil Conservation Commission
of the State of New Mexico
Santa Fe, New Mexico

Dear Mr. Macey:

Please find enclosed original and two (2) copies of El Paso Natural Gas Company's Application for an Unorthodox Spacing Unit and Gas Proration Unit consisting of 277 acres in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., or in the alternative, for forced pooling of the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M. We ask that this case be consolidated with the Application already filed by Mr. Jack Campbell on behalf of Saul Yager, et al.

Very truly yours,

R. L. Hamblin

R. L. Hamblin
Manager
Lease Department

RLH:TWB:eb
Enclosures

BEFORE THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN UN-ORTHODOX SPACING UNIT AND GAS PRORATION UNIT CONSISTING OF 277 ACRES, LOCATED IN THE W/2 OF SECTION 15, TOWNSHIP 32 NORTH, RANGE 10 WEST, N.M.P.M., OR IN THE ALTERNATIVE, FOR COMPULSORY POOLING OF THE W/2 OF SECTION 15, TOWNSHIP 32 NORTH, RANGE 10 WEST, N.M.P.M.

NO. 1001

TO THE HONORABLE COMMISSION:

Your Applicant, EL PASO NATURAL GAS COMPANY, represents that it is a Delaware corporation, with a permit to do business in the State of New Mexico, and that it is the present owner and holder of leasehold rights or operating rights under the following described Oil and Gas Leases, embracing lands located in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., San Juan County, New Mexico:

a. Oil and Gas Lease dated June 26, 1950, from Robert J. Doughtie and wife, Edna O. Doughtie, as lessors, to John F. Sullivan, as lessee, embracing among other lands, 32.5 acres in the SE/4 NW/4 and 47 acres in the N/2 SW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M.

b. Oil and Gas Lease dated June 27, 1950, from Robert L. Gaston and wife, Edith Gaston, as Lessors, to John F. Sullivan, as lessee, embracing among other lands, the SE/4 SW/4 and the East 40 rods of the South 30 rods of the NE/4 SW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M., containing 47 acres.

c. Oil and Gas Lease dated June 27, 1950, executed by Mary Katherine Heiser, as lessor, to John F. Sullivan, as lessee, embracing among other lands, the NE/4 NW/4 and the North 7.5 acres of the SE/4 NW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M., containing 47.5 acres.

The three leases described above cover approximately 174 acres in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M.

Your Applicant further represents the following:

That Pacific Northwest Pipeline Corporation is the present owner and holder of leasehold rights or operating rights under the following described Oil and Gas Leases all embracing lands located in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., San Juan County, New Mexico:

a. Oil and Gas Lease dated June 1, 1953, from Denver & Rio Grande Western Railroad Company, as lessor, to Phillips Petroleum Company, as lessee.

b. Oil and Gas Lease dated December 11, 1951, from Katherine Hendricks, a widow, et al, as lessors, to H. C. Wynne, as lessee.

c. United States Oil and Gas Lease Serial Number Santa Fe 079625, dated September 1, 1949, from the United States of America, as lessor, to Hazle L. Gentle, as lessee.

d. Oil and Gas Lease dated April 22, 1954, from Edward E. Miller and Lena A. Miller, as lessors, to Phillips Petroleum Company, as lessee.

That said leases cover approximately 103 acres in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M.

That Saul A. Yager, M. E. Gimp, Sam Mizel, Morris Mizel and Marian Cohn, (hereafter termed "Yager, et al") are the owners of all the oil, gas and other minerals underlying the NW/4 NW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M., and that this mineral interest is unleased.

That Mr. Dave Clark, whose address is R.F.D., Aztec, New Mexico, is the owner of 3 acres of land lying West of the right of way of State Highway 550, as it runs on the South side of the N/2 SW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M.

Your Applicant has attached hereto as Exhibit "A" to this Application, a plat showing the ownership in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M.

That Yager, et al, owners of the mineral interest under the NW/4 NW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M., have been contacted and requested to communitize their interest and pay their proportionate share of the costs of a Mesaverde well to be drilled on the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M. Yager, et al, have refused to join in any Communitization Agreement unless your Applicant paid all costs and recovered the portion attributable to Yager, et al, from subsequent production, if said well shall be productive.

That Dave Clark has refused to join in any Communitization Agreement and refused to lease his acreage unless the lessee would agree to drill a well thereon, from which he would receive 1/8 of all production.

That your Applicant and Pacific Northwest Pipeline Corporation desire to drill a well to be located on the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., and that they are ready, willing and able to pay their proportionate share of the costs.

That your Applicant represents that it has made diligent efforts to reach some agreement whereby the entire W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M. could be dedicated to a Mesaverde gas well in accordance with the provisions of Order #R-110, as promulgated by this Commission, but that such efforts have been to no avail, inasmuch as Saul A. Yager, et al, and Dave Clark do not desire to enter into a Communitization Agreement covering said acreage on a basis which would be mutually satisfactory to all concerned.

Your Applicant respectfully requests that an appropriate order be entered by the Commission authorizing an unorthodox spacing unit and gas proration unit to consist of 277 acres in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., said unorthodox spacing unit would include all of the W/2 of Section 15, except the NW/4 NW/4 and 3 acres located on the South side of the N/2 SW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M. In the alternative, your Applicant requests that if the above relief is not granted by the Commission, the Commission enter its order pooling the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., containing 320 acres, more or less, into an orthodox spacing unit and gas proration unit.

Respectfully submitted,

EL PASO NATURAL GAS COMPANY

By Ben L. Howell
Attorney

Township 32 North Range 10 West

San Juan County, New Mexico

North

E.P.N.G. Pacific Northwest

Dave Clark Saul Yager, et al

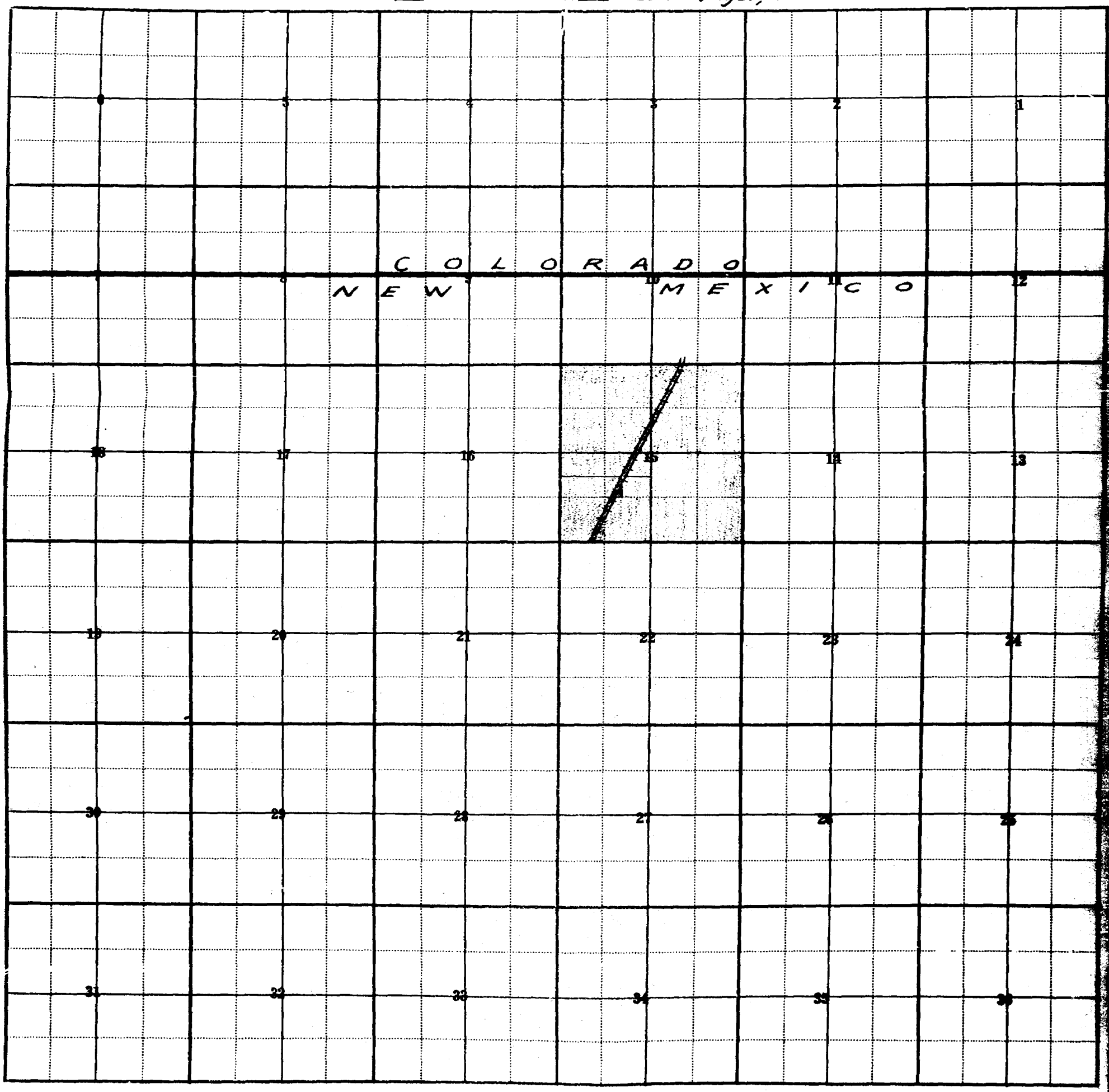


Exhibit A

To an Application for Unorthodox Spacing Unit in the W/2 Section 15 T-32-N R-10-W N.M.P.M.

BLOCK TYPE UNITS

The following provision in connection with non consent wells is contained in Section 8, Paragraph B of the Unit Operating Agreements of the San Juan 27-4, San Juan 27-5, San Juan 28-4, San Juan 28-5, San Juan 28-6, San Juan 28-7, San Juan 29-4, San Juan 29-5, San Juan 29-6, San Juan 29-7, San Juan 30-4, San Juan 30-5, San Juan 30-6, San Juan 31-6, San Juan 32-5, San Juan 32-7, San Juan 32-8, San Juan 32-9 Units:

. . . ."If less than all of such parties elect to join in the drilling of such well, Unit Operator shall, upon obtaining required governmental approvals, proceed with due diligence to drill such well at the sole cost and risk of the party or parties electing to share in the costs thereof, hereinafter called the "drilling parties". In the event any such well is a dry hole (and is not taken over for plug back or deepening), it shall be plugged and abandoned at the sole cost of the drilling parties. In the event such well is a producer, it shall be tested, completed and equipped to produce by the Unit Operator at the sole cost of the drilling parties, and such drilling parties each in proportion to its contribution to the cost of drilling, testing, completing and equipping the well shall be entitled to receive the proceeds of production from the well or, if it is capable of producing in paying quantities, shall be entitled to receive the proceeds of production allocable to the interests admitted to the participating area on account of such well, after deducting therefrom all royalties, overriding royalties, production payments and one hundred per cent (100%) of the operating expenses attributable thereto, until said drilling parties shall have received therefrom one hundred fifty per cent (150%) of the costs of drilling, testing, completing and equipping said well to produce." . . . .

BEFORE THE
OIL CONS[illegible] DIVISION
SANTA FE, NEW MEXICO
El Paso EXHIBIT No. 6
CASE 1000 and 1001

ALLISON UNIT

The following provision in connection with non consent wells is contained in Section 9, Paragraph 2 of the Unit Accounting Agreement of the Allison Unit:

. . . "If such well is drilled by any party hereto or by the Unit Operator not acting as such and shall be completed as a producing well such that the land upon which it is situated may properly be included in a participating area, the well shall be operated pursuant to the terms of this agreement as though it had been drilled by the Unit Operator and the party drilling such well shall receive 200% of the total cost and expense of drilling, testing and completing same, payable out of the first production therefrom remaining after payment of all royalty charges, deductions for amounts used by Unit Operator for production, developing, repressuring, recycling, or unavoidably lost and deductions for operating expenses." . . .

* * * * *

CEDAR MESA UNIT

The following provision in connection with non consent wells is contained in Section 8, Paragraph 2 of the Unit Operating Agreement of the Cedar Mesa Unit:

. . . . "However, the proportionate share of the non-drilling party (whether one or more) in the unitized substances produced from either of such wells shall be sold, and the non-drilling party shall direct the purchaser thereof to pay to the drilling party (and the drilling party shall be entitled to receive) all the proceeds from the sale thereof, after deducting all royalty interests, overriding royalty interests, and production payments, if any, until such drilling party shall have been reimbursed therefrom in an amount equal to the non-drilling party's share of the total accrued expense of operating such well, plus 150% of the non-drilling party's share of the net cost of drilling such well." . . . .

COX CANYON UNIT

The following provision in connection with non consent wells is contained in Section 18 of the Unit Operating Agreement of the Cox Canyon Unit Area:

. . . "If any well so drilled encounters oil and gas, or either of them, or other hydrocarbon minerals, in paying quantities, separate tankage and measuring devices shall be provided for such well, which shall be completed and equipped by the drilling party or parties and then taken over by Unit Operator (if Unit Operator did not drill such well) and operated at the expense of the drilling party or parties and the drilling party or parties shall be credited with the entire working interest income therefrom, less the cost of operating such well, until such time as the working interest income, less the cost of operating such well, equals one hundred fifty per cent (150%) of the cost to the requesting party or parties of the drilling, completing and equipping of such well, whereupon it shall be owned and operated as a jointly owned well pursuant to the provisions of this agreement." . . .

* * * * *

HUERFANO UNIT

The following provisions in connection with non consent wells is contained in the last paragraph of Section 14 of the Unit Accounting Agreement of the Huerfano Unit Area:

. . . "In the event the extension well was not drilled at the cost and risk of all of the Working Interest Owners in the Participating Area, or at the cost and risk of all of the Working Interest Owners in the Unit Area in the event the well is included in a Participating Area, the parties bearing the cost and risk of said well shall be entitled to a credit of 150% of the intangible cost of drilling, completing and equipping said well in the investment adjustment described in this section." . . .

HUERFANITO UNIT

The following provision in connection with non consent wells is contained in Section 10 of the Huerfanito Unit Operating Agreement:

. . . ."If said well be a test or extension well, the cost of such well shall be allocated by the operator to the party or parties desiring to drill said well in the proportion that each of their aggregate leasehold interests committed to the unit agreement respectively bears to the total number of acres committed to the unit agreement by the parties desiring to drill such well. If any such well should be completed as a well capable of producing oil or gas in paying quantities, the party or parties drilling such well shall be entitled to receive all of the proceeds derived from the sale of the production from such well, the same to be allocated to said parties in the same proportions that they contributed to the cost thereof. After said parties shall have received from the proceeds of the production from said well an amount equal to the total operating expenses thereof plus 150% of the total cost of drilling, testing, completing and equipping the same, all future operating expenses in connection therewith and the production therefrom shall be allocated among the parties hereto on the same basis as such costs and production would be allocated for any other well drilled under the terms of said unit agreement by the mutual consent of the parties hereto." . . . .

* * * * *

LINDRITH UNIT

The following provision in connection with non consent wells is contained in Section 10, Paragraph (a) of the Unit Accounting Agreement of the Lindrith Unit Area:

. . . ."In the event a well drilled pursuant to Section 12 of the Unit Agreement by some parties hereto other than the Operator results in production of unitized substances such that the land upon which it is situated may properly be included in a participating area, the parties paying the cost of drilling and completing such well shall,

unless the Operator by negotiation acquires, within ninety (90) days after completion thereof, such well and all its equipment, including any tankage, be entitled to produce and operate same and to retain the benefits of all unitized substances produced therefrom, subject to royalty interests, until such parties shall have recovered from the working interest production thereof an amount equal to twice the cost incurred in drilling, completing and equipping such well, plus an amount equal to the reasonable and bona fide cost of operating the well during the period of recovery, including all taxes with respect to working interest production during the period of recovery." . . . .

* * * * *

RINCON UNIT

The following provision in connection with non consent wells is contained in Amendment to Unit Operating Agreement, Section 10-A, Paragraph 2:

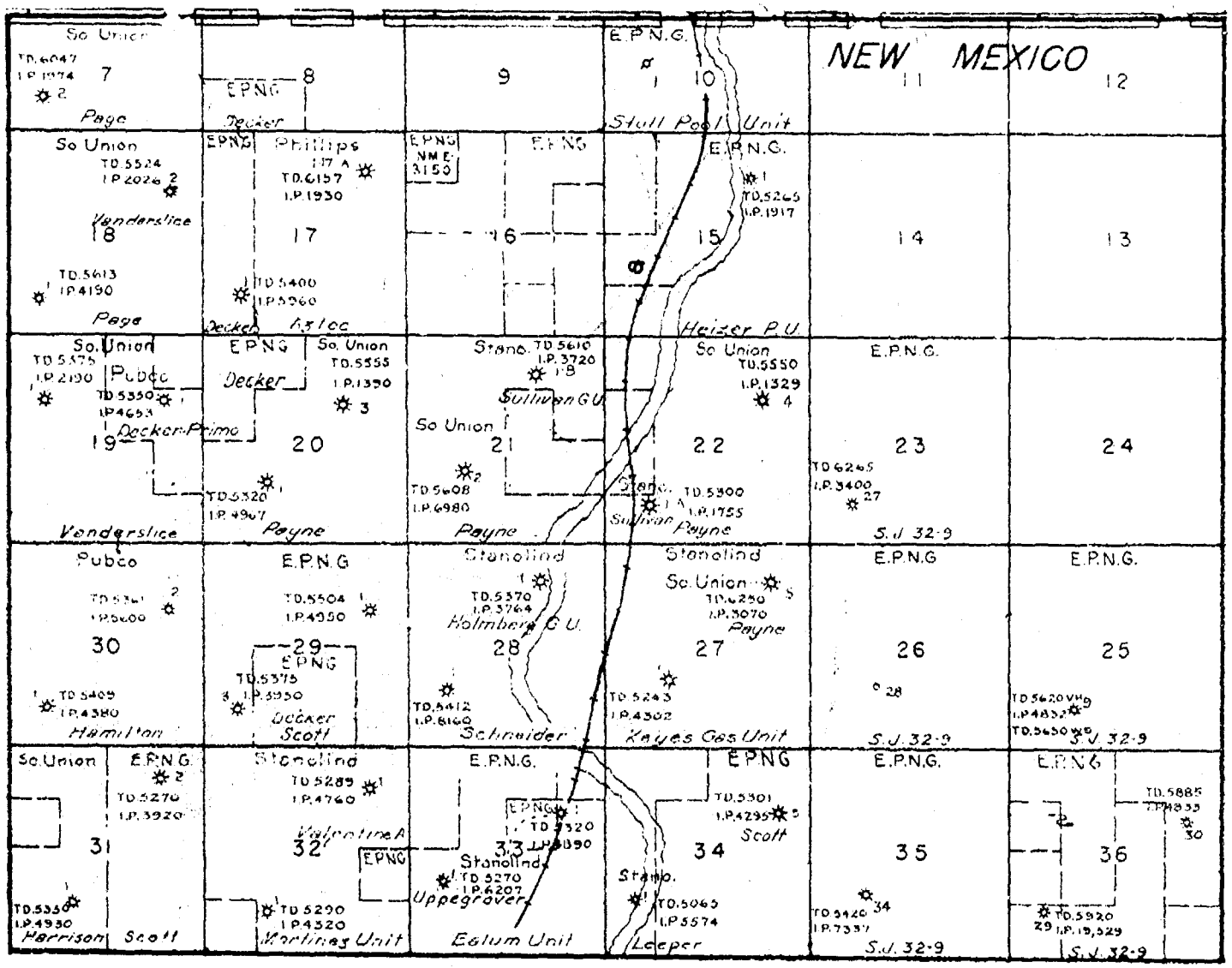
. . . ."If any such well should be completed as a well capable of producing oil or gas in paying quantities, the party or parties drilling such well shall be entitled to receive all of the proceeds derived from the sale of the production from such well, the same to be allocated to said parties in the same proportions that they contributed to the cost thereof. After said parties shall have received from the proceeds of the production from said well an amount equal to the total operating expenses thereof plus 150% of the total cost of drilling, testing, completing and equipping the same, all future operating expenses in connection therewith and the production therefrom shall be allocated among the parties hereto on the same basis as such costs and production would be allocated for any other well drilled under the terms of said Unit Agreement by the mutual consent of the parties hereto." . . . .

COLORADO

NEW MEXICO

T32N

T32N



R10W

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
EPNG EXHIBIT No. B
CASE 1000 & 1001

El Paso Natural Gas Company

El Paso, Texas

October 24, 1956

Oil Conservation Commission
of the State of New Mexico
Capitol Annex Building
Santa Fe, New Mexico

Re: Bonds Pool Unit #1 Well
W/2 Sec. 15, 32-N, 10-W

Gentlemen:

We transmit herewith two (2) copies of an Operating Agreement and two (2) copies of a Communitization Agreement for the captioned well, which have been executed by Pacific Northwest Pipeline Corporation and El Paso Natural Gas Company.

The W/2 of Section 15, Township 32 North, Range 10 West was pooled pursuant to Order No. R-795 of the Oil Conservation Commission of the State of New Mexico. Pacific Northwest Pipeline Corporation elected to be governed by sub-paragraph 6(a) of said order, the Yager group elected to be governed by sub-paragraph 6(b) of said order, and Dave Clark made no election pursuant to said order. The Operating Agreement reflects the allocation of costs, the allocation of proceeds prior to El Paso's recovering 125% of the costs attributable to the Yager group and Dave Clark, and the allocation of production subsequent to El Paso's recovering said costs.

We respectfully request that you furnish us with an approved copy of each of these agreements, or with whatever evidence you deem necessary to indicate that the instruments have been filed with the Oil Conservation Commission of the State of New Mexico. The Communitization Agreement has been filed for record in San Juan County, New Mexico, and filed for approval with the United States Geological Survey.

Very truly yours,

Joe W. Cherry
Area Landman
Lease Department

JWC:pb
Encls.

NM 4440
NM 4441
NM 4445

Contract No. _____

COMMUNITIZATION AGREEMENT
Bonds Pool Unit #1 Well

THIS AGREEMENT entered into as of the 16th day of July, 1956, by and between the parties subscribing, ratifying or consenting hereto, such parties being hereinafter referred to as "parties hereto";

W I T N E S S E T H:

WHEREAS, the Act of February 25, 1920, 41 Stat. 437, as amended by the Act of August 8, 1946, 60 Stat. 950, 30 U.S.C., Secs. 181, et seq., authorizes communitization or drilling agreements communitizing or pooling a federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing dry gas and associated liquid hydrocarbons in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

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

Township 32 North, Range 10 West, N.M.P.M.
Section 15: W/2
containing 320.00 acres,

more or less, and this agreement shall extend to and include only the Mesaverde formation underlying said lands and the dry gas and associated liquid hydrocarbons

NM 4440
NM 4441
NM 4445
(JWC)

(hereinafter referred to as "communitized substances") producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit A designating the operator of the communitized area and showing the acreage, and the ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and four (4) executed copies of a Designation of Successor Operator shall be filed with the Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations. Operator, in operations hereunder, shall not discriminate against any employee or applicant for employment, because of race, creed, color or national origin and an identical provision shall be incorporated in all sub-contracts.

5. 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 said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. 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. Payment 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 herein be 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 issued.

7. There shall be no obligation on the lessees to offset any dry gas well or wells completed in the same formation 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, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a 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.

9. 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 in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement shall be effective as of the date hereof upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior, or his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are produced from the communitized area in paying quantities; provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representatives, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto.

11. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is Lessor, and in the applicable oil and gas regulations of the Department of the Interior.

12. In connection with the performance of work under this agreement, the operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall

include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff, or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

13. The covenants herein 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 grant, 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, and as to Federal land shall be subject to the approval of the Secretary of the Interior.

14. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

15. 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 separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such 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.

ATTEST:

A C Martch
Assistant Secretary

EL PASO NATURAL GAS COMPANY

By _____ RRH
Vice President BRH

ATTEST:

Assistant Secretary

FORM APPROVED
Simms & Modrall
by

PACIFIC NORTHWEST PIPELINE CORPORATION

By
Vice President

Saul A. Yager

Marian Yager

M. E. Gimp

Morris Mizel

Flora Mizel

Sam Mizel

STATE OF TEXAS)
)
COUNTY OF EL PASO)

On this 22 day of October, 1956, before me appeared H. F. Steen, to me personally known, who, being by me duly sworn did say that he is the Vice President of EL PASO NATURAL GAS COMPANY, and that the seal affixed to the foregoing 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 H. F. Steen acknowledged said instrument to be the free act and deed of said corporation.

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

My commission expires:

MARTHA B. IVEY,
Notary Public, in and for El Paso County, Texas
My commission expires June 1, 1957

Martha B. Ivey
Notary Public

STATE OF)
)
COUNTY OF)

On this day of , 1956, before me appeared , to me personally known, who, being by me duly sworn did say that he is the Vice President of PACIFIC NORTHWEST PIPELINE CORPORATION, and that the seal affixed to the foregoing 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.

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

My commission expires:

Notary Public

EXHIBIT A

To a Communitization Agreement dated July 16, 1956, embracing the following described land in San Juan County, New Mexico, to-wit:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: W/2

Operator of Communitized Area: El Paso Natural Gas Company

Well Name: Bonds Pool Unit #1

Description of Leases Committed

Tract No. 1

Lease Committed by: El Paso Natural Gas Company

Lessor: Mary Catherine Heizer

Original Lessee: John F. Sullivan

Lessees of Record: El Paso Natural Gas Company and John F. Sullivan, et al

Recordation Data: Book 151, Page 446, Official Records of San Juan County, New Mexico

Lease Date: June 27, 1950

Description of Lands Committed:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: NE/4 NW/4, North 7.5 acres of SE/4 NW/4
containing 47.50 acres, more or less.

Pooling Clause on Lease:

"17. Lessee is hereby given the right at its option, at any time and from time to time, to pool or unitize all or any part or parts of the above described land with other land, lease, or leases in the immediate vicinity thereof, such pooling to be into units not exceeding the minimum size tract on which a well may be drilled under laws, rules, or regulations in force at the time of such pooling or unitization; provided, however, that such units may exceed such minimum by not more than ten acres if such excess is necessary in order to conform to ownership subdivisions or lease lines. Lessee shall exercise said option, as to each desired unit, by executing and recording an instrument identifying the unitized area. Any well drilled or operations conducted on any part of each such unit shall be considered a well drilled or operations conducted under this lease, and there shall be allocated to the portion of the above described land included in any such unit such proportion of the actual production from all wells on such unit as lessor's interest, if any, in such portion, computed on an acreage basis, bears to the entire acreage of such unit. And it is understood and agreed that the production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production from the portion of the above described land included in such unit of the same manner as though produced from the above described land under the terms of this lease."

Tract No. 2

Lease Committed by:	El Paso Natural Gas Company
Lessor:	Robert J. Doughtie and wife, Edna O. Doughtie
Original Lessee:	John F. Sullivan
Lessees of Record:	El Paso Natural Gas Company and John F. Sullivan
Recordation Data:	Book 151, Page 44[illegible], Official Records of San Juan County, New Mexico
Lease Date:	June 26, 1950

Description of Lands Committed:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: The South 32½ acres of the SE¼NW¼ and the North 47 acres of the N½SW¼
containing 79.50 acres, more or less

Pooling Clause on Lease:

"17. Lessee is hereby given the right at its option, at any time and from time to time, to pool or unitize all or any part or parts of the above described land with other land, lease, or leases in the immediate vicinity thereof, such pooling to be into units not exceeding the minimum size tract on which a well may be drilled under laws, rules, or regulations in force at the time of such pooling or unitization; provided however, that such units may exceed such minimum by not more than ten acres if such excess is necessary in order to conform to ownership subdivisions or lease lines. Lessee shall exercise said option, as to each desired unit, by executing and recording an instrument identifying the unitized area. Any well drilled or operations conducted on any part of each such unit shall be considered a well drilled or operations conducted under this lease, and there shall be allocated to the portion of the above described land included in any such unit such proportion of the actual production from all wells on such unit as lessor's interest, if any, in such portion, computed on an acreage basis, bears to the entire acreage of such unit. And it is understood and agreed that the production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production from the portion of the above described land included in such unit in the same manner as though produced from the above described land under the terms of this lease."

Tract No. 3

Lease Committed by:	El Paso Natural Gas Company
Lessors:	Robert L. Gaston and wife, Edith Gaston
Original Lessee:	John F. Sullivan
Lessees of Record:	El Paso Natural Gas Company and John F. Sullivan
Recordation Data:	Book 151, Page 452, Official Records of San Juan County, New Mexico

Lease Date: September 16, 1950

Description of Lands Committed:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: SE¼SW¼, East 40 rods of the South 30 rods of the NE¼SW¼
containing 46.24 acres, more or less

Pooling Clause on Lease:

"17. Lessee is hereby given the right at its option, at any time and from time to time, to pool or unitize all or any part or parts of the above described land with other land, lease, or leases in the immediate vicinity thereof, such pooling to be into units not exceeding the minimum size tract on which a well may be drilled under laws, rules, or regulations in force at the time of such pooling or unitization: provided, however, that such units may exceed such minimum by not more than ten acres if such excess is necessary in order to conform to ownership subdivisions or lease lines. Lessee shall exercise said option, as to each desired unit, by executing and recording an instrument identifying the unitized area. Any well drilled or operations conducted on any part of each such unit shall be considered a well drilled or operations conducted under this lease, and there shall be allocated to the portion of the above described land included in any such unit such proportion of the actual production from all wells on such unit as lessor's interest, if any, in such portion, computed on an acreage basis, bears to the entire acreage of such unit. And it is understood and agreed that the production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production from the portion of the above described land included in such unit in the same manner as though produced from the above described land under the terms of this lease."

Tract No. 4

Lease Committed by: Pacific Northwest Pipeline Corporation

Lessor: United States of America

Original Lessee: Hazel L. Gentle

Lessee of Record: Pacific Northwest Pipeline Corporation

Serial Number of Lease: NM 012648

Lease Date: September 1, 1949

Description of Lands Committed:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: SW¼NW¼
containing 40.00 acres, more or less

Pacific's File No.: 77450

Tract No. 5

Lease Committed by: Pacific Northwest Pipeline Corporation

Lessors: Edward E. Miller and Lena A. Miller, his wife

Original Lessee: Phillips Petroleum Company

Lessee of Record: Pacific Northwest Pipeline Corporation

Recordation Data: Book 212, Page 62, Official Records of San Juan County, New Mexico

Lease Date: April 22, 1953

Description of Lands Committed:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: A strip of land thirty (30) rods wide off the South Side of the North Half of the Southwest Quarter ($N\frac{1}{2}SW\frac{1}{4}$), Section fifteen (S.15), Township thirty-two (T.32) of Range Ten West (R.10W), N.M.P.M. containing thirty acres, more or less.
Excepting However - the existing right-of-way of the Denver & Rio Grande Railroad Company and the right-of-way of State Highway 550, and Excepting However - the East forty (40) rods in width off said thirty (30) acres, more or less, said east forty (40) rods being a part of the Northeast Quarter of the Southwest Quarter ($NE\frac{1}{4}SW\frac{1}{4}$) of said Section Fifteen (S.15), and Excepting However - all that part of the above described thirty (30) acres more or less, lying west of the right-of-way of said State Highway 550, said tract containing three (3) acres, more or less.
containing 16.88 acres, more or less

Pooling Clause on Lease:

"Lessee shall have the right to unitize, pool, or combine all or any part of the above described lands with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and the royalty payments to be made hereunder to lessor shall be based upon production only as so allocated. Lessor shall formally express lessor's consent to any cooperative or unit plan of development or operation adopted by lessee and approved by any governmental agency by executing the same upon request of lessee."

Pacific's File No.: 77198

Tract No. 6

Lease Committed by:	**Pacific Northwest Pipeline Corporation**
Lessors:	**Katherine Hendricks, a widow, Josephine Hendricks Bonds and Ed Bonds, her husband, Gladys Hendricks McCarville and J. E. McCarville, her husband, the said Katherine Hendricks, Josephine Hendricks Bonds and Gladys Hendricks McCarville being the sole heirs of E. B. Hendricks, deceased.**
Original Lessee:	**H. C. Wynne**
Lessee of Record:	**Pacific Northwest Pipeline Corporation**
Recordation Data:	**Book 168, Page 31, Official Records of San Juan County, New Mexico**
Lease Date:	**December 11, 1951**

Description of Lands Committed:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: SW¼SW¼ (except 1.74 acres, more or less being the right-of-way of the Denver & Rio Grande Western Railroad Co.) containing 38.26 acres, more or less

Pooling Clause on Lease:

"9. As to the gas leasehold estate hereby granted (excluding casinghead gas produced from oil wells), lessee is expressly granted the right and privilege to consolidate said gas leasehold with any other adjacent or contiguous gas leasehold estates to form a consolidated gas leasehold estate and in the event lessee exercises the right and privilege of consolidation as herein granted, the consolidated gas leasehold estate shall be deemed, treated and operated in the same manner as though the entire consolidated leasehold estate were originally covered by and included in this lease, and all royalties which shall accrue on gas (excluding casinghead gas produced from oil wells), produced and marketed from the consolidated estate, including all royalties payable hereunder, shall be prorated and paid to the lessors of the various tracts included in the consolidated estate in the same proportion that the acreage of each said lessor bears to the total acreage of the consolidated estate, and a producing gas well on any portion of the consolidated estate shall operate to continue the oil and gas leasehold estate hereby granted so long as gas is produced therefrom.

17. Under Paragraph 9 hereof a drilling unit shall not exceed 160 acres in area for a Pictured Cliffs formation well, nor exceed 320 acres in area for a Mesaverde formation well."

Pacific's File No.: 73297

Tract No. 7

Lease Committed by:	**Pacific Northwest Pipeline Corporation**
Lessor:	**Denver & Rio Grande Western Railroad Company**
Original Lessee:	**Phillips Petroleum Company**
Lessee of Record:	**Pacific Northwest Pipeline Corporation**

Recordation Data: Book 208, Page 208, Official Records of San Juan County, New Mexico

Lease Date: December 24, 1952

Description of Lands Committed:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: All of the right of way of the Denver and Rio Grande Western Railroad Company for the main tract of its Farmington Branch near Cedar Hill, San Juan County, New Mexico, within the southwest quarter of the southwest quarter of Section 15, Township 32 North, Range 10 West, New Mexico Principal Meridian, said right of way being 50 feet wide on each side of the center line of said main tract
containing 1.74 acres, more or less

Pooling Clause on Lease:

"..... with the right and permission granted the Lessee to pool or combine all or any portion of the Railroad Lands with adjacent lands into drilling units in order to properly develop and operate the premises for the sole and only purpose of obtaining the oil and gas therefrom. Lessee shall execute in writing an instrument identifying and describing any drilling unit or units created hereunder and shall mail same, together with map showing such drilling unit or units, to the Railroad Company; provided, however, that no drilling unit so created shall exceed three hundred twenty (320) acre units on gas production from Mesa Verde formation or lower, one hundred sixty (160) acre units on gas production from formation shallower than said Mesa Verde formation, and forty (40) acre units on oil production but provided further that if the spacing regulations of the Oil Conservation Commission of the State of New Mexico or any governmental agency, state of federal, shall prescribe a spacing pattern or shall allocate a producing allowable based in whole or in part on acreage per well, then the unit or units herein contemplated may have the maximum surface acreage content so prescribed or allocated."

Pacific's File No.: 73297-A

Tract No. 8

Lease Committed by: Pacific Northwest Pipeline Corporation

Lessor: Denver & Rio Grande Western Railroad Company

Original Lessee: Phillips Petroleum Company

Lessee of Record: Pacific Northwest Pipeline Corporation

Recordation Data: Book 220, Page 45, Official Records of San Juan County, New Mexico

Lease Date: June 1, 1953

Description of Lands Committed:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: All of the 100-foot wide right of way of The Denver and Rio Grande Western Railroad Company for the main tract of its Farmington Branch near Cedar Hill, San Juan County, New Mexico,

Description of Lands Committed: (Continued)

lying within the southeast quarter of the northwest quarter, the northeast quarter of the southwest quarter, and the southeast quarter of the southwest quarter of Section 15, Township 32 North, Range 10 West, New Mexico Principal Meridian

containing 6.88 acres, more or less

Pooling Clause on Lease:

"..... with the right and permission granted the Lessee to pool or combine all or any portion of the Railroad Lands with adjacent lands into drilling units in order to properly develop and operate the premises for the sole and only purpose of obtaining the oil and gas therefrom. Lessee shall execute in writing an instrument identifying and describing any drilling unit or units created hereunder and shall mail same, together with map showing such drilling unit or units, to the Railroad Company; provided, however, that no drilling unit so created shall exceed three hundred twenty (320) acre units on gas production from Mesa Verde formation or lower, one hundred sixty (160) acre units on gas production from formation shallower than said Mesa Verde formation, and forty (40) acre units on oil production but provided further that if the spacing regulations of the Oil Conservation Commission of the State of New Mexico or any governmental agency, state or federal, shall prescribe a spacing pattern or shall allocate a producing allowable based in whole or in part on acreage per well, then the unit or units herein contemplated may have the maximum surface acreage content so prescribed or allocated."

Pacific's File No.: 78705

Description of Mineral Interests Committed

Tract No. 9

Mineral Interest Committed by: Saul A. Yager, et al

Description of Lands Committed:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: $NW\frac{1}{4}NW\frac{1}{4}$
containing 40.00 acres, more or less

Tract No. 10

Mineral Interest Committed by: Dave Clark

Description of Lands Committed:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: A tract of land situated in the South 30 rods of $N\frac{1}{2}SW\frac{1}{4}$ Section 15, Township 32 North, Range 10 West, N.M.P.M., lying west of the right-of-way of State Highway 550
containing 3.00 acres, more or less

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

IN THE MATTER OF THE APPLICATION OF SAUL A. YAGER, ET AL FOR THE COMPULSORY POOLING OF THE NW/4 NW/4 OF SECTION 15, TOWNSHIP 32 NORTH, RANGE 10 WEST, SAN JUAN COUNTY, NEW MEXICO, WITH THE SW/4, THE S/2 NW/4, AND NE/4 NW/4 OF SECTION 15, TOWNSHIP 32 NORTH, RANGE 10 WEST, SAN JUAN COUNTY, NEW MEXICO.

IN THE MATTER OF THE APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN UNORTHODOX SPACING UNIT AND GAS PRORATION UNIT CONSISTING OF 277 ACRES, LOCATED IN W/2 OF SECTION 15, TOWNSHIP 32 NORTH, RANGE 10 WEST, NMPM, OR IN THE ALTERNATIVE, FOR COMPULSORY POOLING OF THE W/2 SECTION 15, TOWNSHIP 32 NORTH, RANGE 10 WEST, NMPM.

CASES NO. 1000) 1001) Consolidated
Order No. R-795

ORDER OF THE COMMISSION

BY THE COMMISSION:

These causes came on for hearing at 9 o'clock a.m. on January 19 and again at 9 o'clock on January 20, 1956, before the Oil Conservation Commission, hereinafter referred to as the "Commission", at which time upon stipulation of the parties, the two cases were consolidated for the purposes of hearing and any review or appeal therefrom.

NOW, on this 27th., day of April 1956, the Commission, a quorum being present, having considered the record, evidence, and testimony adduced, 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 these cases and the subject matter thereof.

(2) That applicants Saul A. Yager, et al, in Case No. 1000, are the owners of all the oil and gas and other minerals underlying the NW/4 NW/4 of Section 15, Township 32 North, Range 10 West, San Juan County, New Mexico, said mineral interest being unleased and constituting 40 acres.

(3) That applicant, El Paso Natural Gas Company in Case No. 1001, hereinafter referred to as "El Paso" is the owner of three oil and gas leases in the W/2 of Section 15, Township 32 North, Range 10 West, NMPM, said leases totalling approximately 174 acres, and the location of said leased acreage being more particularly shown on said applicant's Exhibit "A" accompanying its application in Case No. 1001, which is a portion of the record herein.

(4) That Pacific Northwest Pipeline Corporation, hereinafter referred to as "Pacific", is the owner and holder of leasehold rights or operating rights under four oil and gas leases in the W/2 of Section 15, Township 32 North, Range 10 West, NMPM, said leases totalling approximately 103 acres, and the location of said acreage being more particularly shown on El Paso's Exhibit "A" accompanying its application in Case No. 1001, which is a portion of the record herein.

(5) That Mr. Dave Clark is the owner of all the oil, gas and other minerals underlying 3 acres of land in the NE/4 SW/4 of said Section 15, the location of said acreage being more particularly shown on El Paso's Exhibit "A", accompanying its application in Case No. 1001, which is a portion of the record herein.

(6) That El Paso desires to drill a well to the Mesaverde formation in the SW/4 of said Section 15, in accordance with the spacing pattern for wells in Blanco-Mesaverde Pool as provided by Order R-110, that Pacific is willing to, and has agreed to, communitize its acreage with that of El Paso, and to pay its proportionate share of the costs in drilling said well and developing the W/2 of said Section 15.

(7) That the Yager Group is willing to communitize its acreage with that of El Paso and Pacific to form a drilling and proration unit consisting of the W/2 of said Section 15, but is unwilling to pay its share of the drilling costs in cash, proposing instead that their proportionate share of the drilling costs be taken out of the production attributable to the 7/8's working interest of the said 40 acre tract owned by the Yager Group.

(8) That the said Dave Clark is unwilling to communitize his said 3 acres with other acreage in the W/2 of Section 15.

(9) That the said Dave Clark, although duly given notice of the hearing of these cases, was not present at the hearing herein, nor has he entered any appearance or pleading in either of these proceedings; the said Clark has given no indication, evidenced no intention, or made no application to the effect, that he desires to drill on his separate 3-acre tract in accordance with Section 3 (a) of Order R-110 or paragraph c of Sec. 65-3-14, NMSA, 1953 Comp.

(10) That the drilling of a separate well on said 3-acre tract belonging to Dave Clark would constitute the drilling of an unnecessary well.

(11) That one well drilled in the W/2 of said Section 15 to the Mesaverde formation would efficiently and economically drain the entire 320 acres.

(12) That the entire W/2 of said Section 15 can reasonably be presumed to be productive of gas from the Mesaverde formation.

(13) That the compulsory communitization of all the acreage in the W/2 of said Section 15 is necessary to enable each owner therein an opportunity to recover its just and equitable share of the reservoir energy in the Blanco-Mesaverde formation.

(14) That according to evidence before the Commission in these cases, the cost of drilling, completing and equipping a well in the W/2 of said Section 15, to be completed in the Mesaverde formation, will be $65,000, including reasonable supervisory costs.

(15) That each of the owners of acreage in said W/2 of Section 15 should share in such costs, on terms which take into consideration the proportionate acreage owned by each and the risk, or lack of risk, each party is to assume or avoid.

IT IS THEREFORE ORDERED:

1. That all of the interests of all parties in the W/2 of Section 15, Township 32 North, Range 10 West, NMPM, San Juan County, New Mexico be, and the same are, hereby pooled and communitized by this order, and the said W/2 of Section 15 is hereby recognized as a pooled and communitized tract in the Blanco-Mesaverde Pool in San Juan County, New Mexico.

2. That the applicant El Paso be, and is hereby, permitted and authorized to drill a well in the SW/4 of said Section 15, by complying with the terms and provisions of Order R-110.

3. That, for the purposes of this order, the sum of $65,000 is fixed as the cost of drilling, completing, and equipping a well to said common source of supply, said figure including reasonable costs of supervision.

4. That upon completion of said well the applicant El Paso shall submit to the Commission a verified statement of actual costs incurred, the Commission reserving jurisdiction to redetermine the cost of such well in the case of any dispute.

5. That the basic proportions of the cost of drilling, completion and equipping the said well to be drilled by El Paso shall be borne as follows: El Paso Natural Gas Company - $\frac{174}{320}$, Pacific Northwest Pipeline Corporation - $\frac{103}{320}$, the Yager Group - $\frac{40}{320}$ and Dave Clark - $\frac{3}{320}$.

6. That Pacific Northwest, the Yager Group, and Dave Clark shall pay their share of costs of El Paso by either one of the two following methods:

(a) They shall each pay their basic proportionate share of costs, or furnish a sufficient guarantee of said payment, to El Paso within fifteen days from the date of this order, said payment insuring to each said party its same proportionate share of the working interest in said well.

(b) That the said parties shall be permitted to wait the outcome of the drilling, and if production is found in the Mesaverde formation, El Paso shall be permitted to withhold the proceeds (1) from the proportionate share of the working interest production of Pacific Northwest from said well, and (2) from the proportionate share of 8/8 production of the Yager Group and Dave Clark from said well, until such time as the applicant is reimbursed in the amount of 125 percent of such parties' basic proportionate share of the well costs, after which time the said parties shall receive their proportionate share in the working interest in said well.

7. That Pacific Northwest, the Yager Group, and Dave Clark are hereby required to make an election within 15 days of the date of this order as to which method they desire to pursue in the payment of their share of costs, said election to be in writing, addressed to the main office of El Paso Natural Gas Company in El Paso, Texas, with a copy to the offices of this Commission in Santa Fe, New Mexico.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JOHN F. SIMMS, Chairman

E. S. WALKER, Member

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

S E A L

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OPERATING AGREEMENT
Bohds Pool Unit #1 Well

THIS AGREEMENT, made and entered into this 16th day of July, 1956, by and between EL PASO NATURAL GAS COMPANY, a Delaware corporation, whose address is P. O. Box 1492, El Paso, Texas, hereinafter sometimes referred to as "Operator"; and PACIFIC NORTHWEST PIPELINE CORPORATION, a corporation, whose address is P. O. Box 1526, Salt Lake City, Utah, hereinafter sometimes referred to as "Non-Operator";

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of certain Oil and Gas Leases, which leases cover, among other lands, the following described land in San Juan County, New Mexico, to-wit:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: W/2
containing 320.00 acres, more or less; and

WHEREAS, Saul A. Yager, et al, of Tulsa, Oklahoma, are the owners of all the oil, gas and other minerals underlying the following described lands located in San Juan County, New Mexico, to-wit:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: NW/4 NW/4
containing 40.00 acres, more or less; and

WHEREAS, Dave Clark, of Aztec, New Mexico, is the owner of all the oil, gas and other minerals underlying the following described lands located in San Juan County, New Mexico, to-wit:

Township 32 North, Range 10 West, N.M.P.M.
Section 15: A tract of land situated in the South 30 rods of N/2 SW/4 Section 15, Township 32 North, Range 10 West, N.M.P.M., lying west of the right-of-way of State Highway 550
containing 3.00 acres, more or less; and

WHEREAS, Saul A. Yager, et al, were willing to communitize their acreage with that of Operator, El Paso Natural Gas Company, and Non-Operator, Pacific Northwest Pipeline Corporation, to form a drilling and proration unit consisting of the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., but were unwilling to pay their share of the drilling costs in cash, proposing instead that their proportionate share of the drilling costs be taken out of the production attributable to the 7/8 working interest of the heretofore described 40 acre tract owned by Saul A. Yager, et al; and

WHEREAS, Dave Clark was unwilling to communitize his heretofore described three (3) acre tract with other acreage in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M.; and

NM 4440, NM 4441, NM 4445

WHEREAS, on April 27, 1956, by Order No. R-795 in Cases No. 1000 and No. 1001 (consolidated), the Oil Conservation Commission for the State of New Mexico ordered as follows:

"1. That all of the interests of all parties in the W/2 of Section 15, Township 32 North, Range 10 West, NMPM, San Juan County, New Mexico be, and the same are, hereby pooled and communitized by this order, and the said W/2 of Section 15 is hereby recognized as a pooled and communitized tract in the Blanco-Mesaverde Pool in San Juan County, New Mexico.

"2. That the applicant El Paso be, and is hereby, permitted and authorized to drill a well in the SW/4 of said Section 15, by complying with the terms and provisions of Order R-110.

"3. That, for the purposes of this order, the sum of $65,000 is fixed as the cost of drilling, completing, and equipping a well to said common source of supply, said figure including reasonable costs of supervision.

"4. That upon completion of said well the applicant El Paso shall submit to the Commission a verified statement of actual costs incurred, the Commission reserving jurisdiction to redetermine the cost of such well in the case of any dispute.

"5. That the basic proportions of the cost of drilling, completion and equipping the said well to be drilled by El Paso shall be borne as follows: El Paso Natural Gas Company - $\frac{174}{320}$, Pacific Northwest Pipeline Corporation - $\frac{103}{320}$, the Yager Group - $\frac{40}{320}$ and Dave Clark - $\frac{3}{320}$.

"6. That Pacific Northwest, the Yager Group, and Dave Clark shall pay their share of costs of El Paso by either one of the two following methods:

"(a) They shall each pay their basic proportionate share of costs, or furnish a sufficient guarantee of said payment, to El Paso within fifteen days from the date of this order, said payment insuring to each said party its same proportionate share of the working interest in said well.

"(b) That the said parties shall be permitted to wait the outcome of the drilling, and if production is found in the Mesaverde Formation, El Paso shall be permitted to withhold the proceeds (1) from the proportionate share of the working interest production of Pacific Northwest from said well, and (2) from the proportionate share of 8/8 production of the Yager Group and Dave Clark from said well, until such time as the applicant is reimbursed in the amount of 125 percent of such parties' basic proportionate share of the well costs, after which time the said parties shall receive their proportionate share in the working interest in said well.

"7. That Pacific Northwest, the Yager Group, and Dave Clark are hereby required to make an election within 15 days of the date of this order as to which method they desire to pursue in the payment of their share of costs, said election to be in writing, addressed to the main office of El Paso Natural Gas Company in El Paso, Texas, with a copy to the offices of this Commission in Santa Fe, New Mexico."; and

WHEREAS, pursuant to Paragraph 7 of said Order No. R-795, the Yager Group has elected to be governed by the provisions of Sub-paragraph 6 (b) of said Order No. R-795; and

WHEREAS, said Dave Clark has not made known his election to Operator in accordance with Paragraph 7 of said Order No. R-795; and

WHEREAS, it is the desire of Operator, El Paso Natural Gas Company, and Non-Operator, Pacific Northwest Pipeline Corporation, to enter into an Operating Agreement covering the development and operation of the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., as hereinafter set out:

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:

1. FORMATION OF THE UNIT

For the purposes hereof, it is agreed that the aforementioned leases, insofar as they apply to the above described lands, have been pooled and communitized to form a unit covering only the Mesaverde Formation in and under the land described above. It being the intention of the parties hereto in forming said unit to pool and communitize all leases which they may now own or which they may hereafter acquire covering any interest in the communitized unit. Such unit is created by the Communitization Agreement bearing the same date as this Operating Agreement, executed by the owners of mineral interests in the land above described.

2. OPERATOR

El Paso Natural Gas Company is hereby designated and shall act as Operator of such unit in accordance with the terms and provisions of this Agreement. Operator shall have full and complete management of the development and operation of the said unit for dry gas and associated liquid hydrocarbons producible from the Mesaverde Formation as an entirety, but Operator agrees that no well shall be commenced upon the said unit, except the well hereinafter provided for, without the consent of Non-Operator.

El Paso Natural Gas Company may resign as Operator at any time by giving notice to Non-Operator in writing sixty (60) days in advance of the effective date of such resignation and, in such event, the working interest owners of said unit shall immediately select a successor. In the event El Paso Natural Gas Company shall sell or otherwise dispose of all its interest in said unit, the right of operation herein conferred shall not run with the transfer or assignment of such interest or inure to the benefit of El Paso Natural Gas Company's Assignee, but Non-Operator and El Paso Natural Gas Company's Assignee shall immediately select a new Operator.

3. WELL

Operator shall commence or cause to be commenced drilling operations for the joint account of the parties hereto and shall thereafter drill said well to a depth sufficient to test the Mesaverde Formation, unless salt, caprock, cavities, heaving shale, abnormal water flow, or impenetrable substances are encountered in said well at a lesser depth. The parties hereto may also mutually agree to discontinue drilling operations at a lesser depth. Upon completion of said well, if it is a commercial well, Operator shall notify Non-Operator of the date said well is connected to a gas gathering system, if it is so connected.

In the event a well capable of producing gas in paying quantities is shut-in, Operator shall immediately notify Non-Operator thereof; except that Operator shall not be

required to notify the Non-Operator if the well should be shut-in for limited periods of time in order to balance production during peak load periods or for reasons of making mechanical repairs. All production obtained from the unit area and all material and equipment acquired hereunder for the joint account of the parties hereto shall be owned by the parties hereto in the proportions hereinafter specified in Article 4 of this Agreement.

4. COSTS AND EXPENSES

The entire costs and expenses involved in drilling and completing said well shall be borne as follows:

El Paso Natural Gas Company	54.1375%
Pacific Northwest Pipeline Corporation . .	32.4250%
Saul A. Yager, et al	12.5000%
Dave Clark	.9375%

However, inasmuch as said Saul A. Yager, et al, are unwilling to pay their share of such costs in cash and have instead elected to be governed by the provisions of Sub-paragraph 6 (b) of said Order No. R-795 pertaining to such costs, and inasmuch as said Dave Clark has failed to make an election pursuant to said Order No. R-795, Operator will advance said Saul A. Yager, et al, and Dave Clark's share of such costs involved in drilling said well, and if production is found in the Mesaverde Formation, Operator shall be permitted to withhold the proceeds from said Saul A. Yager, et al, and Dave Clark's proportionate share of production from said well until such time as Operator is reimbursed in the amount of 125% of such parties' proportionate share of the costs involved in drilling said well which is pursuant to Paragraph 6 (b) of said Order No. R-795. Unless Operator elects to require Non-Operator to advance its share of the costs and expenses, as hereinafter provided, Operator shall initially advance and pay all costs and expenses for the drilling of the well provided for in Article 3 hereof, as well as operation expenses of said unit, and shall charge Non-Operator with its pro rata part thereof on the basis of its proportionate interest in the unit as set out above.

Pursuant to Order No. R-795 of the Oil Conservation Commission for the State of New Mexico, the entire costs and expenses involved in operating said well, if said well is a commercial well, will be borne as follows:

El Paso Natural Gas Company	54.1375%
Pacific Northwest Pipeline Corporation . .	32.4250%
Saul A. Yager, et al	12.5000%
Dave Clark	.9375%

Non-Operator, Pacific Northwest Pipeline Corporation, in accordance with Paragraph 6 (a) of said Order No. R-795, will pay their proportionate share of all costs and expenses involved in operating said well and will be governed by the terms and provisions of this paragraph as heretofore and hereinafter set out.

After Operator, pursuant to Order No. R-795, has been reimbursed in the amount of 125 percent of Saul A. Yager, et al and Dave Clark's proportionate share of the costs in-

volved in drilling said well, Operator will pay said Saul A. Yager, et al and Dave Clark their proportionate share of the proceeds of production of all gas and associated liquid hydrocarbons produced and saved from the acreage covered hereby, less however, all operating costs attributable to said Saul A. Yager, et al and Dave Clark's interest in said well.

All such costs, expenses, credits and related matter, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A" and made a part hereof for all purposes; provided, however, that the Operator shall not apportion any part of the salaries and expenses of its District Superintendent, or other general district employees or of the district office expenses to the joint account as provided in Paragraph 11 of Section II of said Exhibit "A", as attached hereto; and the monthly per well overhead rates set forth under Paragraph 12 of Section II of said Exhibit "A", as attached hereto, shall be in lieu of any charges for any part of the compensation or salaries paid to Operator's District Superintendent and to other general district employees and shall be in lieu of any charges for district office expenses as well as Operator's division office and principal business office expenses and of any charge for field office and camp expenses, but shall not be in lieu of any charge for any part of the compensation, salaries, and related expenses of any of Operator's field crew and direct supervision of such crew directly engaged in the operation of Operator's wells in the area.

In the event of any conflict between the provisions contained in the body of this Agreement, and those contained in said Exhibit "A", the provisions of this Agreement shall govern to the extent of such conflict.

In the event that Operator elects to require Non-Operator to advance its proportionate share of the above mentioned costs and expenses, Operator shall submit an itemized estimate of such costs and expenses for the succeeding calendar month to Non-Operator, showing therein the proportionate part of the estimated costs and expenses chargeable to Non-Operator. Within fifteen (15) days after receipt of said estimate, Non-Operator shall pay to the Operator its proportionate share of the estimated costs and expenses. If payment of the estimated costs and expenses is not made when due, the unpaid balance thereof shall bear interest at the rate of six percent (6%) per annum from the due date until paid. Adjustments between estimated and actual costs and expenses shall be made by Operator at the close of each calendar month and the account of the respective parties adjusted accordingly.

The well to be drilled on the communitized unit shall be drilled on a competitive contract basis at the usual rates prevailing in the field. However, Operator, if it so desires, may employ its own tools and equipment; in such event the cost of drilling shall include, but shall not be limited to, the following charges: (a) all direct material and

labor costs (b) a proportionate amount of applicable departmental overheads and undistributed field costs (c) rental charge on company equipment employed; all such charges to be determined in accordance with Operator's accounting practice, provided that, in no event shall the total of such charges exceed the prevailing rate in the field, 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.

Operator shall make no single expenditure in excess of One Thousand Dollars ($1,000.00) without first obtaining the consent thereto of Non-Operator. The approval of the drilling of a well provided for hereinabove, however, shall include all expenditures for the drilling, completing, testing and equipping such well.

5. RENTALS

Each party hereto agrees to pay all rentals, minimum royalties and/or shut-in royalty which may become due under the lease or leases which such party is contributing to such unit hereunder, and Operator shall not have any obligation to pay any such rentals, minimum royalties and/or shut-in royalty except as to the lease contributed by Operator. Each party further agrees to use its best efforts to keep and maintain in full force and effect the oil and gas lease(s) contributed by such party to said unit.

6. INSURANCE

Operator shall at all times while conducting operations hereunder, carry and require its contractors and their sub-contractors to carry insurance to protect and save the parties hereto harmless, as follows:

A. Workmen's Compensation and Employer's Liability Insurance sufficient to comply with the Workmen's Compensation Law for the State of New Mexico.

B. Comprehensive General Public Liability Insurance with limits of not less than $50,000 per person and $100,000 per accident, and General Public Liability Property Damage with limits of not less than $50,000 per accident.

C. Automobile Public Liability Insurance including non-owned and hired automobile endorsement with limits of not less than $50,000 per person and $100,000 per accident, and Automobile Property Damage Insurance with a limit of not less than $50,000 per accident.

All costs and actual expenditures incurred and paid by Operator in settlement of any or all losses, claims, damages and judgments which are not covered by such insurance and other expenses, including legal services connected therewith, shall be charged to the joint account. Provided that prior to settlement of any claims, damages, occurrences and/or judgments which are not covered by the above insurance and which are to be charged to the joint account, Operator shall have the concurrence of Non-Operator before any settlement is made.

7. DISPOSAL OF PRODUCTION

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 said tract under the Communitization Agreement referred to in Paragraph 1 above, and of the production unavoidably lost, provided that each of the parties hereto shall pay or secure the payment of the royalty interests, overriding royalty interests, payments out of production and other similar interests, if any, from its proportionate part of said production. If at any time or times Non-Operator shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, Operator shall have the right, revocable by Non-Operator at will, to sell such part of such production at the same price which Operator received for its own portion of the production, or to take such gas for its own use for resale; should gas be delivered by either party during any period that such other party or parties have failed or refused to take or sell its or their gas, then the party receiving or taking delivery of the gas agrees to account to the other party or parties for its or their proportionate part of the gas so delivered, (1) if sold by the receiving party, at the market price at the wellhead for said gas, or at the price received at wellhead by such party, whichever is greater or, (2) if taken for its own use or transported for resale by the receiving party, at the highest price it is paying others in the area at the wellhead for gas of similar quality and pressure or, (3) if no such purchases are being made by the receiving party, then at the market price at the wellhead. Any sales by Operator of Non-Operator's production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such sale be for a period in excess of one (1) year.

8. DURATION OF AGREEMENT

This Agreement shall become effective as of the date hereof upon execution by the parties hereto, notwithstanding the date of execution, and shall remain in full force and effect for a period of two (2) years and so long thereafter as dry gas and associated liquid hydrocarbons are produced from any part of said communitized unit in paying quantities, provided that prior to production in paying quantities from said communitized unit and upon fulfillment of all the requirements of the Oil Conservation Commission of the State of New Mexico, with respect to any dry hole or abandoned well, this Agreement may be terminated at any time by the mutual agreement of all the parties hereto.

9. ROYALTY INTERESTS

It is agreed and understood that the burden of any royalty, overriding royalties, payments out of production, carried working interests, net profit obligations or other similar payments, shall be borne and paid by the party owning the lease to which such interests apply.

10. TAXES

The Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this Agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws of the State of New Mexico, or which may made subject to taxation under future laws, and shall pay for the benefit of the joint account all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill Non-Operator for its proportionate share of such tax payments provided by the Accounting Procedure attached hereto as Exhibit "A".

11. RELATION OF PARTIES

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, it being the express purpose and intention of the parties hereto that their ownership in said unit shall be as tenants in common; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or trust or as imposing upon any one or more of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for his or its obligations, as set out in this Agreement. Pursuant to the provisions of Section 761(a) of the Internal Revenue Code of 1954, and the regulations promulgated thereunder, election is hereby made to exclude this agreement and all operations thereunder from the application of all of the provisions of subchapter K of the Internal Revenue Code of 1954.

12. ACCESS TO PREMISES, LOGS AND REPORTS

Operator shall keep accurate logs of the well drilled on said unit, which logs shall be available at all reasonable times for inspection by Non-Operator. Upon request by Non-Operator, Operator shall furnish Non-Operator a copy of said logs, samples of cores and cutting of formations encountered, and electrical surveys relative to the development and operation of said unit, together with any other information which may be reasonably requested pertaining to such well. Non-Operator shall have access to said unit and to all books and records pertaining to operations hereunder for the purpose of inspection at all reasonable times.

13. SURRENDER, EXPIRATION, ABANDONMENT OR RELEASE OF LEASE

No lease or leases subject to this Agreement shall be surrendered, let to expire, abandoned or released, in whole or in part, unless the parties mutually consent thereto in writing. In the event that less than all parties hereto should elect to surrender, let expire, abandon or release all or any part of a lease or leases subject to this Agreement and the other party or parties do not consent or agree, the party so electing shall notify the

other party or parties not less than sixty (60) days in advance of such surrender, expiration, abandonment or release, and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party all of its right, title and interest in and to said lease or leases, the well or wells located thereon, and the casing and other physical equipment in or on said well or wells. If the party or parties not so electing fail(s) to request assignment within such sixty (60) day period, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases, or any part thereof. In the event such assignment is so requested, the party or parties to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the salvable casing and other physical equipment in or on the unit. After the delivery of any such assignment, the party making the assignment shall be released from and discharged of all the duties and obligations thereafter accruing or arising hereunder, in connection with the operation and development of the unit, with respect to the assigned lease or leases.

14. LOSS OR FAILURE OF TITLE

In the event of the loss or failure of the title, in whole or in part, of any party hereto, to any lease, the interest of such party in and to the production obtained from the unit shall be reduced in proportion to such loss or failure of title as of the date such loss or failure of title is finally determined; provided that such revision of ownership interest shall not be retroactive as to operating costs and expenses incurred or as to revenues or production obtained prior to such date; and provided further, that each party hereto whose title has been lost or has failed, as aforesaid, shall indemnify and hold the other parties hereto harmless from and against any and all loss, cost, damage and expense which may result from, or arise because of, the delivery to such party of production obtained hereunder or the payment of proceeds derived from the sale of any production, prior to the date loss or failure of title is finally determined.

15. ABANDONMENT OF WELL

No well on the unit which is capable of producing dry gas and associated liquid hydrocarbons from the formation covered by this Agreement shall be abandoned without the mutual consent of the parties hereto. If any of the parties desire to abandon such well, such party or parties shall so notify the other party or parties in writing and the latter shall have ten (10) days after receipt of such notice in which to elect whether to agree to such abandonment. If all parties hereto agree to such abandonment, such well shall be abandoned and plugged by the Operator at the expense of the joint account, and as much as possible of the casing and other physical equipment in and on said well shall be salvaged for the

benefit of the joint account. If any party or parties do not agree to said abandonment, such party or parties shall purchase the interest(s) of the party or parties desiring to abandon said well in the physical equipment therein and thereon; and within twenty-five (25) days after receipt of notice by the party or parties not electing to abandon, the party or parties desiring to abandon, shall execute and deliver to the other party or parties an assignment, without warranty of title, of all of its or their interest in said well and physical equipment, and in the working interest and gas leasehold estate, insofar as it covers the formation covered by this Agreement in said unit. In exchange for said assignment, the purchasing party or parties shall pay to the assigning party or parties the salvage value of the latter's interest in the salvable casing and other physical equipment in and on said well, such value to be determined in accordance with the provisions of the Accounting Procedure attached hereto as Exhibit "A".

16. LAWS AND REGULATIONS

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 the event this Agreement or any provisions hereof, is, or the operations contemplated hereby are found to be inconsistent with or contrary to any such law, rule, 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.

17. FORCE MAJEURE

No party to this Agreement shall be liable to any other party for any delay or default in performance under this Agreement due to any cause beyond its control and without its fault or negligence, including but not restricted to acts of God or the public enemy, acts or requests of the Federal or State Government or of any Federal or State officer purporting to act under duly constituted authority, floods, fires, wars, storms, strikes, interruption of transportation, freight embargoes or failures, exhaustion or unavailability or delays in delivery of any material, equipment or service necessary to the performance of any provisions hereof, or the loss of holes, blow-outs or happening of any unforeseen accident, misfortune or casualty whereby performance hereunder is delayed or prevented.

18. OPERATOR'S LIEN

Operator shall have an express contract lien, which is hereby granted, upon the interest of Non-Operator in said unit, in the gas or other minerals produced from such unit and in the materials and equipment located thereon, to secure the payment by said Non-Operator of its proportionate part of the costs and expenses incurred or paid by Operator here-

under, and interest, if any, accrued on such part. Such lien may be enforced and foreclosed as any other contract lien. Moreover, Operator may to the full extent of any indebtedness owed by it to Non-Operator, offset such debt against sums owing to Operator hereunder by Non-Operator.

19. NOTICES

All notices, reports and other correspondence required or made 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:

El Paso Natural Gas Company
Post Office Box 1492
El Paso, Texas

Pacific Northwest Pipeline Corporation
Post Office Box 1526
Salt Lake City, Utah

20. HEIRS, SUCCESSORS AND ASSIGNS

All of the provisions of this Agreement shall extend to and be binding upon the parties hereto, their heirs, 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 in several counterpart originals as of the day and year first above written.

ATTEST:

A C Martch
Assistant Secretary

EL PASO NATURAL GAS COMPANY

By H. F. Steen RHH BRH
Vice President

ATTEST:

B J Turner
Assistant Secretary

PACIFIC NORTHWEST PIPELINE CORPORATION

By J M Clark
Vice President

FORM APPROVED
Simms & Modrall
by JSS

STATE OF TEXAS)
)
COUNTY OF EL PASO)

On this 22 day of October, 1956, before me appeared H. F. Steen, to me personally known, who, being by me duly sworn, did say that he is the Vice President of EL PASO NATURAL GAS COMPANY, and that the seal affixed to the foregoing 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 H. F. Steen acknowledged said instrument to be the free act and deed of said corporation.

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

My commission expires:
MARTHA B. IVEY,
Notary Public, in and for El Paso County, Texas
My commission expires June 1, 1957

Martha B. Ivey
Notary Public

STATE OF New Mexico

COUNTY OF Bernalillo

On this 28th day of August, 1956, before me appeared J. M. Clark, to me personally known, who, being by me duly sworn, did say that he is the Vice President of PACIFIC NORTHWEST PIPELINE CORPORATION, and that the seal affixed to the foregoing 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 J. M. Clark acknowledged said instrument to be the free act and deed of said corporation.

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

My commission expires:

July 15, 1959

Lucine Langhammer
Notary Public

OFFICE OF COMMISSIONER OF PUBLIC LANDS
Santa Fe, New Mexico

I HEREBY CERTIFY that the foregoing Communitization Agreement was filed in my office on the _____ day of _____, 1956 and CONSENTED TO and APPROVED by me on _____, 1956.

_____
Commissioner of Public Lands

EXHIBIT "A"

PASO-T-1955-2

Attached to and made a part of an Operating Agreement dated July 16, 1956, covering Bonds Pool Unit #1 Well, W½ 15, 32-10, by and between El Paso Natural Gas Company and Pacific Northwest Pipeline Corporation

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"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 Subparagraph C 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 ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges 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. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator 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 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 making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. 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, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. 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. 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 directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

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 that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. 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 may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or 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 such material is available, except by special agreement with Non-Operator.

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 from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. 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. Service

A. Outside Services:
The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and 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 cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments 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 or levied 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 and Claims

A. Premiums paid for insurance required to be 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 (Field Supervision and Camp Expense)~~ See Par. 2 Art. 4 of this Agreement

~~An equitable portion of the salaries 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 suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practices.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
Mesaverde	$250.00	$45.00 per well per month		

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate 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. In connection with overhead charges, the status of wells shall be as follows:

(1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.

(2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.

(3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

(4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the 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.

(5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.

(6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.

(7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.

(8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.

C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.

D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.

E. 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. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

NONE

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the 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, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (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 seventy-five per cent (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 secondhand 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 fifty per cent (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, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III 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 materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provision of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

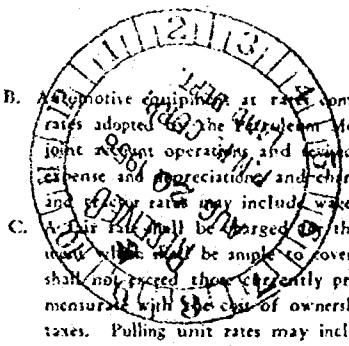
4. Warranty of Material Furnished by Operator

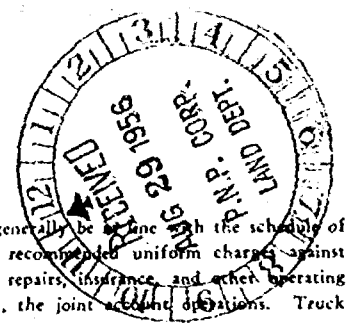
Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

5. 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, fuel, power, compressor and other auxiliary services 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 at rates commensurate with cost of ownership and operation. Such rates should 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 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 and tractor rates may 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. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.

D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.

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

F. 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. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to 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-Operator

Material purchased by either the Operator or Non-Operator 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-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. Such credits shall appear 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 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 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 property as secondhand at seventy-five per cent (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. 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.

5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

6. Junk

Junk (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 account does not justify the reduction in price as provided in Paragraph 3 B, 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, 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 by operators of oil and gas properties.

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-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

2. Reconciliation and Adjustment of Inventories

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.

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, 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.

GREAT WESTERN [illegible], a [illegible], Midland, Texas, hereinafter sometimes referred to as "Operator"; [illegible], a Delaware corporation whose address is Post Office Box 1492, El Paso, Texas, and PETRO-LEWIS DEVELOPMENT, INC. (No Stockholders Liability), a New Mexico corporation whose address is Post Office Box 1360, Albuquerque, New Mexico, the two latter corporations being hereinafter referred to as "Non-Operator":

W I T N E S S E T H :

WHEREAS, the parties hereto are the owners of certain Oil and Gas Leases, which leases cover, among other lands, the following described land in San Juan County, New Mexico, to-wit:

Township 31 North, Range 11 West, N.M.P.M.
Section 36: S½
containing 320.0 acres, more or less; and

WHEREAS, it is the desire of the parties hereto to enter into an Operating Agreement covering the development and operation of the above described tract as hereinafter set out:

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:

1. FORMATION OF THE UNIT:

For the purposes hereof, it is agreed that the aforementioned leases, insofar as they apply to the above described lands, are hereby pooled and communitized to form a unit covering only the Mesaverde formation in and under the land described above. It is the intention of the parties hereto in forming said unit to pool and communitize all leases which they may now own or which they may hereafter acquire covering any interest in the communitized unit. Such unit is created by the Communitization Agreement bearing the same date as this Operating Agreement, executed by the owners of leasehold interests in the land above described.

2. OPERATOR:

Great Western Drilling Company is hereby designated and shall act as Operator of such unit in accordance with the terms and provisions of this Agreement. Operator shall have full and complete management of the [illegible] and operation of the said unit for the [illegible] Mesaverde formation [illegible] upon the said unit, except the well hereinafter [illegible]

[illegible] the working interest owners of said unit shall immediately select a successor. In the event Operator shall sell or otherwise dispose of all [illegible] in said unit, the right of operation herein conferred shall not run with the transfer or assignment of such interest or inure to the benefit of Operator's assignee, but Non-Operator and Operator's assignee shall immediately select a new-Operator.

Notwithstanding anything to the contrary contained in this Paragraph, the parties to this Agreement hereby agree that if and when said initial test well is completed by Operator as a producing well, Pubco Development, Inc. (No Stockholders Liability), a New Mexico corporation, the address of which is Post Office Box 1360, Albuquerque, New Mexico, shall act as Operator of said well, and shall have full authority to act in behalf of the parties hereto in the same manner and to the same extent as Operator hereinabove designated.

3. WELL:

Operator shall, on or before one year from the date of this Agreement, and after giving Non-Operator at least ten (10) days advance notice in writing, commence or cause to be commenced drilling operations on an initial test well and shall thereafter drill said well to a depth sufficient to test the Mesaverde formation, unless salt, caprock, cavities, heaving shale, abnormal water flow, or impenetrable substances are encountered in said well at a lesser depth. The parties hereto may also mutually agree to discontinue drilling operations at a lesser depth. Upon completion of said well, if it is a commercial well, Operator shall notify Non-Operator of the date said well is tied-in to a gas gathering system.

In the event a well capable of producing gas in paying quantities is shut-in, other than on a temporary basis, Operator shall immediately notify Non-Operator thereof. All production obtained from the communitized area and all material and equipment acquired hereunder shall be owned by the parties hereto in the proportions [illegible] Article 4 of this Agreement.

[illegible]

[illegible] expenses, as hereinafter provided, Operator shall [illegible] and pay all costs and expenses for the drilling of the well provided for in Article [illegible] hereof, the equipping and operation thereof, and shall charge Non-Operator with its pro rata part thereof on the basis of its proportionate interest in the unit as set out above.

All such costs, expenses, credits and related matter, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A" and made a part hereof for all purposes; provided, however, that the Operator shall not apportion any part of the salaries and expenses of its District Superintendent, or other general district employees or of the district office expenses to the joint account as provided in paragraph 11 of Section II of said Exhibit "A", as attached hereto; and the monthly per well overhead rates set forth under paragraph 12 of Section II of said Exhibit "A", as attached hereto, shall be in lieu of any charges for any part of the compensation or salaries paid Operator's District Superintendent and to other general district employees and shall be in lieu of any charges for district office expenses as well as Operator's division office and principal business office expenses and of any charge for field office and camp expenses, but shall not be in lieu of any charges on a fair and proportionate basis for any part of the compensation, salaries, and related expenses of any of Operator's field crew and direct supervision of such crew directly engaged in the operation of Operator's wells in the area.

In the event of any conflict between the provisions contained in the body of this Agreement, and those contained in said Exhibit "A", the provisions of this Agreement shall govern to the extent of such conflict.

In the event that Operator elects to require Non-Operator to advance its proportionate share of the above mentioned costs and expenses, Operator shall submit an itemized estimate of such costs and expenses for the succeeding calendar month to Non-Operator, showing therein the proportionate part of the estimated costs and [illegible]

(d) [illegible] until such time as adjustment between [illegible] actual costs and expenses shall be made by Operator at the close of each calendar month and the account of the respective parties adjusted accordingly.

The well to be drilled on the communitized unit shall be drilled on a competitive contract basis at the usual rates prevailing in the field. However, Operator, if it so desires, may employ its own tools and equipment; in such event the cost of drilling shall include, but shall not be limited to, the following charges: (a) all direct material and labor costs; (b) a proportionate amount of applicable departmental overheads and undistributed field costs; (c) rental charge on company equipment employed; all such charges to be determined in accordance with Operator's accounting practice, provided, that in no event shall the total of such charges exceed the prevailing rate in the field, 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.

Operator shall make no single expenditure in excess of One Thousand Dollars ($1,000.00) without first obtaining the consent thereto of Non-Operator. The approval of the drilling of the well provided for hereinabove, however, shall include all expenditures for the drilling, completing, testing and equipping such well.

5. RENTALS:

Each party hereto agrees to pay all rentals and/or shut-in royalty which may become due under the lease or leases which such party is contributing to such unit hereunder, and Operator shall not have any obligation to pay any such rentals and/or shut-in royalty except as to the lease contributed by Operator. Each party further agrees to use its best efforts to keep and maintain in full force and effect the oil and gas lease(s) contributed by such party to said unit.

6. INSURANCE:

Operator shall at all times while conducting operations hereunder, at its cost, carry and require its contractors and their sub-contractors to carry insurance to protect and save the parties hereto harmless, as follows:

A. Workmen's Compensation Insurance sufficient to comply with the Workmen's Compensation Law for the State of New Mexico.

B. Comprehensive General Public Liability Insurance with limits of not less than $50,000 for [illegible] and General Public Liability Property Damage with limits of not less than $50,000 per accident.

c.

All costs and actual expenditures incurred and paid by Operator in settlement of any or all losses, claims, damages and judgments which are not covered by such insurance and other expenses, including legal services connected therewith, shall be charged to the joint account.

7. DISPOSAL OF PRODUCTION:

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 dry 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 said tract and of production unavoidably lost, provided that each of the parties hereto shall pay or secure the payment of the royalty interests, overriding royalty interests, payments out of production or other similar interests, if any, from its proportionate part of said production. If at any time or times Non-Operator shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, Operator shall have the right, revocable by Non-Operator at will, to sell such part of such production at the same price which Operator receives for its own portion of the production. All such sales by Operator of Non-Operator's production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such sale be for a period in excess of one (1) year.

8. DURATION OF AGREEMENT:

This Agreement shall become effective as of the date hereof upon execution by the parties hereto, notwithstanding the date of execution, and shall remain in full force and effect for a period of two (2) years and so long thereafter as dry gas and associated liquid hydrocarbons are produced from any part of said communitized unit in paying quantities, provided that prior to production in paying quantities from said communitized unit and upon fulfillment of all the requirements of the Oil Conservation Commission of the State of New Mexico, with respect to any [illegible] this Agreement may be terminated at any time by the mutual agreement of all the parties hereto.

[illegible] tions, or other similar payments, shall be borne and paid by the party owning the lease to which such interests apply.

10. TAXES:

The Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this Agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws of the State of New Mexico, or which may be made subject to taxation under future laws, and shall pay for the benefit of the joint account all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill Non-Operator for its proportionate share of such tax payments provided by the Accounting Procedure attached hereto as Exhibit "A".

11. RELATION OF PARTIES:

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, it being the express purpose and intention of the parties hereto that their ownership in said unit shall be as tenants in common; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or trust or as imposing upon any one or more of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for his or its obligations, as set out in this Agreement.

12. ACCESS TO PREMISES, LOGS AND REPORTS:

Operator shall keep accurate logs of the well drilled on said unit, which logs shall be available at all reasonable times for inspection by Non-Operator. Upon request by Non-Operator, Operator shall furnish to Non-Operator a copy of said logs, samples of cores and cuttings of formations encountered, and electrical surveys relative to the development and operation of said unit, together with [illegible] information which may be reasonably requested pertaining to said [illegible] shall have access to said unit and to all books and records pertaining [illegible] hereunder for the purpose of inspecting all [illegible]

[redacted] shall be voluntarily surrendered, [redacted] terminated or released, in whole or in part, unless the parties [redacted] in writing. In the event that less than all parties hereto should elect to surrender, let expire, abandon or release all or any part of a lease or leases subject to this Agreement and the other party does not consent or agree, the party so electing shall notify the other party not less than sixty (60) days in advance of such surrender, expiration, abandonment or release, and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party all of its rights, title and interest in and to said lease or leases, covering only the formation to be developed under the terms of this Agreement, the well or wells located thereon, and the casing and other physical equipment in or on said well or wells. If the party not so electing fails to request assignment within such sixty (60) day period, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases, or any part thereof. In the event such assignment is so requested, the party to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the salvable casing and other physical equipment in or on the unit, such value to be determined in accordance with the provisions of the attached Exhibit "A", designated as Accounting Procedure. After the delivery of any such assignment, the party making the assignment shall be released from and discharged of all the duties and obligations thereafter accruing or arising hereunder, in connection with the operation and development of the unit, with respect to the interest assigned in said lease or leases.

14. LOSS OR FAILURE OF TITLE:

In the event of the loss or failure of the title, in whole or in part, of either party hereto, to any lease or to any interest therein, the interest of such party in and to the production obtained from the unit shall be reduced in proportion to such loss or failure of title as of the date such loss or failure of title is finally determined; provided, that such revision or ownership interest shall not be retroactive as to operating costs and expenses incurred or as to revenues or production obtained prior to such date; and provided further, that each party hereto whose title has been lost or has failed, as aforesaid, shall indemnify and hold the other parties hereto harmless from and against any and all loss, cost, damage and expense which any parties [redacted] may suffer because of, the delivery to such party of production

obtained hereunder or the payment of proceeds derived from the sale of such [illegible] prior to the date loss or failure of title is finally determined.

15. ABANDONMENT OF WELL:

No well on the unit which is capable of producing dry gas and associated liquid hydrocarbons from the formation covered by this Agreement shall be abandoned without the mutual consent of the parties hereto. If either of the parties desire to abandon such well, ~~such party shall so notify the other party in writing and the latter~~ shall have ten (10) days after receipt of such notice in which to elect whether to agree to such abandonment. If all parties hereto agree to such abandonment, such well shall be abandoned and plugged by the Operator at the expense of the joint account, and as much as possible of the casing and other physical equipment in and on said well shall be salvaged for the benefit of the joint account. If either party does not agree to said abandonment, such party shall purchase the interest of the party desiring to abandon said well in the physical equipment therein and thereof; and, within twenty-five (25) days after receipt of notice by the party not electing to abandon, the party desiring to abandon, shall execute and deliver to the other party an assignment, without warranty of title, of all its interest in said well and physical equipment, and in the working interest and gas leasehold estate, insofar as it covers the formation covered by this Agreement in said unit. In exchange for said assignment, the purchasing party shall pay to the assigning party the salvage value of the latter's interest in the salvable casing and other physical equipment in and on said well, such value to be determined in accordance with the provisions of the Accounting Procedure attached hereto as Exhibit "A".

16. LAWS AND REGULATIONS:

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 the event this Agreement or any provisions hereof, is, or the operations contemplated hereby are found to be inconsistent with or contrary to any such law, rule, 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.

17. FORCE MAJEURE:

No party to this Agreement shall be liable to the other party for any delay or default in performance under this Agreement due to any [illegible] beyond the control

[redacted], including but not restricted to acts of God or the public enemy, act or requirements of the Federal or State Government or of any Federal or State office purporting to act under duly constituted authority, floods, fires, wars, storms, strikes, interruption of transportation, freight embargoes or failures, embargoes or unavailability or delays in delivery of any material, equipment or service necessary to the performance of any provisions hereof, or the loss of holes, blow-outs or happening of any unforeseen accident, misfortune or casualty whereby performance hereunder is delayed or prevented.

18. OPERATOR'S LIEN:

Operator shall have an express contract lien, which is hereby granted, upon the interest of Non-Operator in said unit, in the gas and associated liquid hydrocarbons produced from such unit and in the materials and equipment located thereon, to secure the payment by said Non-Operator of its proportionate part of the costs and expenses incurred or paid by Operator hereunder. Such lien may be enforced and foreclosed as any other contract lien. Moreover, Operator may to the full extent of any indebtedness owed by it to Non-Operator, offset such debt against sums owing to Operator hereunder by Non-Operator.

19. NOTICES:

All notices, reports and other correspondence required or made 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:

El Paso Natural Gas Company
Post Office Box 1492
El Paso, Texas

Pubco Development, Inc.
Post Office Box 1360
Albuquerque, New Mexico

Great Western Drilling Company
Post Office Box 1659
Midland, Texas

20. ELECTION AS TO JOINDER:

Notwithstanding anything to the contrary hereinabove stated, and upon receipt of the notice to the effect that Operator intends to commence drilling operations hereunder as set out in Article 3 herein, Non-Operator may, by responsive notice given to the Operator in writing within ten (10) days of receipt of the aforesaid notice, elect as to whether Non-Operator desires to join in the drilling of such [redacted] election not to join [redacted]

[illegible] from the proportionate share of production [illegible] by such non-joining Non-Operator (after deducting therefrom all royalties, overriding royalties, and one hundred per cent. (100%) of the operating expenses attributable thereto) a sum equal to one hundred and fifty per cent. (150%) of that portion of the total cost of drilling, testing, completing, and equipping said well which is chargeable to the lease or leases owned by said non-joining Non-Operator. For the purposes of this paragraph, where a party takes its share of production in kind, the proceeds of production from such well shall be computed upon the same price basis as that employed for payment of royalties to the State of New Mexico on comparable production from the communitized area. When Operator shall have been reimbursed for one hundred and fifty per cent. (150%) of said costs as hereinabove provided, proceeds from said well shall thereafter be shared by the parties hereto as provided in Article 7 hereof. Any amounts which may be realized from sale or disposition of the well or equipment thereon, or required in connection with the drilling, testing, completing, equipping and operating thereof, shall be paid to the Operator and credited against the total unreturned portion of said one hundred and fifty per cent. (150%), with the balance thereof, if any, to be divided between the parties hereto in the same proportion as the production is shared according to Article 7.

21. HEIRS, SUCCESSORS AND ASSIGNS:

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

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in several counterpart originals as of the day and year first above written.

GREAT WESTERN DRILLING COMPANY

By [illegible]

ATTEST:

[illegible]

[illegible]

STATE OF TEXAS)
COUNTY OF Midland) ss

On this 9 day of August, 1954, before me appeared

B. C. Tucker, to me personally known, who, being by me duly sworn, did say that he is the President of GREAT WESTERN DRILLING COMPANY, a Texas corporation, and that the seal affixed to the foregoing 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 B. C. Tucker acknowledged said instrument to be the free act and deed of said corporation.

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

Margaret Nason
Notary Public, County of Midland
State of Texas

My commission expires:

6-1-55

STATE OF TEXAS)
COUNTY OF EL PASO) ss

On this 27 day of August, 1954, before me appeared

M. F. STEEN

to me personally known, who being by me duly sworn, did say that he is the VICE President of EL PASO NATURAL GAS COMPANY, a Delaware corporation, and that the seal affixed to the foregoing 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 M. F. STEEN acknowledged said instrument to be the free act and deed of said corporation.

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

Ella M. Willard
Notary Public, County of El Paso,
State of Texas

My commission expires:

ELLA M. WILLARD
Notary Public, El Paso County, Texas
My Commission Expires June 1, 1955

[illegible]

Elliott D. [illegible]

[illegible] to the free act

IN WITNESS WHEREOF, I [illegible] hereunto [illegible] and affixed my official seal

the day and year in this certificate first above written.

[illegible] Notary Public,

State of New Mexico

My commission expires:

My Commission Expires June 24, 1967

EXHIBIT "A"

Model Form-PASO-1949-1

Attached to and made a part of [illegible] dated [illegible] between [illegible]

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 A 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. **Materials**
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. **Material Furnished by Operator**
Material furnished to the joint property from Vendor's or from Operator's warehouse in the district or from the [illegible] of Operator, but in either of the [illegible] no charges shall be made to the joint account [illegible] the nearest reasonably accessible supply store or railway receiving point where [illegible] except by [illegible] with Non-Operator.

6. **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.

7. **Use of Operator's Equipment and Facilities**
Use of and services by Operator's exclusively owned equipment and facilities as provided in Paragraph 4, of Section III, "Basis of Charges to Joint Account."

8. **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.

9. **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.

10. **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.

11. **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.

12. **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.

13. **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 Farmington, New Mexico, and any portion of the office expense of the principal business office located at Midland, Texas, 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. $ 250.00 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. $ 45.00 per well per month for the first five (5) producing wells.
[redacted]
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, this 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

NONE

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.

[illegible] shall be credited to the joint account, and charged to the month in which the material is removed from the joint property.

4. [illegible]
[illegible] Operator shall be invoiced by Operator and paid for by Non-Operator to Operator [illegible] date of invoice. The Operator shall pass credit to the joint account and include the [illegible] monthly statement of operations.

5. [illegible]
[illegible] of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective [illegible] in such material. Each party will thereupon be charged individually with the value of the [illegible] or [illegible] property and corresponding credits will be made by the Operator to the [illegible] and such credits shall appear in the monthly statement of operations.

6. [illegible]
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. [illegible]
[illegible] be taken at the expense of the purchaser, whenever there is any sale or change of [illegible] and it shall be the duty of the party selling to notify all other parties hereto as [illegible] of interest takes place. In such cases both the seller and the purchaser [illegible] be governed by the inventory so taken.

BEFORE THE OIL CONSERVATION COMMISSION OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF EL PASO NATURAL GAS COMPANY FOR AN UNORTHODOX SPACING UNIT AND GAS PRORATION UNIT CONSISTING OF 277 ACRES, LOCATED IN THE W/2 OF SECTION 15, TOWNSHIP 32 NORTH, RANGE 10 WEST, N.M.P.M., OR IN THE ALTERNATIVE, FOR COMPULSORY POOLING OF THE W/2 OF SECTION 15, TOWNSHIP 32 NORTH, RANGE 10 WEST, N.M.P.M.

CASE NO. 1001

TO THE HONORABLE COMMISSION:

Your Applicant, EL PASO NATURAL GAS COMPANY, represents that it is a Delaware corporation, with a permit to do business in the State of New Mexico, and that it is the present owner and holder of leasehold rights or operating rights under the following described Oil and Gas Leases, embracing lands located in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., San Juan County, New Mexico:

a. Oil and Gas Lease dated June 26, 1950, from Robert J. Doughtie and wife, Edna O. Doughtie, as lessors, to John F. Sullivan, as lessee, embracing among other lands, 32.5 acres in the SE/4NW/4 and 47 acres in the N/2 SW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M.

b. Oil and Gas Lease dated June 27, 1950, from Robert L. Gaston and wife, Edith Gaston, as Lessors, to John F. Sullivan, as lessee, embracing among other lands, the SE/4 SW/4 and the East 40 rods of the South 30 rods of the NE/4 SW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M., containing 47 acres.

c. Oil and Gas Lease dated June 27, 1950, executed by Mary Katherine Heiser, as lessor, to John F. Sullivan, as lessee, embracing among other lands, the NE/4 NW/4 and the North 7.5 acres of the SE/4 NW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M., containing 47.5 acres.

The three leases described above cover approximately 174 acres in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M.

Your Applicant further represents the following:

That Pacific Northwest Pipeline Corporation is the present owner and holder of leasehold rights or operating rights under the following described Oil and Gas Leases all embracing lands located in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., San Juan County, New Mexico:

a. Oil and Gas Lease dated June 1, 1953, from Denver & Rio Grande Western Railroad Company, as lessor, to Phillips Petroleum Company, as lessee.

b. Oil and Gas Lease dated December 11, 1951, from Katherine Hendricks, a widow, et al, as lessors, to H. C. Wynne, as lessee.

c. United States Oil and Gas Lease Serial Number Santa Fe 079625, dated September 1, 1949, from the United States of America as lessor, to Hazle L. Gentle, as lessee.

d. Oil and Gas Lease dated April 22, 1954, from Edward E. Miller and Lena A. Miller, as lessors, to Phillips Petroleum Company, as lessee.

CASE 1001 - CONT'D.

That said leases cover approximately 103 acres in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M.

That Saul A. Yager, M. E. Gimp, Sam Mizel, Morris Mizel and Marian Cohn, (hereafter termed "Yager, et al") are the owners of all the oil, gas and other minerals underlying the NW/4 NW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M., and that this mineral interest is unleased.

That Mr. Dave Clark, whose address is R.F.D., Aztec, New Mexico, is the owner of 3 acres of land lying West of the right of way of State Highway 550, as it runs on the South side of the N/2 SW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M.

Your Applicant has attached hereto as Exhibit "A" to this Application, a plat showing the ownership in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M.

That Yager, et al, owners of the mineral interest under the NW/4 NW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M., have been contacted and requested to communitize their interest and pay their proportionate share of the costs of a Mesaverde well to be drilled on the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M. Yager, et al, have refused to join in any Communitization Agreement unless your Applicant paid all costs and recovered the portion attributable to Yager, et al, from subsequent production, if said well shall be productive.

That Dave Clark has refused to join in any Communitization Agreement and refused to lease his acreage unless the lessee would agree to drill a well thereon, from which he would receive 1/8 of all production.

That your Applicant and Pacific Northwest Pipeline Corporation desire to drill a well to be located on the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., and that they are ready, willing and able to pay their proportionate share of the costs.

That your Applicant represents that it has made diligent efforts to reach some agreement whereby the entire W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., could be dedicated to a Mesaverde gas well in accordance with the provisions of Order #R-110, as promulgated by this Commission, but that such efforts have been to no avail, inasmuch as Saul A. Yager, et al, and Dave Clark do not desire to enter into a Communitization Agreement covering said acreage on a basis which would be mutually satisfactory to all concerned.

Your Applicant respectfully requests that an appropriate order be entered by the Commission authorizing an unorthodox spacing unit and gas proration unit to consist of 277 acres in the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., said unorthodox spacing unit would include all of the W/2 of Section 15, except the NW/4 NW/4 and 3 acres located on the South side of the N/2 SW/4 of Section 15, Township 32 North, Range 10 West, N.M.P.M. In the alternative, your Applicant requests that if the above relief is not granted by the Commission, the Commission enter its order pooling the W/2 of Section 15, Township 32 North, Range 10 West, N.M.P.M., containing 320 acres, more or less, into an orthodox spacing unit and gas proration unit.

Respectfully submitted,
EL PASO NATURAL GAS COMPANY

By Ben R. Howell
Attorney

PLAT ON FILE NMOCC, SANTA FE

NEW MEXICO OIL & GAS ENGR. COMMITTEE
HOBBS, NEW MEXICO
December 30, 1955

Recommendations on Cases 1000, 1001.

1. We should force communitization on W/2 15 - 32N-10W including Clarke 3 acres.

2. We should find that 1 well will drain the 320 acres.

3. On Ext. allowables based on an Ext. del. of this well of 436 MCFD the well should pay out at 6% interest on the unpaid balance, including operating cost, in 8 years if 7/8 of 4/8 is applied to 4/8 of well cost. Let 6 years if 100% of 4/8 is applied to cost of well - I believe 100% of 4/8 of production should be applied to the well cost, but I don't know if we have the authority to dictate the terms of the agreement.

4. We should require that the operator supply us with certified report on drill costs to be used if we have to determine the cost in case of disputed costs.

5. We should deny EPS application for 277 acre non-standard unit.

1000 - 1001

A well drilled : 3 acre would receive an Est. allowable of 3/320 or .9375 of an allowable. Based on 8 month average allowable for a well of 936 MCF in Del. - the allowable would be. 2962 per year with a gross Income of $295.49. with no operating cost or interest on the cost of Drilling the $70,000 well it would pay out in 236 years.

Cuen 1000 - 1001

On the Basis of 4 closest wells in this tract which have an average I.P. of 2224. and 8 which will have an average D.P. of 451 MCFD. Based on this Estimated Del. and allowables on a well with this deliverability for the 1st 8 month of Production Schedule of payout would be as follows:

year	Est. Allowable @ 10.8375%	* All. @ .12 MCF	Interest/yr.	Principle Bal. @ 6% + 3.00% Spatiality coff.
				$8,750
1	136,875	$1796	529.98	7,567
2	130,000	1706	459.00	6403
3	122,000	1601	389.16	5674
4	115,000	1509	345.42	4625
5	108,600	1425	285.66	3627
6	101,000	1325	222.30	2603
7	93,000	1220	161.16	1627
8	86,000	1128	102.60	695
9	79,000	1036	46.68	+ 21
10	72,000	945	2541.96	

* Based on 7/8 of 9/8 to be withheld, since he owns 100% of unit I believe all this should apply to retiring Principle.

Well cost $70,000. shall would be $8750. @ 6% interest on Principal balance discounted annually and 40% of gross cost. The $8750. will be retired in 8 yrs pending Cost Estimated at 53% year for 8 yrs. cost on 5.5 per month for the 8 yrs. well.

Estimated Payout of Gas per K.U. on the Basis of 1/8 Royalty Allowable.

years	Est. allowable	12.5% or All. @ .12 MCF (.0150)	8% interest yr.	Balance Pumps #8372.
1	136,875	$2053	507.30	6910
2	130,000	1950	419.58	5463
3	122,000	1830	332.76	4099
4	115,000	1725	237.96	2479
5	108,600	1629	153.72	1201
6	101,000	1515	77.04	+ 153
7	93,000	1395	1728.36	
8	86,000	1290		
9	79,000	1185		
10	72,000	1080		

*Actual cost of our 2 P's est. $6,972, 1/5 = $8372.
Est cost of Operation 55.00 per mo. $660.00 yr. 1/5 = 83.00 yr.

Saving to Payer of about $770 interest.

Case 1000 & 1001

1. Are your familiar with the geology of Blanco-Mesaverde pool and the producing characteristics of wells in this pool?

2. Do you believe that one well will efficiently & economically drain 320 acres in this Pool.

3. Do you believe that a well drilled in the SW/4 on 320 acres which will receive 3/320 or .9375% of a 320 acres allowable would be an unnecessary well & thereby constitute waste? (12-7 amended Laws of 1949, Chapter 168)

4. Do you believe one well drilled to the Mesaverde formation will efficiently & economically drain the W/2 of 15-32N-10W in the ~~Mesaverde formation~~.

2 W. Bidick

Land Man for E.P.N.G.

5265 - 5610

Hieges R.U. Cost 63,610.50 all charges
Supervision is a direct charge to well.
The Annual Overhead cost. 250.00 during drilling
450 mo for operating.
S.J. 27-4, 27-5, 28-9, 28-7, 28-9, 29-5,
29-6 - 29-7 30-4 - 30-5 30-6.
31-6 - 32-9, 32-8. Colo-mexican
Huerfano. & Lindrith.
66,277.00 Total direct & overhead, for well.
San J. 32-9 unit

Does, 45.00 operating cost include, Field operating cost, office, supervision, any other overheads. charges. A. B. no cost only. Would be based on actual expenditure ~~An~~ Actual expenditure.
Do you know of any Dry Holes in ~~well~~ Extra M.V. & A. Mo.?

Standard

436 EE Elbert #3

BH 26309

Cum. all. ~~50,656~~ ~~69,058~~ ~~97,693~~ = ~~[illegible]~~ 375 / 321

215

385 x 365 = 136,875

136,875 x 10.9375 = 14,970

14,970 x .12 = $1796.00 per year

Well at 70,000 x .125 = 8,750

$8,750 / $1796. = 4.87 yrs to pay out without Interest or operating Expenses

A1

9.

SUPPLEMENTAL DOCKET

REGULAR HEARING NOVEMBER 16, 1955

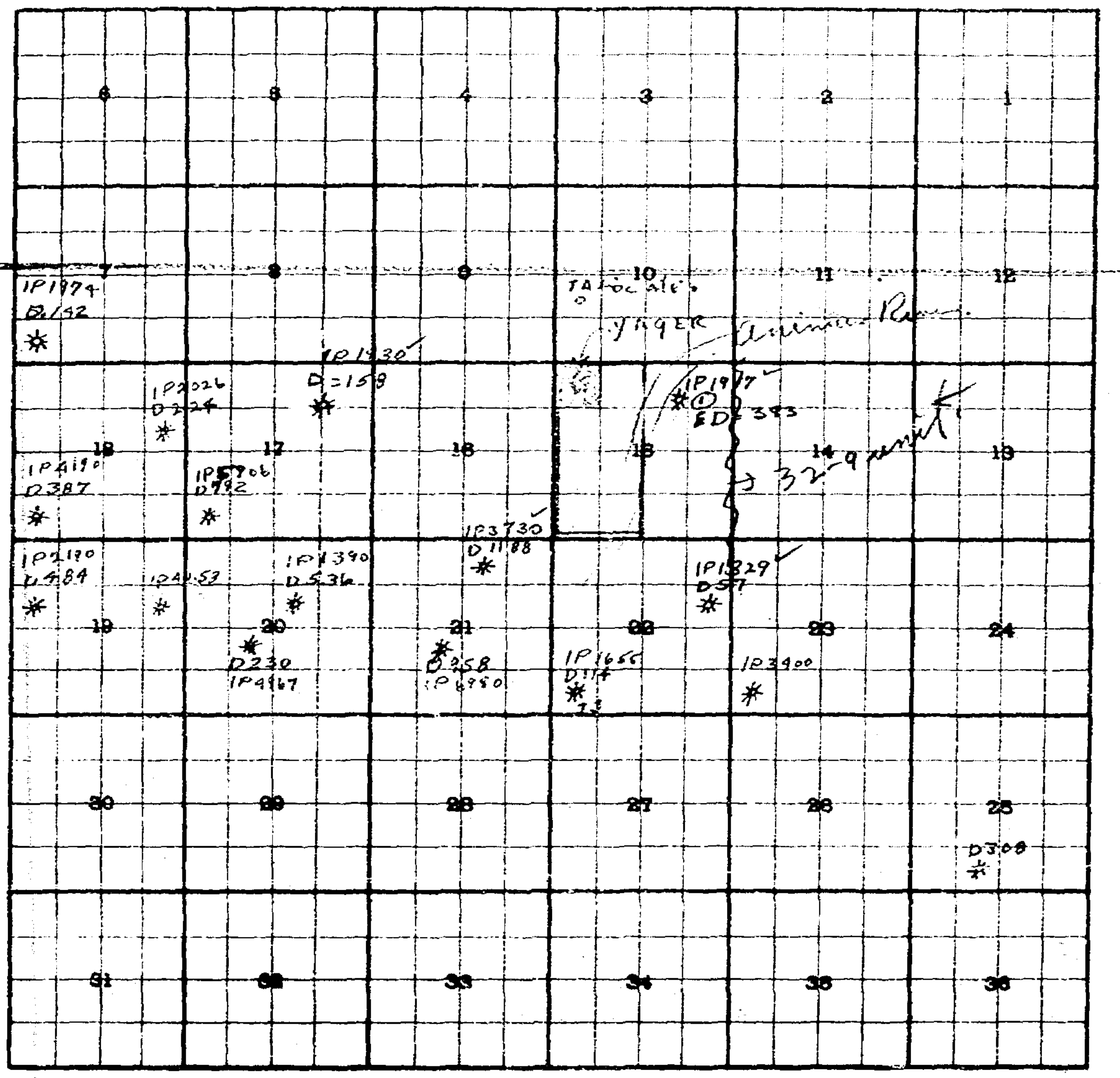
N. M. Oil Conservation Commission 9 a. m., Mabry Hall, State Capitol, Santa Fe

CASE 978: Application of Phillips Petroleum Company for an order pooling the rights and interests of all persons having the right to drill for, produce or share in the production of gas from the Devonian formation underlying the SE/4 Section 28, Township 25 South, Range 37 East, Lea County, New Mexico, in the Crosby-Devonian Gas Pool.

County San Juan Pool Blanco M.V.

Case 1000

TOWNSHIP 32 ~~South~~, RANGE 10 W ~~East~~, NEW MEXICO PRINCIPAL MERIDIAN



(1) E.P. - Heizer Pooled unit - #1

1190/N, 1450/E T.D. 5265, T.P. 4576, casing line 4210

I.P. 1917 D = none.

Wants 7/8 of 1/8 withheld to pay share of well. (7/64) .109375%

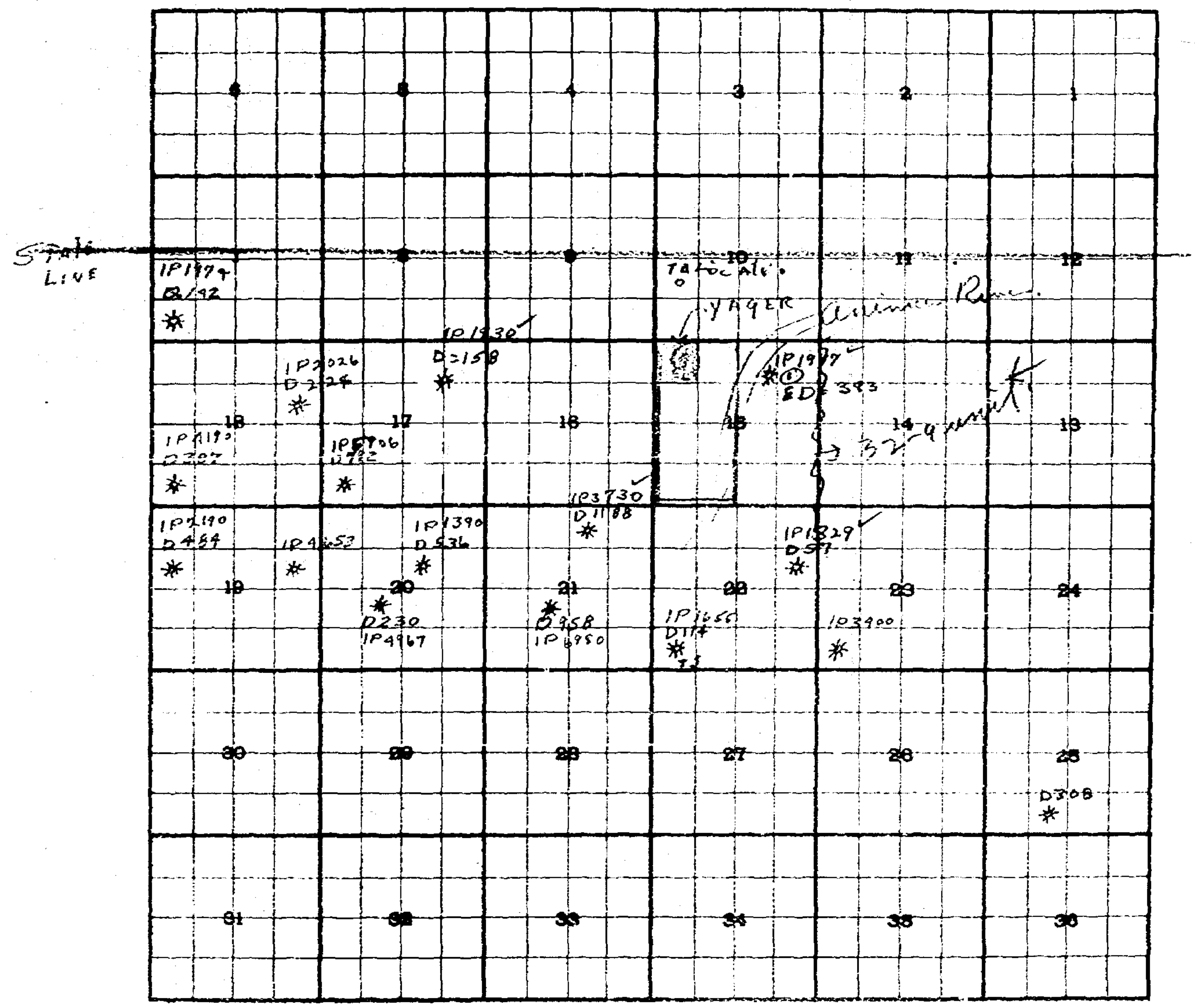
7 wells Total I.P. 15596/7 = 2224

3 " " D 1353/3 = 451 = 20% of I.P.

County San Juan Pool Blanco M.V.

Case 1000

TOWNSHIP 32 North, RANGE 10 W, NEW MEXICO PRINCIPAL MERIDIAN



① E.P. – Heizer Pooled unit – #1

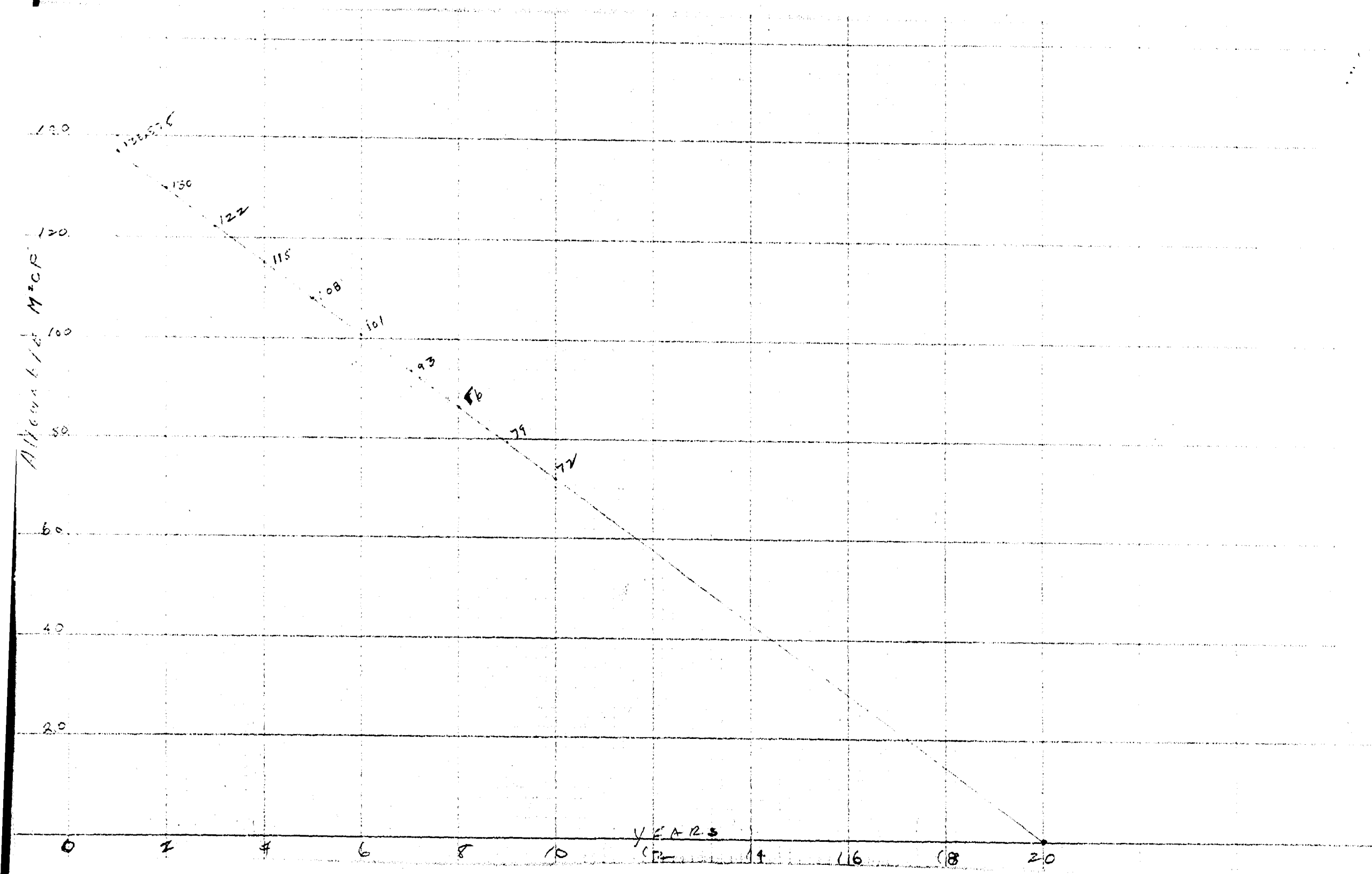
1190/N, 1950/E T.D. 5265, T.P. 4576, casing size 4240

I.P. 1917 D = none

[illegible] 7/8 of 1/8 [illegible] of well. (7/64) .109375%

4 wells Total I.P. 8896/4 = 2224

3 " " D 1403/3 = 451 = 20% of I.P.


140
120
100
80
60
40
20
MCF
0
2
4
6
8
10
12
14
16
18
20
YEARS
130
122
115
108
101
93
86
79
72
b