

CASE 1028: Monsanto Chemical Co. **T**
Application for approval of unit agreement
for development of So. Mescalero Unit

17

Case No.

1028

Application, Transcript,
Small Exhibits, Etc.

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

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

CASE NO. _____

THE APPLICATION OF MONSANTO
CHEMICAL COMPANY FOR APPROVAL OF THE
SOUTH MESCALERO UNIT AGREEMENT
EMBRACING 480 ACRES, MORE OR LESS,
LEA COUNTY, NEW MEXICO, WITHIN
TWP. 10 S., RGE. 32 E., N.M.P.M.

New Mexico Oil Conservation Commission
Santa Fe, New Mexico

Come: the undersigned, the Monsanto Chemical Company, a corporation with offices at El Dorado, Arkansas, and files herewith three copies of the proposed Unit Agreement for the Development and Operation of the South Mescalero Unit Area, Lea County, New Mexico, and hereby makes application for the approval of said Unit Agreement as provided by law, and in support thereof, shows:

1. That the proposed unit area covered by said agreement embraces 480 acres, more or less, more particularly described as follows:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

T. 10 S., R. 32 E.

Sec. 34: W $\frac{1}{2}$, 22 $\frac{1}{2}$

2. That the lands embraced within the proposed unit area are all State lands.

3. That applicant is informed and believes, and upon such information and belief, states: That the proposed unit area covers substantially all of the geological feature involved, and in the event of the discovery of oil or gas thereon, that said unit agreement will permit the producing area to be developed and operated in the interest of conservation and the prevention of waste of the unitized substances.

4. That the Monsanto Chemical Company is designated as unit operator in said unit agreement, and as such is given authority under the terms thereof to carry on all operations necessary for the development and operation of the unit area for oil and gas, subject to all applicable laws and regulations. That said unit agreement provides for the commencement of a test well for oil and gas upon some part of

the lands embraced in the unit area within 90 days from the effective date of the unit agreement and for the drilling thereof with due diligence, to a depth sufficient to test the Devonian formation or to such a depth as unitized substances shall be discovered in paying quantities if at a lesser depth; provided, however, operator is not required in any event to drill said well to a depth in excess of 11,000 feet.

5. That said unit agreement is in substantially the same form as unit agreements heretofore approved by the Commissioner of Public Lands of the State of New Mexico and by the New Mexico Oil Conservation Commission, and it is believed that in the event oil or gas in paying quantities is discovered on the lands within the unit area, that the field or area can be developed more economically and efficiently under the terms of said agreement, to the end that the maximum recovery will be obtained, and that said unit agreement is in the interest of the conservation of oil and gas and the prevention of waste as contemplated by the New Mexico Oil Conservation Commission statutes.

6. That application is being made for the approval of said unit agreement by the Commissioner of Public Lands of the State of New Mexico.

7. That upon an order being entered by the New Mexico Oil Conservation Commission approving said unit agreement and after approval thereof by the Commissioner of Public Lands of the State of New Mexico, an approved copy thereof will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the undersigned applicant respectfully requests that a public hearing be held on the matter of the approval of said unit agreement and that upon said hearing, said unit agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and prevention of waste.

DATED this the 7th day of February, 1956.

Respectfully submitted,

MONSANTO CHEMICAL COMPANY

By Wm. H. Wilson
Regional Manager
Lions Oil Company Division

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SOUTH MESCALERO UNIT AREA
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the _____ day of _____, 1956, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico (hereinafter referred to as "Commissioner") is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 7, Art. 11, Sec. 39, N.M. Statutes 1953 Annotated), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951; Chap. 7, Art. 11, Sec. 41 N.M. Statutes 1953 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by an Act of the Legislature (Chap. 72, Laws 1935; Chap. 65, Art. 3, Sec. 14 N.M. Statutes 1953 Annotated), to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the

South Mesalero Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth.

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

T. 10 S., R. 32 E.

Sec. 34: W $\frac{1}{2}$, SE $\frac{1}{4}$

containing 480 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in ownership in the unit area render such revision necessary, or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES. All oil, gas, natural gasoline and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein

are called "unitized substances".

3. UNIT OPERATOR. Monsanto Chemical Company, a corporation, of _____, _____, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time but such resignation shall not become effective until a successor Unit Operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

The resignation or removal of the Unit Operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations

hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

5. SUCCESSION UNIT OPERATOR. Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor Unit Operator; provided that, if a majority but less than seventy-five (75%) percent of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five (75%) percent of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS. The Unit Operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement by and between the Unit Operator and the other owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this Section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistencies or conflict between this unit

agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY. The Unit Operator shall, within 90 days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to test the Devonian formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of Unit Operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 11,000 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities, Unit Operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner, or until it is reasonably proven to the satisfaction of the Unit Operator that the unitized land is incapable of producing unitized

substances in paying quantities in the formations drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Failure to comply with the drilling provisions of this article shall automatically terminate this agreement as to all its terms, conditions and provisions and all rights, privileges and obligations granted by this unit agreement shall cease and terminate as of the date of any such default.

9. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provision contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

10. ALLOCATION OF PRODUCTION. All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tract of said unitized area.

11. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES. All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

If the Unit Operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

12. LEASES AND CONTRACTS CONFORMED AND EXTENDED INsofar AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA. The terms, conditions and provisions of all leases, sub-leases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of the lands committed to this agreement, shall, upon approval hereof by the Commissioner be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the length of the secondary term as to lands within such area will be extended insofar as necessary to coincide with the term of this agreement and the approval of this agreement by the Commissioner and the lessee shall, without further action of the Commissioner or the lessee, be effective to conform the provisions and extend the term of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein so long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws shall continue in full force and effect thereafter. The commencement, completion, operation or production of a well on any part of the unit area shall be respectively construed and considered as the commencement or completion or operation or production of a well within the terms and provisions of each of the oil

and gas leases to the same extent as though such commencement, completion, operation or production was carried on, conducted on or obtained from any such leased tract.

Any lease having only a portion of its lands committed hereto shall be segregated as to the portion committed and to the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if unitized substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of unitized substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as unitized substances in paying quantities are being produced from any portion of said lands.

13. **CONSERVATION.** Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State laws or regulations.

14. **DRAINAGE.** The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized lands by wells on lands not subject to this agreement.

15. **COVENANTS RUN WITH LAND.** The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest

until this agreement terminates, and any grant, transfer or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any working, royalty or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

16. **EFFECTIVE DATE AND TERM.** This agreement shall become effective upon approval by the Commissioner and shall terminate in two years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities, and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five (75%) percent on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner. Likewise, as provided in Section 8 hereof, the failure to comply with the drilling provisions of this unit agreement shall as of the date of any such default, automatically terminate this unit agreement.

17. **RATE OF PRODUCTION.** All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

18. **APPEARANCES.** Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of the Commissioner or

Commission or to apply for relief from any of said regulations or in any proceedings relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

19. **NOTICES.** All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given, if given in writing and personally delivered to the party or sent by postpaid registered mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

20. **UNAVOIDABLE DELAY.** All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, war, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

21. **LOSS OF TITLE.** In the event title to any tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the Unit Operator may withhold payment or delivery of the allocated portion of the unitized substances

involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

22. SUBSEQUENT JOINDER. Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development and operation. After operations are commenced hereunder, the right of subsequent joinder by a working interest owner shall be subject to all the requirements of any applicable operating agreement between the working interest owners relative to the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the filing with the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties before participating in any benefits hereunder shall be required to assume and pay to Unit Operator their proportionate share of the unit expense incurred prior to such party's or parties' joinder in the unit agreement, and the Unit Operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

23. COUNTERPARTS. 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 those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is

executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set opposite their signatures.

ATTEST:

MONSANTO CHEMICAL COMPANY

Secretary By _____ President

UNIT OPERATOR AND WORKING
INTEREST OWNER

VICKERS PETROLEUM COMPANY

ATTEST:

Secretary By _____ President

STATE OF _____ }
COUNTY OF _____ } ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1956, by _____ President of Monsanto Chemical Company, a corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

STATE OF _____ }
COUNTY OF _____ } ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1956, by _____ President of Vickers Petroleum Company, a corporation, on behalf of said corporation.

Notary Public

My Commission Expires:

EXHIBIT "B"

SOUTH MESCALERO UNIT AREA, LEA COUNTY, NEW MEXICO
 TOWNSHIP 10 SOUTH ----- RANGE 30 EAST
 SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND
 GAS INTERESTS IN ALL LANDS IN THE UNIT AREA

Tract	Description of Land	No. of Acres	State Lease No. and Date	Base Royalty and Percent	Lessee of Record	Overriding Royalty and Percent	Working Interest Owner
1.	<u>T. 10 S., R. 30 E.</u> <u>Sec. 34; V₂</u>	320.00	E-9033 5-17-55	State - All	Monsanto Chemical Company (formerly Lion Oil Company)	None	Monsanto Chemical Company
2.	<u>T. 10 S., R. 30 E.</u> <u>Sec. 34; NE₁</u>	150.00	B-11586 11-10-54	State - All	Vickers Petroleum Company	None	Vickers Petroleum Company

Total, 2 State Tracts, containing 480 acres,
 South Mesalero Unit Area, Lea County, New
 Mexico

CERTIFICATE OF APPROVAL
BY COMMISSIONER OF PUBLIC LANDS,
STATE OF NEW MEXICO
OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION
OF SOUTH MESCALERO UNIT AREA
LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, an agreement for the development and operation of the South Mescalero Unit Area, Lea County, New Mexico, dated the _____ day of _____, 1956, in which the Monsanto Chemical Company is designated as Operator, and which has been executed by various parties owning and holding oil and gas leases embracing lands within the unit area, and upon examination of said Agreement, the Commissioner finds:

- (a) That such Agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said field;
- (b) That under the operations proposed, the State will receive its fair share of the recoverable oil or gas in place under its land in the area affected;
- (c) That the Agreement is in other respects for the best interest of the State;
- (d) That the Agreement provides for the unit operation of the field, for the allocation of production, and the sharing of proceeds from a part of the area covered by the Agreement on an acreage basis as specified in the Agreement.

NOW THEREFORE, by virtue of the authority conferred upon me by the Laws of the State of New Mexico, I, the undersigned Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the above referred to South Mescalero Unit Agreement as to the lands of the State of New Mexico committed thereto, and all oil and gas leases embracing lands of the State of New Mexico committed to said Agreement shall be and the same are hereby amended so that the provisions thereof will conform to the provisions of said Unit Agreement and so that the length of the secondary term of each such lease as to the lands within the unit area will be extended, insofar as necessary, to coincide with the terms of said Unit Agreement, and in the event the term of said Unit Agreement shall be extended as provided therein such extension shall also be effective to extend the term of each oil and gas lease embracing lands of the State of New Mexico committed to said Unit Agreement which would otherwise expire, so as to coincide with the extended term of such Unit Agreement.

IN WITNESS WHEREOF, this certificate of approval is executed as of this the _____ day of _____, 1956.

Commissioner of Public Lands of the
State of New Mexico

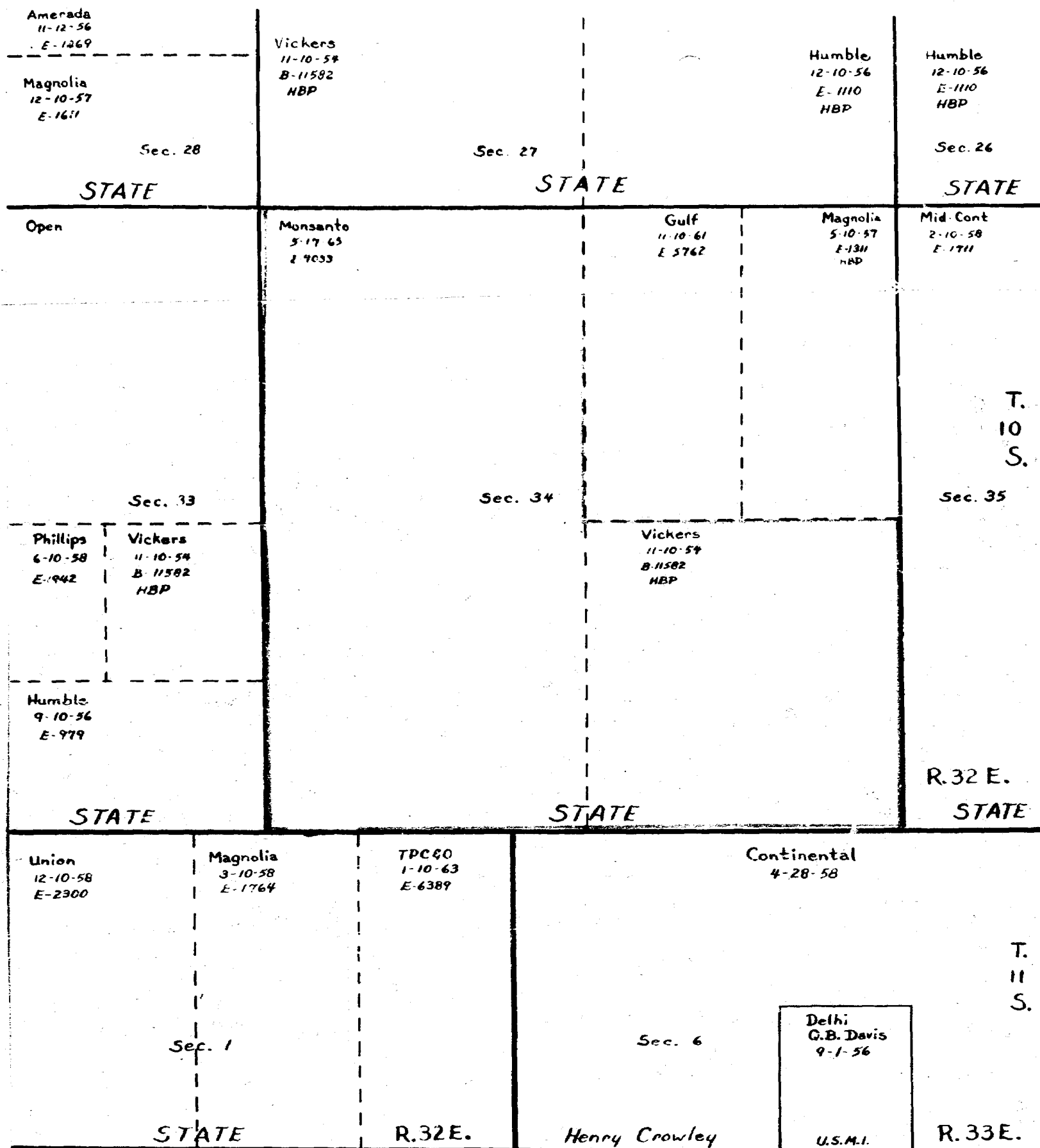


EXHIBIT A

PROPOSED SOUTH MESCALERO UNIT

SEC. 34, T. 10 S. R. 32 E.
LEA CO., N. MEX.

SCALE - 1" = 1000'
UNIT OUTLINE

1716
C
January 8, 1957

In reply refer to:
Unit Division

Lion Oil Co.
P. O. Box 1226
Roswell, New Mexico

Re: Termination of
South Mescalero Unit
Agreement -
W/2 and SE/4 of
Section 34-10S-32E
Lea County, N. Mex.

Attention: Mr. W. T. Leisk
District Landman

Gentlemen:

We are in receipt of your letter dated January 4, 1957, in which you advise us that Monsanto Chemical Company, the Operator of the South Mescalero Unit Agreement, considers this Unit terminated as of January 5, 1957.

Therefore, under the terms of Paragraph 8 of the Unit Agreement, we are terminating the South Mescalero Unit Agreement as of January 5, 1957, and our records will so indicate.

Very truly yours,

MURRAY E. MORGAN
Commissioner of Public Lands

MEM:MMR/m

cc: OCC-Santa Fe

cc.

F-1028

LION OIL COMPANY

A DIVISION OF MONSANTO CHEMICAL COMPANY



Mr. DUTRAC, ATTORNEY

October 5, 1956

West Texas District
P. O. Box 492
Snyder, Texas

Land Commissioner
P. O. Box 791
Santa Fe, New Mexico

Re: South Mesquite Unit, W $\frac{1}{2}$ & SE $\frac{1}{4}$
Sec. 34, T-10-S, R-33-E, Lea
County, New Mexico, Monsanto
Chemical Co., Operator, and
Vickers Petroleum Company

Dear Sir:

In accordance with Section 3, Paragraphs (a) and (b), of Order No. R-770 pertaining to the above captioned unit, we are furnishing the following information:

On April 3, 1956, State "F" No. 1, located 1980' FRL and 1986' FRL of Section 34, T-10-S, R-33-E, Lea County, New Mexico, was spotted. The well was drilled to a total depth of 18,673' and production in commercial quantities was not encountered; therefore the well was plugged and abandoned on July 5, 1956.

This unit is still under investigation in regard to further evaluation and development.

Yours very truly,

E. E. Hahlback
District Superintendent

LCI:lrh

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
March 7, 1956

IN THE MATTER OF:

Case No. 1028

TRANSCRIPT OF PROCEEDINGS

Application of Monsanto Chemical Company for an order granting approval of the South Mescalero Unit Agreement embracing 480 acres and covering the W/2 and the SE/4 of Section 34, Township 10 South, Range 32 East, Lea County, New Mexico.

Applicant, in the above-styled cause, seeks an order granting approval of its unit agreement for the development and operation of the South Mescalero Unit area, Lea County, New Mexico, said agreement having been entered into by the Monsanto Chemical Company, as operator, and the Vickers Petroleum Company; said unit covering an area consisting of all State of New Mexico lands and described as the W/2 and SE/4 Section 34, Township 10 South, Range 32 East.

BEFORE:

TRANSCRIPT OF HEARING

MR. HINKLE: If the Commission please, Clarence Hinkle, Hervey, Dow and Hinkle, Roswell, New Mexico, appearing on behalf of the Monsanto Chemical Company. We have one witness, Mr. Bill Clifton and I would like to have him sworn.

BILLY B. CLIFTON

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

DIRECT EXAMINATION

By MR. HINKLE:

Q. Repeat your name please.

A. Billy B. Clifton

Q. Where do you reside, Mr. Clifton?

A. Roswell, New Mexico.

Q. By what company are you employed?

A. Monsanto Chemical Company.

Q. How long have you been employed by the Monsanto Chemical Company?

A. Five years.

Q. Have you been employed by the Monsanto or the Lion Oil Company for five years?

A. Well, Lion Oil Company until Monsanto purchased Lion Oil Company, we are now a division of the Monsanto Oil Company.

Q. When was that purchase made?

A. In the latter part of 55. I don't remember the exact date.

Q. So you were really employed by the Lion Oil Company and it has been taken over by the Monsanto since that time?

A. Yes.

Q. In what capacity have you been employed?

A. I have been the geologist, the sub-surface geologist, and the past year I have been district geologist for the Roswell district.

Q. Are you a graduate geologist?

A. Yes, I graduated with a BA degree from the Texas Christian University in 1950, did graduate work at Tech Texas Technical College at Lubbock, Texas and received my MS degree in geology in 1954.

Q. Have you been practicing your profession ever since you graduated?

A. Yes sir.

Q. And how long have you been engaged in geological practice in New Mexico?

A. Two years.

Q. You are familiar with the oil development and the fields that have been developed particularly in Northern Lea County?

A. Yes sir.

Q. You have made a study of the area?

A. Yes sir.

Q. Are the qualifications acceptable?

MANKIN: The qualifications are acceptable.

Q. Are you familiar with the application which has been filed before the Commission by the Monsanto Chemical Company for pooling of the South Mesquero Unit?

A. Yes sir.

Q. Do you know whether or not a similar application has been filed for approval with the Commissioner of Public Lands?

A. Yes sir.

Q. Was there a geological report filed with the application for the permission?

A. Yes sir, there was.

Q. Mr. Clifton, I hand you Monsanto's Exhibit No. 1 and ask you to state what that is.

A. This is a general geological review and report of the proposed South Mescalero Unit. Monsanto is the owner of a lease containing 320 acres described as being the W/2 of Section 34, Township 10 South, Range 32 East, a brief discussion of the geology is included in this report and we have recommended to have a unit approved consisting of 480 acres to include this 320 of Monsanto's and a 160 acres of Vickers which is described as being the SE/4 of Section 34, Township 10 South, Range 32 East.

Q. May I interrupt you there. Is this all state land?

A. Yes. We have presented what we considered evidence that if this unit be approved that development would be taken and carried out in an orderly manner in the best interests of conservation. I believe that is general in the report here, I have been told two plates, one showing the general relationship of the proposed unit to the producing fields in the general area, entitled Exhibit "A" in this report. Exhibit "B" shows the geophysical interpretation that we deem correct in that general area. Monsanto carried on this geophysical work and completed it in 1955.

Q. And that is the geophysicists interpretation of the-----

A. Yes sir. The present space of the area.

Q. Does this proposed unit of 480 acres cover all or substantially all of the feature involved?

A. Yes sir, I believe it does.

Q. I believe you stated all the lands involved are state lands.

A. State lands.

Q. There are only two state leases involved?

A. Yes sir. Two state leases involved in the proposed unit.

Q. Are you familiar with the proposed form of unit agreement which was filed in connection with the application in this case?

A. Yes sir, I am.

Q. Do you know whether or not that form has been approved by the Commissioner of Public Lands?

A. Yes sir, it has.

Q. Do you know whether or not it is substantially the same form as other units approved by the Commissioner of Public Lands where all State lands are involved?

A. Yes sir, it is.

Q. Who is named in the unit agreement as the operator?

A. Monsanto Chemical Company.

Q. Does the unit agreement require the drilling of the first well?

A. Yes sir, it does.

Q. When is the well to be commenced?

A. Within 90 days after the effective date of the unit agreement.

Q. And to what depth is it to be drilled?

A. The well will be drilled to a depth deep enough to penetrate the Devonian formation and test the Devonian or if production is found at a lesser depth it is not necessary to penetrate the Devonian. Regardless of where the Devonian is encountered we have a maximum depth of 11,000 feet that this will have to be drilled.

Q. And in your opinion is that sufficient to test the Devonian formation of this particular area?

A. Yes sir, it is.

Q. Has there been any other development in that particular area, any producing wells?

A. Not in this immediate area, no.

Q. What is the closest field?

A. The Mescalero Field is approximately 1/2 mile to the north, the Moore Field is approximately 2 1/2 miles to the south.

Q. And you know by the wells which have been drilled in those fields that 11,000 feet is apt to test the Devonian formation in this particular case?

A. Yes.

Q. Did you state when the well was to be commenced?

A. The well will be commenced 90 days after the effective date of the unit agreement.

Q. Do you know whether or not the Vickers Petroleum Company, the owner of the other lease involved has agreed to join the unit?

A. Yes sir. They have agreed.

Q. Have they actually signed the unit agreement?

A. Yes sir.

Q. The unit agreement then has been executed by both Monsanto and Vickers?

A. Yes sir.

Q. And is ready to be filed or final approval obtained with the Commissioner of Public Lands as soon as it is approved by the Oil Conservation Commission.

A. Yes sir.

Q. Now, Mr. Clifton, state whether or not in your opinion, if this unit agreement is approved, that it will be in the interests of conservation and prevention of waste.

A. Yes sir, I believe it will.

Q. I would like to offer in evidence Exhibit 1.

MANKIN: Is there objection to the entering of Exhibit 1 in evidence in this case? If not it will be so entered. Mr. Clifton, I notice from Exhibit "A" which is a portion of your Exhibit 1, is that correct? That the fields adjoining this is the Mescalero-Devonian and Mescalero Pennsylvanian Fields.

A. Yes sir.

MANKIN: That is producing-----the Devonian Field in that particular area is producing from 9 to 10,000 feet and the Pennsylvanian is producing from 8 to 9,000 feet, is that correct?

A. Well, around 83 to 8500 from the Pennsylvanian and around 93 to 96 from the Devonian.

MANKIN: I see. I take it from that and from your structure map that you feel that the Devonian-----that you anticipate the Devonian at a deeper depth in the well to be located on this unit-----than was found in the Mescalero.

A. Yes sir, we do.

MANKIN: You anticipate that will be a separate structure?

A. Yes sir, I do.

MANKIN: As shown by your Exhibit "B"?

A. Yes sir.

MANKIN: Of course, you realize that there is production anywhere from 1/2 mile to a mile north northeast of this particular field----you don't anticipate that these two fields will join up--if will be a separate structure?

A. No, I don't.

UT2: Mr. Clifton, can you tell me whether Gulf and Magnolia in the northeast quarter of Section 34 were asked to participate in this unit or not?

A. Yes sir, we approached Gulf and they refused.

UTZ: In your opinion is the northeast quarter of this section a part of the geophysical picture?

A. Yes sir.

UTZ: So the unit does not actually cover the entire structure?

A. Not the entire structure, but a lower portion of the entire structure. We have attempted to obtain Gulf in this unit and they refused us so there was nothing else to do but attempt to get what we could in there.

HINKLE: I believe this will answer your question. Can you tell him why the Gulf refused the lease and why they didn't want to join the unit?

A. I imagine the best reason would be the Ashmun and Hilliard dry hole to the west.

UTZ: To the Pennsylvanian?

A. Yes sir.

UTZ: Actually your proposed unit does cover over 80% of the structure you interpreted?

A. Yes sir. I believe it will cover the majority of it.

UTZ: Mr. Clifton are you aware of the Commission's ruling or request that there is a 6-month activity report due the Commission on each unit?

A. A 6-month-----

UTZ: Activity report.

A. That doesn't mean your drilling of your wells in a 6-month period does it?

UTZ: No, that merely means that when we approve your unit you are obligated to make an activity report to the Commission each six months so that we will know what is going on in regard to the unit, what your drilling is, what your plans are and so forth.

A. Yes sir.

UTZ: I just want to get that correct. That's all I have.

MANKIN: Also to mention, Mr. Clifton, that when Gulf wasn't agreeable to joining the unit was Magnolia approached?

A. Magnolia was approached down south there but not there-----since Gulf would not go we just knew Magnolia would not go and if we couldn't get both of them there it was just useless to try.

MANKIN: So really they were not approached?

A. Magnolia was not approached, no.

MANKIN: Would there be provisions in your unit agreement if at some future date they desire to join in the unit---is that---would that be in a normal unit?

HUMBLE: No, this particular unit formed does not provide for expansion of the unit. The reason for that is that the last few units that have been approved on state acreage haven't contained that provision because practically it works out that the only way you can expand it is by 100% agreement anyway and what you have to do is to get everybody to approve it and support it---to the unit agreement plus the consent of the Commissioner of Public Lands so as a practical matter it can be expanded if all the parties are willing to agree to it and the Commissioner of Public Lands is willing to agree to it. That's the way it works out practically. So that provision for expansion has been eliminated in the last few of these unit agreements that cover only State land.

MANKIN: I also ask you Mr. Clifton, is this particular agreement, between all state lands, does it include a segregation clause? or is that necessary---in other words is this all of the leases involved here. I believe it is not, because I believe Vickers lease includes other leases that had production. Is there a segregation clause which is normally required by the State Land office?

A. Well, if Vickers had additional acreage in there, this is the only acreage in the unit, I am sure it is.

MANKIN: Was that presented to the State Land office --include a segregation clause?

A. Yes.

HINKLE: In that connection I would like to call the Commission's attention to -----

MANKIN: It is included there.

HINKLE: In Section 12, the last paragraph, it says "Any lease having only a portion of its lands committed hereto shall be segregated as to the portion committed and to the portion not committed".

MANKIN: So that would be agreeable to the state.

HINKLE: That's right.

MANKIN: I have only one other question, Mr. Clifton. In regard to the Ashmun and Hilliard dry hole. Do you anticipate, as a result of that dry hole, on your side of the picture that the Pennsylvanian will likely not be productive or do you feel that you have possibilities?

A. I feel that there is possibilities.

MANKIN: In other words that didn't void the entire unit as far as production from the Pennsylvanian-----

A. No, sir.

MANKIN: In addition to a good possibility for Devonian production?

A. In the Pennsylvanian its very erratic in its porosity development, it comes and goes and one well will certainly not condemn it.

MANKIN: You do have Pennsylvanian production on the south, I believe, you have had some in the Moore.

A. Yes sir. There are three or four wells in the Moore Field producing from the Permian Pennsylvanian and six wells in the Mescalero Field.

HINKLE: I would like to ask one or two more questions. Mr. Clifton, approximately what would be the cost of drilling a well on this unit to test the Devonian?

A. It would run close to \$200,000.

Q. Could that expenditure be justified in being more or less of a wildcat well, without forming this unit and getting additional acreage other than that owned by the Mescalero?

A. Mr. Hinkle, I don't believe it could, it is a small amount of acreage and drilling a high-priced well as that for the Devonian is your per acre evaluation is awfully high.

Q. Then by forming this unit, even though you can't get the cooperation of Gulf, you do develop a situation which allows enough acreage to be put together to justify the drilling of a deep Devonian well which would probably not otherwise be drilled?

A. Yes sir. That is right. We believe that with the amount of acreage here we can justify ourselves in drilling this well.

HINKLE: That's all.

MANKIN: Is there questions of the witness in this case? If not the witness may be excused and we will take the case under advisement. I might ask was there any particular time element concerned here?

HINKLE: Yes, we have ninety days I believe it is, under the terms of the unit within which to commence this well. They are ready to commence it just as soon as the Commission enters its order and the Commissioner approves the unit. And as has

been brought out to you, it has already been signed up and can be filed today and I have prepared here a proposed order for the Commission and anything that you can do to expedite the issuance of the order, if you see fit to approve it, will be appreciated so that they can start operations immediately.

MARKIN: If there is nothing further, we will take the case under advisement.

STATE OF NEW MEXICO)
) ss
COUNTY OF SANTA FE)

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

Dated at Santa Fe, New Mexico this 16th day of March, 1956.

Jean Hadley

OIL CONSERVATION COMMISSION
P. O. BOX 871
SANTA FE, NEW MEXICO

March 20, 1956

Mr. Clarence Hinkle
Harvey, Dew & Hinkle
P.O. Box 547
Roswell, New Mexico

Dear Sir:

In behalf of your client, Monsanto Chemical Company, we
enclose two copies of Order R-770 issued March 12, 1955, by the
Oil Conservation Commission in Case 102A, which was heard on
March 7th.

Very truly yours,

M. B. Macey
Secretary - Director

MMH:brp
Encs.

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Y

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 1028
Order No. R-770

THE APPLICATION OF MORGANTO
CHEMICAL COMPANY FOR APPROVAL
OF THE SOUTH MESCALERO UNIT
AGREEMENT EMBRACING 490 ACRES,
MORE OR LESS, IN LEA COUNTY,
NEW MEXICO, WITHIN TOWNSHIP 10
SOUTH, RANGE 32 EAST, NEPM.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m.,
on the 7th day of March, 1956, at Santa Fe, New Mexico, before
the Oil Conservation Commission of New Mexico, hereinafter
referred to as the "Commission".

NOW, on this 12th day of March 1956, the Commission,
a quorum being present, having considered said application and the
evidence introduced in support thereof, and being fully advised in
the premises,

FINDS:

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

(2) That the proposed unit plan will in principle
tend to promote the conservation of oil and gas and the prevention
of waste.

IT IS THEREFORE ORDERED:

SECTION 1. That this order shall be known as the

SOUTH MESCALERO UNIT AGREEMENT ORDER

SECTION 2) (a) That the project herein referred to
shall be known as the South Mescalero Unit Agreement, and shall
hereafter be referred to as the "Project".

(b) That the plan by which the Project
shall be operated shall be embraced in the form of a unit agreement
for the development and operation of the South Mescalero Unit Area
referred to in the Petitioner's petition and filed with said petition,
and such plan shall be known as the South Mescalero Unit Agreement
Plan.

SECTION 3. (a) That the South Mescalero Unit Agreement Plan shall be, and hereby is, approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing in any manner any right, duties or obligation which are now, or may hereafter, be vested in the New Mexico Oil Conservation Commission by law relative to the supervision and control of operations for exploration and development of any lands committed to said South Mescalero Unit Agreement, or relative to the production of oil or gas therefrom.

(b) That the Unit Operator periodically shall file with the Commission a South Mescalero Unit Statement of Progress summarizing operations for the exploration and development of any lands committed to said South Mescalero Unit Agreement. This statement of progress shall be filed within 30 days after the expiration of each six-months period during the term of the Unit Agreement, and shall contain such pertinent data as may be necessary for the Commission to determine the progress being made in the South Mescalero Unit Area.

SECTION 4. That the Unit Area shall be:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

TOWNSHIP 10 SOUTH, RANGE 32 EAST
Section 34: W/2, SE/4

containing 480 acres, more or less.

SECTION 5. That the unit operator shall file with the Commission an executed original or executed counterpart of the South Mescalero Unit Agreement within 30 days after the effective date thereof.

SECTION 6. That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the effective date thereof may thereafter become a party thereto by subscribing to such agreement or counterpart thereof, or by ratifying the same. The unit operator shall file with the Commission within 30 days an original of any such counterpart or ratification.

SECTION 7. That this order shall become effective upon approval of said unit agreement by the Commissioner of Public Lands of the State of New Mexico and shall terminate ipso facto upon the termination of said unit agreement. The last unit operator shall immediately notify the Commissioner in writing of such termination.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

John F. Sims
JOHN F. SIMS, Chairman

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

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

