

CASE 1173: Skelly Oil Company  
~~Sombrero Unit~~ *Sombrero Unit*

Case No.

1173

Application, Transcript,  
Small Exhibits, Etc.

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

March 28, 1958

Shelly Oil Company  
Box 1650  
Tulsa 2, Oklahoma

Attention: T. F. Thompson

Re: Sombroso Unit Area  
Lea County, New Mexico  
1958 Plan of Development

Gentlemen:

This is to advise that the New Mexico Oil Conservation Commission has this date approved the 1958 Plan of Development for the Sombroso Unit Area, dated February 11, 1958, subject to like approval by the Commissioner of Public Lands of the State of New Mexico.

One approved copy of the Plan is returned herewith.

Very truly yours,

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

ALP/RLS/ir

Enclosure

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## SKELLY OIL COMPANY

### LAND AND LEASE DEPARTMENT

A. L. CASHMAN, VICE PRESIDENT  
D. N. HILL, MGR. CENTRAL DIVISION  
A. J. O'ROURKE, MGR. NORTHERN DIVISION  
W. W. SIMPSON, MGR. SOUTHERN DIVISION  
T. F. THOMPSON, MGR. LEASE RECORDS

TULSA 2, OKLAHOMA

February 11, 1958

Lease No. 58630 - Sombrero Unit  
E2 Section 11 and W2  
Section 12-16S-33E  
Lea County, New Mexico  
PLAN OF DEVELOPMENT

Commissioner of Public Lands  
of the State of New Mexico  
Capitol Annex Building  
Santa Fe, New Mexico  
Att: Unit Division

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

Gentlemen:

Section 3-A of the Sombrero Unit Agreement provides for the submission and approval of an acceptable Plan of Development and Operation within six (6) months from the date of completion of a well capable of producing unitized substances in paying quantities. Pursuant to our request of August 8, 1957, you granted us an extension of time for the filing of a Plan of Development until February 14, 1958.

The cumulative production from this well to date is 136,619 MCF with a total recovery of distillate of 13,764 barrels. The original pressure was taken on this well after a shut-in period of sixty-eight (68) hours for 6,869 p.s.i.g. The last pressure taken was on October 18, 1957, after a seventy-two (72) hour shut-in period for 5,850 p.s.i.g.

Production to date has been solely for drilling purposes, however, we have now entered into a Gas Purchase Contract dated

Page 2  
February 11, 1958

October 28, 1957, covering the sale of this gas to Phillips Petroleum Company which contract runs for a term of ten years, and on a month to month basis thereafter. Phillips has agreed to take or pay for gas within six (6) months from the date of said contract, however, we have been advised that completion of facilities for marketing this gas should be completed prior to that time. We therefore anticipate a continuous market for the production from this well some time prior to April 28, 1958.

With such a thin section of pay in a well drilled to approximately 13,200' and with the present pressure-production history on this well, we do not feel justified in recommending any further development on this unit. However, further pressure-production history, after a permanent gas connection is made, could change our opinion.

In view of the above, Skelly Oil Company, as operator, proposes that no additional drilling be had on the unit area for the period from February 14, 1958, to February 14, 1959. Prior to the expiration of the period covered by this Plan of Development, we will file another Plan of Development based on such additional data which will be available to us during the period of this Plan.

Please signify your approval of this Plan of Development in the space provided below and return one approved copy to us.

Yours very truly,

SKELLY OIL COMPANY

By:

  
T. F. Thompson

Approved: \_\_\_\_\_  
Commissioner of Public Lands

Date: \_\_\_\_\_

Subject to Like Approval by The Oil Conservation Commissioner

Approved:   
Oil Conservation Commissioner

Date: 3/28/58

Subject to Like Approval by The Commissioner of Public Lands

MAIN OFFICE OCC

1957 SEP 4 AM 7:48

September 3, 1957

In reply refer to:  
Unit Division

Skelly Oil Company  
Tulsa 2, Oklahoma

Re: Sombrero Unit

Attention: Mr. T. F. Thompson

Gentlemen:

We are enclosing one copy of your request for Extension of Time ~~for~~ filing a Plan of Development for the Sombrero Unit, which was approved by the Commissioner of Public Lands September 3, 1957.

This approval is subject to the Plan of Development requiring the commencing of another well within thirty days from February 14, 1958.

Very truly yours,

MURRAY E. MORGAN  
Commissioner of Public Lands

By: Ted Bilberry, Supervisor  
Oil and Gas Department

MEM:MMR/m  
Enc: 1

cc: OCC-Santa Fe

*file 117*

In reply refer to:  
Unit Division

May 19, 1959

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Skelly Oil Company  
P. O. Box 1650  
Tulsa 2, Oklahoma

ATTENTION: Mr. George W. Selinger

Gentlemen:

We wish to advise you that in reference to our telephone conversation of this date, and in regard to your letter dated May 12, 1959 we are amending our letter to Skelly Oil Company dated May 12, 1959.

The Sombbrero Unit will be terminated June 8, 1959, however, in the event the Oil Conservation Commission has not issued an order on Skelly's application for establishment of a 640 acre drilling and spacing unit by this date, termination of the Sombbrero Unit will be delayed pending the action and decision of the Oil Conservation Commission on the 640 acre spacing application.

I am sorry for the concern this has caused you, and it was our intention that the termination date would fall after the Oil Conservation Commission order was issued.

Very truly yours,  
MURRAY E. MORGAN  
Commissioner of Public Lands

BY:  
Ted Bilberry, Supervisor  
Oil and Gas Division

MEM/TEH/m

OIL CONSERVATION COMMISSION

HOBBS, NEW MEXICO

June 19, 1958

Case 1173

file

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Mr. J. N. Dunlavey  
Skelly Oil Co.  
Box 33  
Hobbs, New Mexico

Dear Mr. Dunlavey:

I have at hand a copy of the Land Office's approval to flare gas from your Sombrero Unit Well No. 1-E, Section 12, T-16-S, R-33-E contingent upon approval of this office, and your request of June 3, 1958.

Approval to flare gas for testing purposes is hereby granted for a period not to exceed 30 days and a volume not to exceed 700 MCFGPD.

Yours very truly,

OIL CONSERVATION COMMISSION

R. F. Montgomery  
Proration Manager

RFM/mc

cc-A. L. Porter, Jr., Director  
OCC, Santa Fe

Ted Bilberry  
SLO, Santa Fe



In reply refer to:  
Unit Division

June 16, 1958

File  
1173

Skelly Oil Company  
Box 38  
Hobbs, New Mexico

Re: Sombrero Unit  
E/2 Sec. 11, W/2 of  
Sec 12- 16-S-33E  
Lea County, New Mexico

Attention: Mr. J. H. Dunlavey

Gentlemen:

We will have no objections to your venting the gas from the Sombrero Well No 1, as requested in your letter of June 10, 1958, providing you have the consent and approval of the New Mexico Oil Conservation Commission.

Very truly yours,

MURRAY E. MORGAN  
Commissioner of Public Lands

BY:  
Ted Bilberry, Supervisor  
Oil and Gas Division

MEM/MMR/s  
cc:

OCC - Santa Fe ✓  
OCC - Hobbs

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In reply refer to:  
Unit Agreement

April 11, 1958

Skelly Oil Company  
Tulsa 2, Oklahoma

*Core 1173*

Re: Sombrero Unit  
Lea County, New Mexico

Attention: Mr. T. F. Thompson

Gentlemen:

We are enclosing one approved copy of your application dated February 11, 1955. This application has been amended to provide for an extension of time in which to submit a Plan of Development.

Section 3-A of the Unit Agreement specifically states and specifies what a Plan of Development must contain, however, this same section does not limit the extension of time the Commissioner may grant for submission of an initial plan of development, other than stating he is authorized to grant a "reasonable" extension where such action is justified by circumstances.

Therefore, in view of the above, the Commissioner of Public Lands is approving an extension of time in which to file an initial Plan of Development for the period from February 14, 1958, to February 14, 1959.

Very truly yours,

MURRAY E. MORGAN,  
Commissioner of Public Lands

BY:

Ted Bilberry, Supervisor  
Oil and Gas Division

MEM/MMR/s

cc: Oil Conservation Commission  
Box 871  
Santa Fe, New Mexico

MAIN OFFICE OCC

1957 AUG 15 AM 8:21

August 14, 1957

11/11/73

In reply refer to:  
Unit Division

Skelly Oil Company  
Tulsa 2, Oklahoma

Attention: Mr. T. F. Thompson

Re: Sombrero Unit Agreement -  
Request for Extension of Time  
for Filing Plan of Development

Gentlemen:

We have received your request for an extension to July 1, 1958, under Section 3-A of the Sombrero Unit Agreement.

Section 3-A provides within six (6) months after the completion of a well capable of producing in paying quantities, Skelly shall submit an acceptable plan of development and operation, therefore, that would be six months from February 14, 1957; which is on your C-105 as the completion date of this well, that date being August 14, 1957.

We feel that your request for an extension to July 1, 1958, or for one year, is not a reasonable extension.

We would consider a six months extension ample and that the plan of further development which is submitted at that time should call for the commencing of another well within thirty days from the submission of your plan of further development. This would be granting you a seven months extension in which to start drilling another well.

Very truly yours,

MURRAY E. MORGAN  
Commissioner of Public Lands

By: Ted Bilberry, Supervisor  
Oil and Gas Department

TMMR/m

: OCC-Santa Fe

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:

CASE NO. 1173  
Order No. R-922

THE APPLICATION OF SKELLY OIL  
COMPANY FOR THE APPROVAL OF ITS  
SOMBRERO UNIT AGREEMENT EMBRACING  
640 ACRES, MORE OR LESS, LOCATED  
IN TOWNSHIP 16 SOUTH, RANGE 33  
EAST, NMPM, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 o'clock a.m.  
on November 13, 1956 at Santa Fe, New Mexico, before the Oil  
Conservation Commission of New Mexico, hereinafter referred to as  
the "Commission".

NOW, on this 27<sup>th</sup> day of November, 1956, the Commission,  
a quorum being present, having considered the evidence adduced, 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:

1. That this order shall be known as the

SOMBRERO UNIT AGREEMENT ORDER

2. (a) That the project herein referred to shall be  
known as the Sombrero Unit Agreement and shall hereinafter 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 Sombrero Unit Area, referred to in  
the Petitioner's petition and filed with said petition, and such

plan shall be known as the Sombbrero Unit Agreement Plan.

3. That the Sombbrero 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 obligations 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 Sombbrero Unit Agreement, or relative to the production of oil and gas therefrom.

4. (a) That the unit area shall be:

NEW MEXICO PRINCIPAL MERIDIAN

TOWNSHIP 16 SOUTH, RANGE 33 EAST

Section 11: E/2

Section 12: W/2

all in Lea County, New Mexico, containing 640 acres more or less.

(b) The unit area may be enlarged or contracted as provided in said Plan.

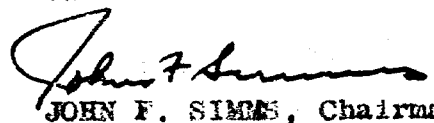
5. That the unit operator shall file with the Commission an executed original or executed counterpart of the Sombbrero Unit Agreement within 30 days after the effective date thereof.


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.

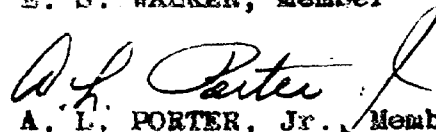
7. That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and shall terminate *ipso facto* upon the termination of said unit agreement. The last unit operator shall immediately notify the Commission in writing of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

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
JOHN F. SIMMES, Chairman

  
E. S. WALKER, Member

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



BEFORE THE  
**Oil Conservation Commission**  
SANTA FE, NEW MEXICO

IN THE MATTER OF:

CASE NO. 1173

**TRANSCRIPT OF PROCEEDINGS**

**DEARNLEY-MEIER AND ASSOCIATES**  
COURT REPORTERS  
605 SIMMS BUILDING  
TELEPHONE 3-6691  
ALBUQUERQUE, NEW MEXICO

BEFORE THE  
OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO  
NOVEMBER 13, 1956

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IN THE MATTER OF:

Application of Skelly Oil Company for an order grant-  
ing approval of its proposed Sombero Unit, Lea County,  
New Mexico. Applicant, in the above-styled cause, : Case  
seeks an order granting approval of its proposed Som- : No.  
bero Unit containing 640 acres comprising the E/2 of : 1173  
Section 11 and the W/2 of Section 12, Township 16  
South, Range 33 East, Lea County, New Mexico. The  
unit consists entirely of State of New Mexico lands.

BEFORE:

Mr. A. L. Porter  
Mr. E. S. (Johnny) Walker

TRANSCRIPT OF PROCEEDINGS

MR. PORTER: We will consider next Case No. 1173.

Mr. Gurley, would you read the case?

MR. GURLEY: Application of Skelly Oil Company for an order  
granting approval of its proposed Sombero Unit, Lea County, New  
Mexico.

W. E. STEWART

a witness, of lawful age, having been first duly sworn on oath,  
testified as follows:

DIRECT EXAMINATION

By MR. SELINGER:

Q State your name. A W. E. Stewart.

DEARNLEY - MEIER & ASSOCIATES  
INCORPORATED  
GENERAL LAW REPORTERS  
ALBUQUERQUE - SANTA FE  
3-6691 2-2211

Q You are with Skelly Oil Company?

A Yes.

Q In what capacity?

A Supervisor of Units and Contracts in the Land Department.

Q As such, have you had occasion to work on a unit which you have designated as the Sombero Unit in Lea County?

A Yes, sir.

(Marked Skelly's Exhibit No. 1,  
for identification.)

Q I hand you what has been designated as Exhibit 1. Is that the Sombero Unit agreement of Lea County that you have before you?

A Yes, sir.

Q Has this agreement been submitted both to the Oil Conservation Commission and the Land Commission?

A Yes, sir.

Q Has this unit been approved as to form and contents by the Land Commission?

A It has.

Q Attached to this unit agreement are three designated therein as A, B and C, and indicates the location of the well and the proposed unit as well as the two joining and adjacent units, one the South Saunders Unit operated by Humble and the other the Seaman Unit operated by Sinclair, is that correct?

A That is true.



Q Exhibit B attached thereto is a schedule of the ownership of the oil and gas interests under the unit agreement, is that correct?

A Yes, sir.

Q And Exhibit C thereon is the geological interpretation showing the entire proposed unit as being productive from the Devonian, is that right?

A Pennsylvanian.

Q From the Pennsylvanian? A Yes.

Q Has the unit agreement contained therein a plan of development?

A Yes, sir, it does.

Q And has the well been already located and drilling operations commenced thereon at the proposed location indicated in this exhibit?

A It has.

MR. SELINGER: We offer in evidence Exhibit 1. I believe that is all we have.

MR. PORTER: Is there any objection to the admittance of this exhibit? It will be admitted. Does anyone have a question of Mr. Stewart? Mr. Nutter.

CROSS EXAMINATION

By MR. NUTTER:

Q Mr. Stewart, do you have a geological witness?

MR. SELINGER: No, sir.

Q Could you tell me the structure that is on Exhibit C attached to your unit agreement indicates this unit is based on a separate high in the formation?

A I am not qualified to discuss that. This exhibit was prepared by our geologist and that is all I can say.

MR. SELINGER: Exhibit C indicates the geological interpretation as reflected by our shooting and does show a separate high on the entire 640 acres.

Q This structure would not be related to the structures on the ones to the north and the ones to the southeast?

MR. SELINGER: Probably not, no, sir.

Q Does the unit agreement contain the segregation clause?

A Yes, it does. Skelly is the only lease owner in here.

Q You mentioned that you have a plan of development for obtaining discovery in this unit. What provision is made for further drilling if production is obtained what would be the course of Skelly?

A Well, we will file for Section 3-A and file our plan of development at such time. That is about all I can say at this time, Mr. Nutter.

Q The unit would be developed? A Yes, sir.

MR. PORTER: Within six months?

A As per Section 3.

Q Would Skelly Oil Company be willing to submit to the Oil Conservation Commission a periodic statement of progress in this unit?

A Yes, they would.

MR. PORTER: Mr. Mankin.

By MR. MANKIN:

Q Does Skelly anticipate production from the Pennsylvanian formation?

A It is my understanding, yes, sir.

Q Do they anticipate oil or gas or both?

A I understand there is a possibility of both.

MR. SELINGER: I might answer that, Mr. Mankin. The well is projected to a total depth of 12,800 feet. There has already been shows of oil in the surrounding well in the Pennsylvanian, and also there are wells now being dually completed to the Atoka gas and a definite dual completion proposal by the surrounding wells. So in this area we have both oil and gas development in the different pays.

Q Then, Mr. Stewart, the gas development might be a portion of the Atoka, from the Atoka which is in the Pennsylvanian, is that correct?

A That is right.

Q This well is destined to test through the Atoka?

A Yes, sir.

Q Of the Pennsylvanian?

A Yes, sir.

MR. PORTER: Are there any further questions of the witness?

The witness may be excused. The case will be taken under advisement.

(Witness excused.)

C E R T I F I C A T E

STATE OF NEW MEXICO )

: ss

COUNTY OF BERNALILLO )

I, ADA DEARNLEY, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in stenotype and reduced to typewritten transcript under my personal supervision, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this 24<sup>th</sup> day of November, 1956, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

*Ada Dearnley*  
Notary Public

My commission expires:

June 19, 1959.

DEARNLEY - MEIER & ASSOCIATES  
INCORPORATED  
GENERAL LAW REPORTERS  
ALBUQUERQUE - SANTE FE  
3-6691 2-2211

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

March 12, 1957

Mr. Randall Montgomery  
Oil Conservation Commission  
P.O. Box 2045  
Hobbs, New Mexico

Dear Randall:

This will refer to our recent conversations and your letter of March 5th in regard to a testing period for Skelly's No. 1 Well in the Sombrero Unit in Lea County. From the facts set forth in your letter as to the depth of the well and its cost and the relative value of the gas that would be vented during the testing period, it seems to us that the request for a ninety-day testing period is reasonable. It is our feeling, after a discussion with Mr. Cooley of the Commission legal staff, that you, as District Supervisor, are empowered to grant the ninety-day testing period.

It is our suggestion, however, that in notifying the operator of our approval, you assure them that it will be necessary for them to secure approval from the State Land Office since the well is located on state land. We would further suggest that the operator give us a written report on the tests that are to be conducted at the end of each thirty-day period. The authorized ninety-day testing period should begin on the completion date as shown on the operator's Form C-104.

Yours very truly,

A. L. Porter, Jr.  
Secretary - Director

ALP:bp

CC-Skelly Oil Co.  
Box 38, Hobbs

State Land Office

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GOVERNOR  
EDWIN L. MECHEM  
CHAIRMAN

## New Mexico

### OIL CONSERVATION COMMISSION

LAND COMMISSIONER MURRAY E. MORGAN  
MEMBER

STATE GEOLOGIST A.L. PORTER JR.  
SECRETARY DIRECTOR



P. O. BOX 2045  
HOBBS, NEW MEXICO

March 5, 1957

*1303  
Carl Paulsen*

Mr. A. L. Porter, Jr., Director  
Oil Conservation Commission  
Box 871  
Santa Fe, New Mexico

Dear Mr. Porter:

In answer to your request of March 1, 1957 concerning the testing period on the Skelly Oil Company Well No. 1 in the Sombrero Unit, it is my recommendation that the 90 day testing period be granted.

The reasons for recommending this extended testing period are due to the well known fact that Pennsylvanian reservoirs are historically short in life. Examples are the El Paso Welch Unit that had an IP of over 100,000 MCFGPD and in a few months was depleted. The Humble Chalk Bluff Area, and the Skelly Dow Area are all examples of initially good wells, but have not held up under production as was expected. However we hope this reservoir is better. Further reasons being that the depth of some 13,000 feet is an expensive depth to reach. However the operator will probably develop the area if proven that it is an economical venture. The cost of the No. 1 Well was over \$350,000 and the value of 1,000 MCFGPD for 90 days would be \$9,000. The 1,000 MCF is the estimated maximum amount that would be vented since a contract has been signed with a drilling contractor to furnish gas, with the stipulation that 3 days out of each month the well will be shut in for testing. It is estimated the rig will need 300 MCFGPD.

Presently no market is available for the sale of gas; however if the reservoir is evaluated and proves to be worth drilling, undoubtedly gas transmission lines would be laid.

Yours very truly,

OIL CONSERVATION COMMISSION

*R. F. Montgomery*

R. F. Montgomery  
Proration Manager

RFM/mc

Case 1173

OIL CONSERVATION COMMISSION

P. O. BOX 871  
SANTA FE, NEW MEXICO

March 1, 1957

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Mr. Randall Montgomery  
Oil Conservation Commission  
P.O. Box 2045  
Hobbs, New Mexico

Dear Mr. Montgomery:

I am in receipt of a letter from Skelly Oil Company under date of February 27th requesting a 90 day testing period for their No. 1 Well in the Sombrero Unit, Lea County, for the purpose of evaluating reservoir data. As you have previously advised, this matter has already been brought to your attention by Mr. Ramsey of the Hobbs Office of Skelly Oil Company. It is my understanding of Skelly's request that it is their desire to produce the well for 30 days, then conduct a series of tests, produce for another 30 days, conduct further tests and etc., for three such periods. The first reaction of the technical staff of the Santa Fe Office is that the tests should probably be on a continuous basis and that Skelly's purpose can probably be accomplished in less than 90 days.

I would like for you to give this matter further study, discuss it with Mr. Fischer and Mr. Runyan of your staff and let me have your recommendations as soon as possible. In your study, it might be well for you to determine whether or not the well has been tested in other zones.

Very truly yours,

A. L. Porter, Jr.  
Secretary - Director

ALP:bp

CC-Mr. George Selinger  
Box 1650  
Tulsa, Okla.

Mr. J. N. Dunlavey  
Box 38  
Hobbs, New Mexico



## SKELLY OIL COMPANY

TL SA 2, OKLAHOMA

PRODUCTION DEPARTMENT  
GENERAL BUSINESS MANAGER

February 27, 1957

Re: Sombero Unit  
Secs. 11 - 12 - Twp 16S - Rge 33 E

Mr. A. L. Porter, Jr.  
New Mexico Oil Conservation Commission  
Box 871  
Santa Fe, New Mexico

Dear Sir:

The No. 1 well was recently completed as a gas-distillate discovery in the Atoka formation, Lea County, New Mexico, and we are respectfully requesting the testing period of 90 days to evaluate reservoir data, to permit us to have three 30 day testing periods. That is at the end of each 30 days conduct a series of tests and we feel that three of such testing periods are necessary to properly evaluate this reservoir which is approximately six to seven feet in thickness.

Yours very truly,

*George W. Selinger*  
George W. Selinger

GWS:dc

cc: Mr. Randall Montgomery  
New Mexico Oil Conservation Commission  
Hobbs, New Mexico

Mr. Dunlavey



UNIT OF 1000 000

October 31, 1956

In reply refer to:  
Unit Division

Skelly Oil Co.  
Tulsa 2, Oklahoma

Re: Sombrero Unit -  
E/2 of Section 11 and  
W/2 of Section 12-16S-33E,  
Lea County, New Mexico

Attention: Mr. W. J. Stewart

Gentlemen:

We have received two executed copies on the above described proposed Unit Agreement. In accordance with my telephone conversation with Mr. Stewart, we are returning these copies to you with copies of our suggested changes and additions to your Unit.

We would suggest that this is not a Declaration of Communitization but "The Sombrero Unit Agreement," and it should be so described. This office requires two executed copies for our files.

This Unit Agreement will be approved as to form and context by our attorney, and we will notify you by letter. However, the Unit Agreement will not be approved until after your hearing before the New Mexico Oil Conservation Commission on November 13, 1956, and their order on this case has been issued.

Please feel free to call on us if we can be of further assistance to you.

Very truly yours,

E. S. WALKER  
Commissioner of Public Lands

ESW:MMR/m  
enc: 3  
cc: OCC-Santa Fe

**OIL CONSERVATION COMMISSION**

P. O. BOX 871

**SANTA FE, NEW MEXICO**

November 29, 1956

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**Mr. George W. Selinger  
Shelly Oil Company  
P. O. Box 1650  
Tulsa 2, Oklahoma**

**Dear Sir:**

We enclose a signed copy of Order R-922, issued on November 27, 1956, by the Oil Conservation Commission in Case 1173, which was heard on November 13, 1956.

Very truly yours,

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

jh  
encl.

RECEIVED  
DEC 11 1956  
DEC 11 1956  
December 4, 1956

In reply refer to:  
Unit Division

Skelly Oil Co.  
Tulsa 2, Oklahoma

Re: Sombrero Unit -  
E/2 of Section 11 and W/2  
of Section 12-16S-33E,  
Lea County, New Mexico

Attention: Mr. W. J. Stewart  
Lease Records Division

Gentlemen:

We are enclosing one copy of The Sombrero Unit Agreement, Lea County, New Mexico, which was approved by the Commissioner of Public Lands December 4, 1956, and approved by New Mexico Oil Conservation Commission Order No. R-922 November 22, 1956.

Please furnish this office with an approved copy of your C-101 and all further reports including C-105.

Also enclosed is Official Receipt No. D-132566 in the amount of \$10.00 covering your filing fee.

Very truly yours,

E. S. WALKER  
Commissioner of Public Lands

ESW:MFR/m  
enc: 2

cc: OOC-Santa Fe

OIL CONSERVATION COMMISSION  
SANTA FE, NEW MEXICO

Date 11/15/76

CASE 1173

Hearing Date 9 am on 11/13/76 @ SF

My recommendations for an order in the above numbered cases are as follows:

OK. to write order approving Unit.  
all state acreage

Warren Mankin  
Staff Member

DOCKET: REGULAR HEARING NOVEMBER 13, 1956

Oil Conservation Commission 9:00 a.m., Mabry Hall, State Capitol, Santa Fe

- ALLOWABLE:**
- (1) Consideration of the oil allowable for December, 1956.
  - (2) Consideration of the allowable production of gas from designated pools in Lea County, New Mexico, for December, 1956, and also presentation of purchasers' nominations for the 6-month period beginning January 1, 1957; also consideration of the gas allowable for December, 1956, for the prorated pools in San Juan and Rio Arriba Counties, New Mexico.

NEW CASES

CASE 727: (Readvertisement) Application of the Oil Conservation Commission upon its own motion as provided for in Order R-610-C, to hear testimony and receive evidence regarding the amending, revising or abrogating existing Rules and Regulations of the Oil Conservation Commission, and/or promulgating rules and regulations relating to gas pool delineation, gas proration and other related matters affecting or concerning the Blinebry Gas Pool, Blinebry Oil Pool and Terry-Blinebry Oil Pool.

CASE 861: (Readvertisement) Application of El Paso Natural Gas Company for an order amending the well spacing and drilling unit provisions of Commission Order R-639 and establishment of gas proration units and allocation of gas production in the Crosby-Devonian Gas Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order amending the Special Rules and Regulations for the Crosby-Devonian Gas Pool as set forth in Order R-639 insofar as well spacing and drilling unit provisions and the wells to be excepted thereto. Applicant further seeks to establish standard gas proration units consisting of not less than 632 acres nor more than 648 acres and further seeks to establish the allocation of gas production in the proportion that the acreage assigned to each well multiplied by its well-head pressure after 72 hours shut-in bears to the sum of said product for all wells and proration units in the Crosby-Devonian Gas Pool or in accordance with such other method for allocating production as the Commission shall deem necessary and proper.

CASE 1102: (Rehearing) Application of the Ohio Oil Company for rehearing in Case 1102, Order R-892 which established pool rules for the Dean Permo-Pennsylvanian and Dean-Devonian Pools, Lea County, New Mexico. Applicant, in the above-styled cause, seeks reconsideration by the Commission of the spacing and allowable provisions for the Dean Permo-Pennsylvanian Pool with particular attention to the allowable for existing wells on 40-acre tracts. Applicant contends that such wells should retain the normal 40-acre allowable rather than one-half of the normal 80-acre allowable as established by Order R-892.

CASE 1172: Application of Magnolia Petroleum Company for an order granting exception to paragraph 2 of the Special Rules and Regulations of the Dean Permo-Pennsylvanian Pool as set forth in Order R-892 and further for an extension of the horizontal limits of the Dean Permo-Pennsylvanian Pool. Applicant, in the above-styled cause, seeks an order granting the establishment of an 80-acre non-standard proration unit comprising the NE/4 SE/4 of Section 27, and the NW/4 SW/4 of Section 26, Township 15 South, Range 36 East, NMPM, Lea County, New Mexico; said acreage to be dedicated to its Cone No. 1 Well, located in the NW/4 SW/4 of said Section 26 and further applicant requests the extension of the horizontal limits of the Dean Permo-Pennsylvanian Pool to include the SE/4 of said Section 27.

CASE 1173: Application of Skelly Oil Company for an order granting approval of its proposed Sombero Unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order granting approval of its proposed Sombero Unit containing 640 acres comprising the E/2 of Section 11 and the W/2 of Section 12, Township 16 South, Range 33 East, Lea County, New Mexico. The unit consists entirely of State of New Mexico lands.

CASE 1174: Application of the Oil Conservation Commission upon its own motion for an order granting exception to Rule 502 I (a) of the Commission Statewide Rules and Regulations for all wells in the Caprock-Queen Pool, Chaves and Lea Counties, New Mexico. Applicant, in the above-styled cause, seeks an order granting exception to Rule 502 I (a) in permitting production greater than 125% of the daily allowable for all wells in the Caprock-Queen Pool.

CASE 1175: Southeastern New Mexico nomenclature case calling for the creation of new pools and the extension of and deletion of certain areas from existing pools in Lea and Eddy Counties, New Mexico:

- (a) Create a new pool for Pennsylvanian production, designated as the Anderson-Pennsylvanian Gas Pool, and described as:

TOWNSHIP 17 SOUTH, RANGE 30 EAST  
Section 18: NW/4

- (b) Create a new pool for Pennsylvanian production, designated as the Duffield-Pennsylvanian Gas Pool, and described as:

TOWNSHIP 16 SOUTH, RANGE 27 EAST  
Section 21: SW/4

- (c) Create a new pool for Devonian production, designated as the Four Lakes-Devonian Pool, and described as:

TOWNSHIP 12 SOUTH, RANGE 34 EAST  
Section 1: NW/4  
Section 2: NE/4

- (d) Create a new pool for Wolfcamp production, designated as the Four Lakes-Wolfcamp Pool, and described as:

TOWNSHIP 12 SOUTH, RANGE 34 EAST  
Section 1: NW/4  
Section 2: NE/4

- (e) Create a new pool for Pennsylvanian production, designated as the Fren-Pennsylvanian Gas Pool, and described as:

TOWNSHIP 17 SOUTH, RANGE 31 EAST  
Section 15: SW/4  
Section 21: E/2  
Section 22: NW/4

- (f) Create a new pool for Seven Rivers production, designated as the High Lonesome-Seven Rivers Pool, and described as:

TOWNSHIP 16 SOUTH, RANGE 29 EAST  
Section 15: NW/4

- (g) Create a new pool for Pennsylvanian production, designated as the Ranger Lake-Pennsylvanian Pool, and described as:

TOWNSHIP 12 SOUTH, RANGE 34 EAST  
Section 23: SE/4

- (h) Create a new pool for Yates production, designated as the Saladar-Yates Pool, and described as:

TOWNSHIP 20 SOUTH, RANGE 28 EAST  
Section 33: SW/4

- (i) Create a new pool for Delaware production, designated as the Wye-Delaware Pool and described as:

TOWNSHIP 22 SOUTH, RANGE 27 EAST  
Section 29: NW/4

- (j) Extension of the Aid Pool to include therein:

TOWNSHIP 17 SOUTH, RANGE 29 EAST  
Section 19: SW/4

- (k) Extension of the Atoka Pool to include therein:

TOWNSHIP 18 SOUTH, RANGE 26 EAST

Section 10: E/2 and E/2 W/2

Section 11: S/2

Section 13: W/2 W/2

Section 21: NE/4

Section 22: NE/4

- (l) Extension of the Dean Permo-Pennsylvanian Pool to include therein:

TOWNSHIP 15 SOUTH, RANGE 36 EAST

Section 23: S/2 SE/4

- (m) Extension of the Dos Hermanos Yates-Seven Rivers Pool to include therein:

TOWNSHIP 20 SOUTH, RANGE 30 EAST

Section 32: E/2 NE/4

- (n) Extension of the North Gladiola-Devonian Pool to include therein:

TOWNSHIP 12 SOUTH, RANGE 38 EAST

Section 5: W/2

- (o) Extension of the High-Lonesome Pool to include therein:

TOWNSHIP 16 SOUTH, RANGE 29 EAST

Section 21: E/2 and SW/4

Section 28: All

- (p) Extension of the Hobbs Pool to include therein:

TOWNSHIP 18 SOUTH, RANGE 37 EAST

Section 26: E/2 NE/4

- (q) Extension of the Roberts Pool to include therein:

TOWNSHIP 17 SOUTH, RANGE 33 EAST

Section 8: NE/4

- (r) Extension of the Townsend-Wolfcamp Pool to include therein:

TOWNSHIP 16 SOUTH, RANGE 35 EAST

Section 1: Lots 9, 10, 15 & 16

Section 8: NE/4 SW/4

- (s) Extension of the Jalmat Gas Pool to include therein:

TOWNSHIP 22 SOUTH, RANGE 35 EAST

Section 11: SE/4



- (t) Deletion from the Terry-Blinebry Oil Pool the following:

TOWNSHIP 21 SOUTH, RANGE 37 EAST  
Section 3: Lots 8, 10, 11 & 12

- (u) Extension of the Blinebry Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 37 EAST  
Section 3: Lots 6, 10, 11 & 12

- (v) Extension of the Blinebry Oil Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 37 EAST  
Section 3: Lots 6, 10, 11 & 12

CASE 1176: Northwestern New Mexico nomenclature case calling for the extension of existing pools in San Juan and Rio Arriba Counties, New Mexico:

- (a) Extension of the Ballard-Pictured Cliffs Pool to include therein:

TOWNSHIP 26 NORTH, RANGE 7 WEST  
Section 30: SW/4

- (b) Extension of the Aztec-Pictured Cliffs Pool to include therein:

TOWNSHIP 29 NORTH, RANGE 10 WEST  
Section 2: W/2

- (c) Extension of the Otero-Pictured Cliffs Pool to include therein:

TOWNSHIP 24 NORTH, RANGE 6 WEST  
Section 36: S/2

- (d) Extension of the Tapicito-Pictured Cliffs Pool to include therein:

TOWNSHIP 26 NORTH, RANGE 3 WEST  
Section 33: E/2

TOWNSHIP 26 NORTH, RANGE 4 WEST  
Section 3: S/2  
Section 4: S/2  
Section 10: N/2

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Docket No. 37-56

- (e) Extension of the West Kutz-Pictured Cliffs Pool  
to include therein:

TOWNSHIP 27 NORTH, RANGE 11 WEST  
Section 10: NE/4

- (f) Extension of the Bisti Lower Gallup Oil Pool to  
include therein:

TOWNSHIP 25 NORTH, RANGE 12 WEST  
Section 7: SE/4

ir/



## SKELLY OIL COMPANY

TULSA, OKLAHOMA

COPY

P. O. Box 993  
Midland, Texas  
September 20, 1956

Re: PROPOSED UNIT  
E2 Section 11 and W2  
Section 12 - All in  
Township 16 South,  
Range 33 East,  
Lea County, New Mexico

*South  
Unit*

*Cast# 1173*

Honorable E. S. Walker  
Commissioner of Public Lands  
State Land Office  
Santa Fe, New Mexico

Dear Sir:

We would like to propose the formation of the above unit comprised of 640 acres for the drilling of a hole to test two possible producing zones in the Pennsylvanian at approximately 11,000' and 12,500' respectively. The location of the test would be in the approximate center of the SE $\frac{1}{4}$  NW $\frac{1}{4}$  of Section 11 hereof. Our proposals are based on subsurface control, as well as on seismograph shooting.

The acreage is owned wholly by the State of New Mexico, being subject to leases as follows:

1. State Lease #E-1156, dated January 10, 1947, covering W2 Section 12 (320 acres gross and net), together with other acreage.
2. State Lease #E-1241, dated March 10, 1947, covering NE $\frac{1}{4}$  Section 11 (160 acres gross and net), and other acreage.
3. State Lease #09-211, dated September 18, 1956, covering SE $\frac{1}{4}$  Section 11 (160 acres gross and net), and other acreage.

All of these leases are now held by Skelly Oil Company, there being no overrides or oil payments encumbering the working interests.

This proposed unit lies immediately South of and adjacent to South Saunders Unit, operated by Humble, and it lies immediately

Page #2  
Hon. E. S. Walker  
9/20/56

West of and adjacent to the Seaman Unit, operated by Sinclair. It is our belief that in view of the present existing adjacent units, the unit plan of development would be desired in the continued development for the area.

Inasmuch as Skelly Oil Company would be the only working interest operator in the unit, and that the royalties are owned wholly by the State of New Mexico, we would respectfully request that you advise us as follows:

Whether or not you would approve this in principal for the unit plan of development.

Whether or not in view of the ownership of the royalties and working interests an Examiner Hearing, rather than a Commission Hearing, could be considered in this instance. Provided the matter could be considered in an Examiner Hearing, what would be the earliest possible date for the hearing, and where?

Whether or not you would agree to commencement immediately of actual drilling operations prior to approval by you of the unit and operating agreements. This, of course, would be subject to the agreements being acceptable to you.

Inasmuch as we will desire to commence the initial test immediately, it will be appreciated if you will favor us with an expression concerning this matter. Kindly address us at our above Midland, Texas address.

Yours very truly,  
SKELLY OIL COMPANY

*H. H. Kaderli*  
H. H. Kaderli,  
District Manager.

BHK:VW



**SKELLY OIL COMPANY**

PRODUCTION DEPARTMENT  
J. S. FREEMAN, VICE PRESIDENT

**TULSA 2, OKLAHOMA**

**October 19, 1956**

*file*

**Oil Conservation Commission  
Box 871  
Santa Fe, New Mexico**

**Gentlemen:**

Kindly consider this as an application for approval of the unit, to be operated by Skelly Oil Company, which unit is to be composed of the E/2 of Section 11 and the W/2 Section 12, Township 16 South, Range 33 East, Lea County, New Mexico.

This letter is filed in triplicate. Attached hereto is the Communication in which Skelly Oil Company is the owner of all the working interests of all of the 640 acres composed of Tract 1, the NE/4 Section 11-16S-33E containing 160 acres; Tract 2, the W/2 Section 12-16S-33E containing 320 acres; and Tract 3, SE/4 Section 11-16S-33E containing 160 acres, all being State of New Mexico lands.

We would appreciate this matter being set for hearing in your November, 1956, hearing, which is set for Tuesday, November 13, as it is necessary to have approval prior to January, 1957.

Yours very truly,

(Signed) GEORGE W. SELINGER

George W. Selinger

GWS:mr  
cc-Mr. J. M. Dunlavy  
Mr. W. L. Stewart

P.S. The following companies have offset acreage: Gulf, Phillips, Shell, Humble, Mabee.

G. W. S.

THE SOMBRERO UNIT AGREEMENT  
LEA COUNTY, NEW MEXICO

WHEREAS, the undersigned Skelly Oil Company (hereinafter referred to as "Skelly") owns and holds three (3) certain valid and subsisting oil and gas leases on and covering the land hereinafter described and thus has effective control of the oil and gas operations therein and thereon; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico 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) to consent to and approve the unitized development or operation of State lands as to part of or all of any oil or gas pool, field or area lying thereunder; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chapter 162, Laws of 1951) to amend with the approval of the lessee, 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 unitized development and operation of State lands; 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 of 1935) to approve this instrument and the conservation provisions hereof; and

WHEREAS, Skelly desires to conserve natural resources, prevent waste and secure all other benefits obtainable through unitized development and operation of the area subject to this

BEF IMC

*[Signature]*  
\_\_\_\_\_  
1173

instrument pursuant to and in accordance with the terms, conditions and limitations hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the benefits to be derived herefrom, the undersigned Skelly Oil Company hereby declares that:

1.

UNIT AREA

Skelly, in the exercise of the right and power which it has as the owner of said oil and gas leases described in Exhibit "B", does declare that said leases shall be and the same are hereby pooled, combined and unitized so as to form a unit composed of the following described land, which said land is hereby designated and recognized as constituting the Sombrero Unit Area:

East Half (E/2) of Section 11 and West Half (W/2) of Section 12, Township 16 South, Range 33 East, N.M.P.M., Lea County, New Mexico, containing 540 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 Skelly. Exhibit "B" attached hereto is a schedule showing to the extent known to Skelly the acreage, percentage and kind of ownership of oil and gas interests in all land in the unit area. Exhibits "A" and "B" shall be revised by Skelly whenever changes in the unit area render such revision necessary, or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner".

When practicable, the above described unit area shall be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this instrument. Such expansion shall be effected in the following manner:

(a) Skelly, on its own motion or on demand of the Commissioner, shall give notice of proposed expansion describing the contemplated changes in the boundaries of

the unit area, the reasons therefor, and the proposed effective date thereof.

(b) Said notice shall be delivered to the Commissioner and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected by such expansion, advising that thirty (30) days will be allowed for submission to Skelly of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b), Skelly shall file with the Commissioner evidence of mailing of the notice of expansion and a copy of any objections thereto which have been filed with Skelly.

(d) Upon approval by the Commissioner, after due consideration of all pertinent information and after due notice and hearing, such expansion shall become effective as of the date prescribed in the notice thereof.

All land affected by this instrument shall constitute land referred to herein as "unitized land" or "land subject to this instrument".

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 instrument and herein are called "unitized substances".

3.

DRILLING TO DISCOVERY

Within sixty (60) days after the effective date hereof, Skelly shall commence, or cause to be commenced, operations for the drilling of a test well for oil and gas at a location



described as being 660 feet from the West line and 1980 feet from the North line of Section 12, Township 16 South, Range 33 East, to an approximate depth of 12,800 feet or to a depth sufficient, in the opinion of Skelly, to test the Pennsylvanian Formation, whichever is the lesser depth, or to such lesser depth as unitized substances shall be discovered in paying quantities, or until in the opinion of Skelly it shall be determined that the further drilling of said well shall be unwarranted or impracticable. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, Skelly shall continue drilling diligently one well at a time, allowing not more than six (6) 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 and the Commission, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted.

Upon failure to comply with the drilling provisions of this section, the Commissioner may after reasonable notice to Skelly at its last known address declare this instrument terminated.

### 3-A

#### PLAN OF FURTHER DEVELOPMENT AND OPERATION

Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, Skelly shall submit for the approval of the Commissioner, and the Commission, an acceptable plan of development and operation

for the unitized land which, when approved by the Commissioner, and the Commission, shall constitute the further drilling and operating obligations of Skelly under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, Skelly shall submit for the approval of the Commissioner, and the Commission, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Commissioner, and the Commission, may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Commissioner and the Commission. Such plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of this approved plan of development. The Commissioner is authorized to grant a reasonable extension of the six (6) month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of

producing any unitized substances in paying quantities no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Commissioner shall be drilled except in accordance with a plan of development approved as herein provided.

4.

PARTICIPATION AND ALLOCATION OF  
PRODUCTION AFTER DISCOVERY

All unitized substances produced from the unit area, except any part thereof used within the unit area for production or development purposes or unavoidably lost, shall be deemed produced equally on an acreage basis from the several tracts of unitized land and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of production as the number of acres of such tract bears to the total number of acres of unitized land within the unit area.

5.

PAYMENT OF RENTALS, ROYALTIES  
AND OVERRIDING ROYALTIES

All rentals due the State of New Mexico shall be paid by Skelly in accordance with the terms of its leases.

All royalties due the State of New Mexico under the terms of the leases affected by this instrument 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 Skelly shall make deliveries of such royalty oil in accordance with the terms of its respective leases.

If Skelly 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 operations 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 instrument.

6.

STATE LEASES AND CONTRACTS CONFORMED  
AND EXTENDED INsofar AS THEY APPLY TO  
LANDS WITHIN THE UNITIZED AREA

Upon approval hereof by the Commissioner, the terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation of State of New Mexico lands for oil and gas purposes which are affected by this instrument, shall be and the same are hereby expressly modified and amended insofar as they apply to such 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 of such leases on and covering such lands within said area will be extended insofar as necessary to coincide with the terms of this instrument and the approval hereof by the Commissioner shall, without further action of the Commissioner, 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 hereof; but otherwise to remain in full force and effect. Each such lease affected by this instrument insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein so long as this instrument 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 Skelly prior to the expiration of the shortest term lease committed to this instrument. Termination of this instrument 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 and/or obtained from any such leased tract.

Any lease embracing lands of the State of New Mexico having only a portion of such lands committed hereto shall be segregated as to that portion committed and that portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Provided, however, that notwithstanding

any of the provisions hereof to the contrary, any such lease 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, Skelly is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same as to all 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.

7.

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.

8.

DRAINAGE

Skelly shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized lands by wells on land not subject to this instrument.

9.

EFFECTIVE DATE AND TERM

This instrument shall become effective upon approval by the Commissioner and shall terminate two (2) 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 instrument 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. Likewise, as provided in Article 3 hereof, the Commissioner, after reasonable notice to Skelly, may declare this instrument to be of no further force or effect.

10.

RATE OF PRODUCTION

All production from the unit area 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.

11.

UNAVOIDABLE DELAY

All obligations hereunder requiring Skelly to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this instrument shall be suspended while, but only so long as, Skelly, 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 Skelly whether similar to matters herein enumerated or not.

IN WITNESS WHEREOF, this instrument is executed as of  
the \_\_\_\_\_ day of \_\_\_\_\_, 1956.

APP'D AS TO  
FORM: *Frederick*

ATTEST:

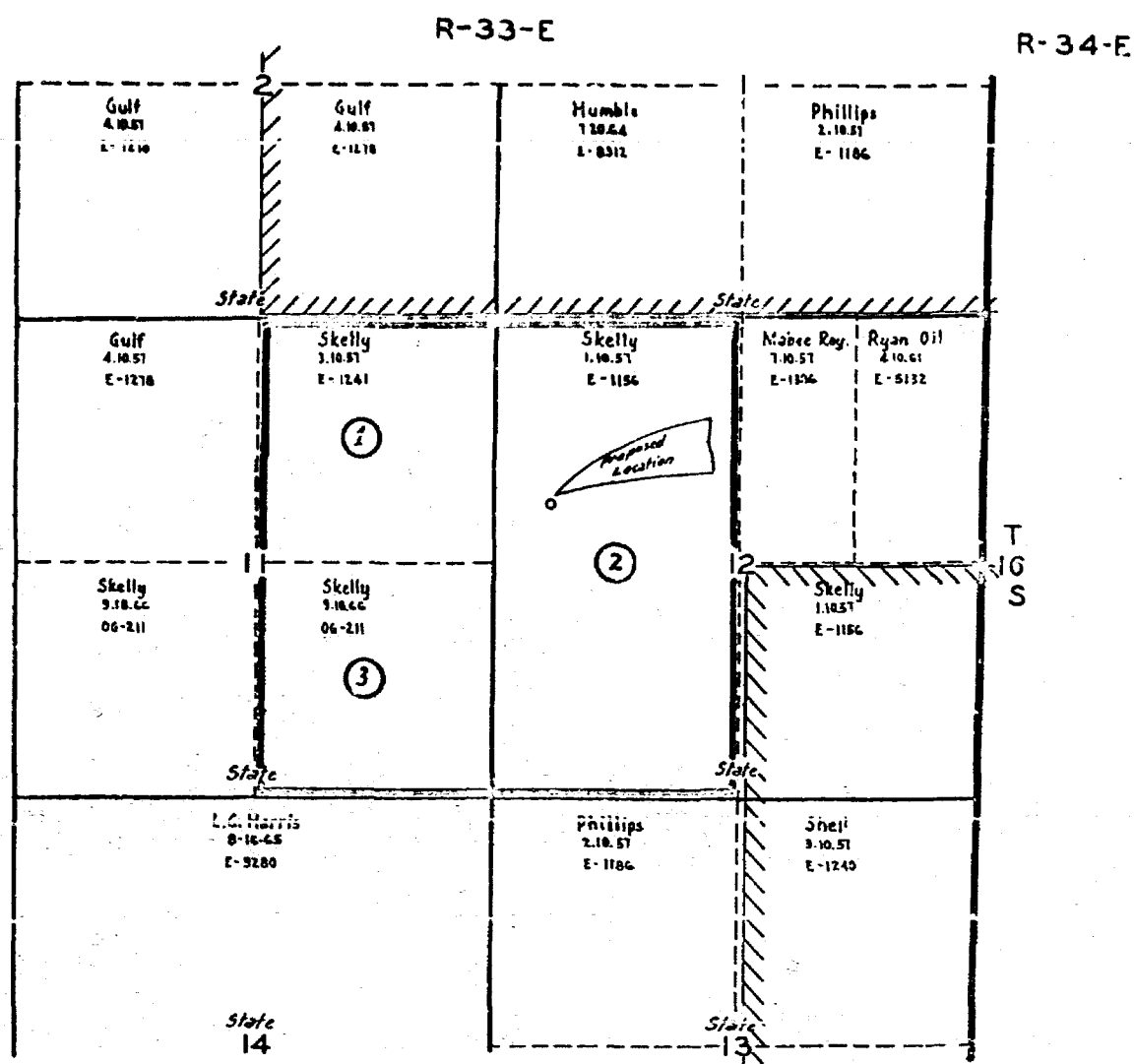
SKELLY OIL COMPANY

\_\_\_\_\_  
Secretary

By \_\_\_\_\_  
Vice-President

Skelly Building  
Tulsa, Oklahoma





- South Saunders Unit - Humble Oil & Ref. Co.-Operator
- Seaman Unit - Sinclair Oil Co.-Operator
- Sombbrero Unit - Skelly Oil Co.-Operator
- Tract No.

EXHIBIT "A"  
 SKELLY OIL COMPANY-OPERATOR  
**SOMBRERO UNIT**  
 T-16-S R-33-E  
 LEA COUNTY, NEW MEXICO

SCALE: 1"=2000'

# EXHIBIT "B"

## SOMBERO UNIT

SKELLY OIL COMPANY, Operator

### Schedule of Ownership of Oil & Gas Interests Under Unit Agreement

Tract No. & Description	No. of Acres	New Mexico State Lease No. & Date	Basic Royalty	Record Owner of Lease	Over-riding Royalty	Working Interest Owner and Part of Working Interest Owned Under Option Agreement, Operating Agreement or Assignment	
Tract No. 1 NE 1/4 Sec. 11- 16S-33E	160.00	E-1241 (3-10-47)	12.50%	Skelly	None	Skelly Oil Company P. O. Box 1650 Tulsa, Oklahoma	87.50%
Tract No. 2 W2 Sec. 12- 16S-33E	320.00	E-1156 (1-10-47)	12.50%	Skelly	None	Skelly Oil Company	87.50%
Tract No. 3 SE 1/4 Sec. 11- 16S-33E	160.00	OG-211 (9-18-56)	12.50%	Skelly	None	Skelly Oil Company	87.50%
* Total Unit Area	640.00						

\* - All State of New Mexico Lands.

