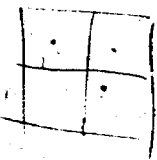


CASE 2180: Application of GREAT
WESTERN DRUG CO. for an order
force-pooling 40-acre proration
unit in Eumont Gas Pool.



*W
to
2
Peachtree
Road
Atlanta
Ga
J. H. [unclear]
[unclear]
[unclear]*

Case No.

2180

Application, Transcript,
Small Exhibits, Etc.

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

MAIL ROOM 600

1991 JUN 11 PM 6:43

APPLICATION OF GREAT WESTERN
DRILLING COMPANY FOR AN ORDER
FORCE POOLING ALL MINERAL
INTERESTS IN THE SE¹NE¹ SEC-
TION 32, TOWNSHIP 19 SOUTH,
RANGE 37 EAST, N.M.P.M., LEA
COUNTY, NEW MEXICO, FOR THE
PRODUCTION OF OIL AND ASSOCIATED
LIQUID HYDROCARBONS PRODUCIBLE
WITHIN THE VERTICAL LIMITS OF
THE QUEEN FORMATION UNDERLYING
SAID LANDS

Case No. 2180

Comes now, GREAT WESTERN DRILLING COMPANY, whose address is Box 1659, Midland, Texas, and hereby makes application for an Order, after due notice and hearing, force pooling all mineral interests in the SE¹NE¹ Section 32, Township 19 South, Range 37 East, N.M.P.M., Lea County, New Mexico, for the production of oil and associated liquid hydrocarbons producible within the vertical limits of the Queen Formation underlying said lands, and in support of the application states:

1. Applicant is the Operator of a well located 990 feet from the East line and 2970 feet from the South line of said Section 32, which well was drilled and completed in compliance with the rules of this Commission. Said well is presently producing oil and associated liquid hydrocarbons in paying quantities from the Queen Formation underlying said lands. Said well is capable of efficiently and effectively draining all oil and associated liquid hydrocarbons producible within the vertical limits of the Queen Formation underlying said land.

2. Applicant and its associates are the owners and holders of valid oil and gas leases and other agreements from mineral owners which collectively cover and embrace 37.8325 mineral acres in said land. That in addition thereto a substantial portion of the mineral owners in said land have entered into a Communitization and Operating Agreement with respect to subsequent production, development and operation of said well and said land; a copy of said Communitization and Operating Agreement is attached hereto, and a fully executed copy will be furnished the Commission at the hearing on this Application.

3. That the following persons, owning or claiming a mineral interest in said land, and their last known address (if any), and the Tract No. involved (which Tract No. is set forth in Exhibit A to said Communitization and Operating Agreement), who have not executed, ratified or consented to said Communitization and Operating Agreement are as follows:

<u>Name</u>	<u>Owned or Claimed Interest</u>	<u>Address</u>
<u>Tract No. 1</u>		
✓ Dr. Hans May (Refused to Execute)	5/64 W.I.	255 S. 17th Street Philadelphia 3, Pennsylvania
B. A. Bowers	4/852 R.I.	Address Unknown ✓
Estate of George F. Henneberry	36/852 R.I.	Address Unknown
✓ William R. Kershaw	30/852 R.I.	Box 143, Mesa, Arizona
M. M. Lawellin - sold his to C. B. Neal by instrument dated 4-16-53, recorded on 6-23-60, Vol. 247, Page 357	60/852 R.I.	Box 2240, Tulsa 2, Oklahoma
		1st National Bank & Trust Co. Box 2240, Tulsa 2, Oklahoma

*Doyle
Milled
1-30-61*

Books Mailed 1-30-61

<u>Name</u>	<u>Owned or Claimed Interest</u>	<u>Address</u>
J. B. Headley ✓	12/852 R.I.	Box 1017, Roswell, New Mexico
L. T. Lewis ✓	12/852 R.I.	Box 42, Roswell, New Mexico
J. D. Atwood Estate ✓	12/852 R.I.	213 N. Missouri Street Roswell, New Mexico
Frances Smyrl Jennings ✓	12/852 R.I.	Box 27, Roswell, New Mexico
Chase Manhattan Bank Spl. A/C F-NC	153/852	% North Central Oil Corp. Box 317, Wall Street Station, New York 5, New York

Tract No. 3

Part A:
Fred Manley 1/4 of 2.55 acres Address Unknown

Tract No. 4

Mae Williams .53 of 1 acre Monument, New Mexico

Tract No. 6

W. L. Crutchfield 1 acre Address Unknown

That a copy of this Application has been forwarded, postage pre-paid, to each of the above-named persons whose address is known by United States mail certified, return receipt requested, to the respective address shown above, due proof of which will be made at the hearing on this Application. That previously Applicant has made a diligent effort in good faith to secure the execution, ratification or consent to such Communitization and Operating Agreement by the above-named persons, but that it has been unable to do so. That as respects the above-named person(s) whose address is stated as unknown, Applicant has made a diligent search and inquiry to determine such address, but Applicant has been unable to ascertain the residence or whereabouts of such person(s).

4. Applicant is designated as Operator of said land under the terms of the above described Communitization and Operating Agreement, and that as such Operator, Applicant has in the past, and will in the future conduct its operations in a good and workmanlike manner in conformity with the custom and practice of the industry in the area and will further conduct its operations so as to afford the owner of each tract and interest in said land the opportunity to recover or receive his just and equitable share of the oil and associated liquid hydrocarbons producible from said formation under said land, so far as may be practically recovered without waste. That the most efficient and orderly development of said land can be accomplished by force pooling all mineral interests therein and requiring that the interest of all persons having the right to drill for, produce or share in, the production of oil and associated liquid hydrocarbons producible from the Queen Formation underlying said land should be pooled, and that Applicant should be designated as Operator of such pooled unit until further order of this Commission, with due authority to produce and develop such petroleum products from said formation and land. Applicant states that it is just, equitable and in the interest of conservation, and the protection of the correlative rights of all interested parties that this Commission further enter its order providing that production from the above described pooled unit be allocated to each tract in the unit (as described in Exhibit "A" of said Communitization and Operating Agreement) in the same proportions that the acreage in each of said tracts bears to the total acreage in the pooled unit. Applicant further states that it is just, equitable and in the

interest of conservation, and the protection of the correlative rights of all interested parties that this Commission further enter its order providing that the cost of development and operation of the pooled unit, including the reworking operations contemplated by and provided for in said Communitization and Operating Agreement be specified as those costs of development and operation, including reworking operations, and other rights, powers and duties of the Operator, as set forth in the Communitization and Operating Agreement; Applicant states further that such cost of development and operation of the pooled unit as in such instrument contemplated are limited to the lowest actual expenditures required for such purpose, including a reasonable charge for supervision. Applicant consents that in the event there is any dispute as to such costs, that the Commission shall determine the proper costs.

5. That the granting of this Application and all things sought hereunder will be in the interest of conservation, the prevention of waste, and the protection of the correlative rights of all interested parties.

WHEREFORE, Applicant respectfully requests that the Commission enter its order providing that:

1. The interests of all persons having the right to drill for, produce or share in the production of oil and associated liquid hydrocarbons producible within the vertical limits of the Queen Formation underlying the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 32, Township 19 South, Range 37 East, N.M.P.M., Lea County, New Mexico,

be pooled, and that such pooled unit be dedicated, as respects the production of oil and associated liquid hydrocarbons producible within the vertical limits of the Queen Formation underlying said land, to Applicant's aforementioned well located in the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 32, and that Applicant be designated as Operator of such pooled unit until further order of the Commission; and,

2. The production from the pooled unit be allocated to each tract in the unit in the same proportion that the acreage in such tract bears to the total acreage in the unit; and,

3. The costs of development and operation of the pooled unit, including the reworking and other operations contemplated under the Communitization and operating Agreement, be allocated to each tract in the pooled unit in the same proportion that the acreage in each such tract bears to the total acreage in the pooled unit, and that such costs (unless otherwise paid by the respective mineral owners, lessees, or other parties charged therewith) may be recovered by Operator in accordance with the provisions of the Communitization and Operating Agreement; provided, however, there shall be no personal liability on the part of any person force pooled hereunder whose name is stated in paragraph 3 above, for such costs.

4. The effective date of the Commission's order and all provisions contained therein be made as of the effective date of such Communitization and Operating Agreement; provided,

however, that Applicant shall promptly notify the Commission of the date such reworking operations were commenced on said well.

Respectfully submitted,

GREAT WESTERN DRILLING COMPANY

By

S. B. Christy, IV, individually
for Hervey, Dow & Hinkle as a
member of the firm
Box 547, Roswell, New Mexico

Attorneys for the Applicant

BEFORE EXAMINER NUTTER

OIL CONSERVATION COMMISSION

Applicant EXHIBIT NO. 44

CASE NO. 2180

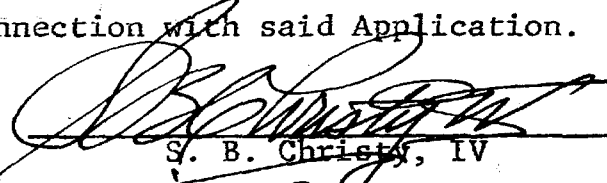
AFFIDAVIT

STATE OF NEW MEXICO)
County of Chaves) ss.

S. B. Christy, IV, a member of the law firm of Hervey, Dow & Hinkle, Box 547, Roswell, New Mexico, which firm is the attorney of record for Great Western Drilling Company in Case No. 2180 before the New Mexico Oil Conservation Commission, does hereby swear that he did on the 12th day of January, 1961, mail a true and correct copy of the Application in the above and foregoing case, postage pre-paid, to each of the following persons at the address stated, to-wit:

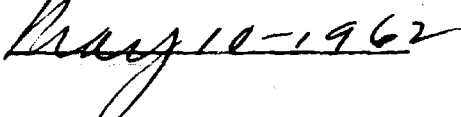
<u>Name</u>	<u>Address</u>
Dr. Hans May	255 S. 17th Street Philadelphia 3, Pennsylvania
William R. Kershaw	Box 143 Mesa, Arizona
William R. Kershaw	1303 No. Taft Street Escondido, California
M. M. Lawellin	Box 2240 Tulsa 2, Oklahoma
J. B. Headley	Box 1017 Roswell, New Mexico
L. T. Lewis	Box 42 Roswell, New Mexico
J. D. Atwood Estate	213 N. Missouri Street Roswell, New Mexico
Frances Smyrl Jennings	Box 27 Roswell, New Mexico
Chase Manhattan Bank	% North Central Oil Corp. Box 317, Wall Street Station New York 5, New York


and that he did take such action for and in behalf of Great Western Drilling Company in connection with said Application.


S. B. Christy, IV

Subscribed and sworn to before me this 12th day of January, 1961.

My Commission Expires:


May 10 - 1962


Notary Public

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
App. No. EXHIBIT NO. 3
CASE NO. 2180

AFFIDAVIT

STATE OF NEW MEXICO }
County of Chaves } ss.

S. B. Christy, IV, a member of the law firm of
Hervey, Dow & Hinkle, Box 547, Roswell, New Mexico,
which firm is the attorney of record for Great Western
Drilling Company in Case No. 2180 before the New
Mexico Oil Conservation Commission, does hereby swear
that he did on the 19th day of January, 1961, mail a
true and correct copy of the Application in the above
and foregoing case, postage prepaid, to each of the
following persons at the address stated, to-wit:

Name

Etha Henneberry Newell

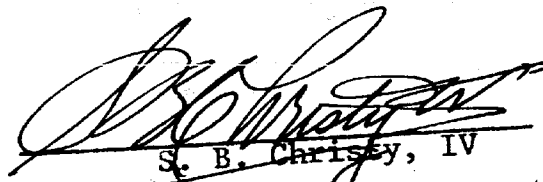
C. B. Neal

Address

East Ridge Road
Waccabuc, New York

P. O. Box 2240
Tulsa, Oklahoma

and that he did take such action for and in behalf of
Great Western Drilling Company in connection with said
Application.

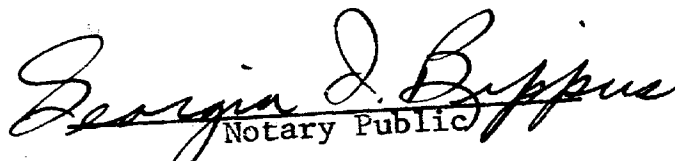

S. B. Christy, IV

Subscribed and sworn to before me this 31st day of

January, 1961.

My Commission Expires:—

May 10 - 1962


Georgia D. Bippus
Notary Public

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
February 8, 1961

EXAMINER HEARING

IN THE MATTER OF:

Application of Great Western Drilling Company for an order force-pooling a 40-acre proration unit in the Eumont Gas Pool. Applicant, in the above-styled cause, seeks an order force-pooling all mineral interests in the Eumont Gas Pool in the SE/4 NE/4 of Section 32, Township 19 South, Range 37 East, Lea County, New Mexico. Interested parties include Dr. Hans May, B. A. Bowers, Estate of George F. Henneberry, William R. Kershaw, C. B. Neal, Fred Manley, Mae Williams, and W. L. Crutchfield.

Case
2180

BEFORE:

Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

MR. NUTTER: First case will be 2180.

MR. MORRIS: Application of Great Western Drill Company for an order for a forced pooling.

MR. CHRISTY: Sim Christy, Hervey, Dow and Hinkle, for the applicant. We have two witnesses, Mr. Examiner, Mr. Huckaby and Mr. Crews.

(Witnesses sworn.)

MR. CHRISTY: Mr. Examiner, this is a companion case, in some respects, to our Case 1998, which was an application for forced-pooling of a gas proration unit in the same area. This is an application for oil forced-pooling in one of the 40-acre tracts

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO



covered by the gas and a portion of this testimony would be the same as the Case 1998, and I will mention it as we go along. The communitization forced-pooling application includes an application for the operating agreement provisions as contemplated by the statute also.

JOHN HUCKABY

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

DIRECT EXAMINATION

BY MR. CHRISTY:

Q Would you please state your name, address and occupation?

A John Huckaby, 2711 Kester Place, Midland, Texas; Land Man, Great Western Drilling Company.

Q Are you familiar with the area involved in this application and the application itself and what it seeks?

A Yes.

Q In connection with the ownership of the various mineral royalty and working interests in the lands involved in the application, have you caused an examination to be made of certain records to determine such ownership?

A Yes, I have.

Q What records have you examined?

A Old abstracts and division orders, and an examination of the abstractors' records in the County, and also the County Clerk's Office.

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

Q I understand there are no current abstracts on this 40-acre tract?

A There are not.

Q And I understand they are quite expensive to obtain?

A That's right.

Q In Case 1998 before this Commission I believe you previously testified as to the mineral royalty and working interest ownership in this 40-acre tract?

A Yes.

MR. CHRISTY: That is pages 6 to 9 of the other transcript, Mr. Examiner.

Q Have there been any changes in the ownership of this tract since the prior testimony?

A No changes in mineral. Great Western now has a lease from the H. L. Lowe interests.

Q Outside of that the ownership is the same as previously testified to?

A Yes.

Q I will refer you to what has been marked Applicant's Exhibit 2, and ask you if that is a plat of the 40-acre tract, broken down into tracts as shown on the communitization agreement?

A Yes, it is.

Q I refer to what has been marked as Applicant's Exhibit 1. That is the communitization agreement itself?

A Yes.



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

MR. CHRISTY: Mr. Examiner, at this time we would like to offer into evidence the transcript of testimony concerning the mineral interests and working and royalty interests in this 40-acre tract as taken from Case 1998. The witness has testified it is the same.

MR. NUTTER: First of all, Mr. Christy, the acreage described in the previous case was the E/2 of the NE of 32, the E/2 of the NW of 33, and the NW NW of 33; that was a 200-acre non-standard gas unit for the Eumont Gas Pool?

MR. CHRISTY: Yes, sir.

MR. NUTTER: This is a 40-acre in the Eumont Gas Pool covering this 40-acre tract right here, being the SE NE of 32?

MR. CHRISTY: That's correct, sir.

MR. NUTTER: Weren't the mineral interests previously force-pooled?

MR. CHRISTY: They were force-pooled for the production of gas for the Bordages No. 2, NW NW of 33.

MR. NUTTER: What is the production of the wells on this 40 acres?

MR. CHRISTY: This is Queen oil; the other is Seven Rivers gas.

MR. NUTTER: This is oil, now, from the Eumont Gas Pool?

MR. CHRISTY: Yes, sir. It is oil from the Queen; I assume it is the Eumont. I really don't know what field.

MR. NUTTER: Go ahead. You wanted to consolidate the



testimony of the previous case insofar as it relates to ownership and so forth? The record of the previous case will be incorporated by reference in this one.

Q (By Mr. Christy) Now, sir, with respect to people who have and have not executed the communitization agreement, which is applicant's Exhibit 1 in this case, who has and who has not?

A All the people concerned have executed with the exception of those listed in Paragraph 3 of our application.

Q Now, sir, are the addresses shown in Paragraph 3 of the application the correct addresses for each of those people who have not joined in the communitization agreement?

A With the exception of the address for William R. Kershaw, whose address is now 1303 North Taft, Escondido, California.

Q In that Paragraph 3 I notice you have a M. M. Llewellyn interest, and you marked it sold to C. B. Neal. What is C. B. Neal's address?

A First National Bank and Trust Company, Box 220, Tulsa 2, Oklahoma.

Q Also, on the Estate of George F. Henneberry, you have shown address unknown. Since the filing have you determined any known heirs or addresses?

A Yes. The heir, Etha Henneberry Newell, whose address is East Ridge Road, Waccabuc, New York.

Q That leaves us with addresses unknown on B. A. Bowers, Fred Manley and W. L. Crutchfield; is that true at this time?

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

A Yes.

Q Have you made a diligent search to determine the addresses of those people?

A We have, but have been unable to come up with an address.

Q Have you checked with the pipelines?

A Those who are involved in production, which has been previously acquired, their interests are being handled.

MR. CHRISTY: At this time I would like to offer into evidence Applicant's Exhibits 3 and 4. They are offered, Mr. Examiner. I have the registered return receipts. With this number of people I thought perhaps an affidavit of mailing might be more handily kept in the file. I do have the receipts if you would like them, all those just testified to.

MR. NUTTER: This is all right.

Q (By Mr. Christy) Turning to the communitization and operating agreement itself, Mr. Huckaby, as I understand you everyone has executed except the people shown in Paragraph 3 of this application?

A That's right.

Q Who is the operator?

A Great Western Drilling Company.

Q In obtaining the signatures from the working interest owners, and particularly with respect to the provisions concerning the operating agreement, did you get any squawks from those working interest owners about the terms and provisions of the operating



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

agreement portion of Exhibit 1 with respect to costs and expenses?

A Each working interest owner will share equitably in the expenses.

Q What operations are proposed under the agreement?

A The reworking operations.

Q You propose to rework this well?

A Just rework the well.

Q And subsequent to the reworking operations, what is the maximum amount that can be expended by the operator without the consent of other working interest owners?

A \$1,000 without the consent of 75%.

Q What is the effective date of the agreement?

A Effective date of the agreement is the commencement date of the reworking operations.

Q Is there any limitation on when the reworking has to be commenced?

A On or before March 1, 1961.

Q Was Exhibit 2, the map here, prepared by you or under your direction supervision?

A Yes, it was.

MR. CHRISTY: At this point we would like to offer into evidence Exhibit 1, which is the Communitization and Operating Agreement, and Exhibit 2, which is the plat showing the various tracts, and the two affidavits, Exhibits 3 and 4.

MR. NUTTER: At this time your offering, 1, 2, 3, and 4



will be entered in evidence.

MR. CHRISTY: That is all we have from this witness. We do have another witness in connection with the actual mechanics of it and the petroleum engineering aspects of the proposed application.

MR. NUTTER: Are there any questions of Mr. Huckaby?

MR. PAYNE: What kind of engineering aspects, Mr. Christy?

MR. CHRISTY: Exactly what is proposed in the reworking, the cost of it, and the expected results, matters in connection with correlative rights and waste.

BY MR. PAYNE:

Q On this part of your testimony, was this No. 5 well originally a gas well, or what was it?

A The Crutchfield Well?

Q Yes, sir.

A It was originally an oil well, I believe. Yes, that's correct.

Q You are just reworking it as an oil well?

A Yes, sir.

Q Is it perforated in any interval in which the Bordages Well was perforated?

A I am not sure about that. The petroleum engineer may know.

Q As I understand it you presently have a 200-acre non-standard unit for the Bordages Well as a Eumont gas unit?

A Yes, sir.

Q Now, you are proposing a 40-acre Eumont Oil Unit, is that

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO



right?

A That's right.

BY MR. NUTTER:

Q Mr. Huckaby, as I recall the testimony in the previous record, you testified as to what actual acreage these various people owned and what percentage of the total 200-acre unit that amounted to?

A Yes, sir.

Q In Paragraph 3 of your application here you have stated, for example, Dr. May has 5/64 working interest; Bowers, 4.852 royalty interest, and so forth; is that of the 40-acre unit?

A That is of 31 acres.

MR. CHRISTY: Tract 1 is 31 acres, Mr. Examiner. It is shown in Exhibit A of the communitization agreement. That is the interest within the tract.

Q (By Mr. Nutter) What about the working interests and royalty interests under Tracts 2, 3, 4, 5 and 6; have they agreed to the communitization, or are they covered farther along in Paragraph 3?

A Yes, sir; that's correct.

Q And the percentage or fraction of ownership, then, is not of the entire area; this is their portion of the tract in which they have an ownership?

A Yes, only.

Q Have you determined what their portion of the entire 40-

DEARNLEY-MEIER REPORTING SERVICE, Inc.

ALBUQUERQUE, NEW MEXICO

PHONE CH 3-6651



DEARNLEY-MEIER REPORTING SERVICE, Inc.
ALBUQUERQUE, NEW MEXICO

PHONE CH 3-6691

acre unit would be?

A No, I don't have that. I just figured that on the individual tract in which they were concerned. We have a little over 92% of the working interest ownership in the 31-acre tract, as I understand, which will make the fraction differ very slightly as it pertained to the 40-acre tract.

Q These people listed in Paragraph 3 of the application will share in the production from the 40-acre unit, but to some lesser extent than is shown here?

A Yes, sir.

MR. CHRISTY: I might state to the Examiner, the communitization agreement provides to unleased mineral interests -- for example, Fred Manley, in Tract 3 -- I don't say he is working or royalty, he owns some mineral acreage. It is provided that will be considered 7/8 working and 1/8 royalty. His cost would be 1/4 of 7/8 of Tract 3's interest of the whole 40-acre tract.

Q In other words, he is a working interest as well as royalty?

MR. CHRISTY: Mineral fee owner, Tract 3. His cost would be 1/4 of 7/8 of 2.55 over 40 acres.

MR. PAYNE: In other words, you are not asking for anything in addition for cost of supervision and operation?

MR. CHRISTY: No, sir. It does provide 6% interest if you don't pay costs as you go along.

MR. NUTTER: What is the status of the No. 5 Well; has it



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

ever produced?

MR. CHRISTY: Yes, sir. It has been producing since 1937. The petroleum engineer will testify as to that.

MR. NUTTER: How have the moneys been allocated?

MR. CHRISTY: The well has just been producing below allowable.

MR. NUTTER: This acreage never has been force-pooled?

MR. CHRISTY: No, sir.

MR. NUTTER: Did Great Western list themselves as the only owner when they filed the C-128?

MR. CHRISTY: I don't know, sir.

THE WITNESS: Great Western didn't have it when it was completed. We just recently acquired our interests.

MR. CHRISTY: This was operated many, many years by people in Chicago. Great Western bought it last summer or fall. That is when we started working to get this straightened out.

BY MR. NUTTER:

Q Mr. Huckaby, this communitization and operating agreement requires that any person who doesn't pay his share of the working interests, cost of reworking the well and operating it, would pay at the rate of 6% per annum until his share is paid. That proration is applicable to the persons who sign this agreement, is that correct?

MR. CHRISTY: No.

Q It is a part of the agreement, so it would be applicable to those people?



A All persons involved in receiving proceeds from production would share in the expenses.

Q Are you aware of any provisions in the rules of the Oil Conservation Commission or statutes that provide that the Conservation Commission could, under an order, require that any working interest pay interest at the rate of 6%?

A No, I am not.

MR. CHRISTY: This is, perhaps, a legal question, Mr. Examiner. I believe the statute does provide that the Commission has the authority to provide, by order, for reasonable terms in provisions of an operating agreement, including the percent to the operator for his costs and expenses, overhead.

MR. PAYNE: Cost of supervision and operation?

MR. CHRISTY: Yes, sir.

MR. NUTTER: This is for interest.

THE WITNESS: Certainly it is less than has been previously passed by the Commission.

MR. CHRISTY: As a practical matter, Mr. Examiner, I am not particularly worried about it. Three of them have been unheard of for twenty years. I think we will wind up the same as anyone else.

BY MR. PAYNE:

Q You are aware as to the unleased lands where the person owns both the working interest and the royalty interest, that as to the royalty, it has to be paid month by month, and you can't with-

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

hold on that to pay his proportional share of the cost?

A That's right.

MR. NUTTER: Any further questions of Mr. Huckaby? You may be excused.

MR. CHRISTY: Mr. Crews, please. You have been previously sworn, sir?

MR. CREWS: Yes, sir.

O. H. CREWS

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

DIRECT EXAMINATION

BY MR. CHRISTY:

Q Will you please state your name, address and occupation?

A O. H. Crews, 3117 West Louisiana, Midland, Texas.

Q What is your occupation?

A Administrative Coordinator of Production.

Q For who?

A Great Western Drilling Company.

Q Have you previously testified before this Commission as a petroleum engineer and had your qualifications accepted?

A Yes, sir.

Q Are you familiar with the application in Case 2180, the area involved, the well in question, and the production history of it?

A I am.



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

Q I refer you to the well itself, and at this point I will refer you to Exhibit 5 and ask you what that is, please, sir?

A Exhibit 5 is a map containing the Crutchfield Well in question, and it has the four sections immediately in the area. It contains the wells producing from this formation, their current allowable marked directly under each well. It has the diagonal offset wells, and also the gas wells of the Eumont Field, which are properly designated as gas wells.

Q With respect to this Crutchfield well, what is the location by subdivision?

A This Crutchfield Well is in the SE of the NE of Section 32. It is 2310 from the North line and 990 feet from the East line.

Q In Township 19 South, Range 37 East, Lea County?

A Correct.

Q With respect to the history of the well, when was it drilled and completed, what year?

A September 14th, 1937.

Q Was it completed as an oil or gas well?

A As an oil well.

Q Has it continually produced since that time?

A It has.

Q Who is purchasing the oil out there?

A Shell Pipeline Company.

Q What is the production history on the well, say for the year 1960?



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

A Well, to start in, January, 1960, for the month it produced 108 barrels. That has consistently come down until in December, 1960, it produced 1 barrel a day, approximately, or 30 barrels a month.

Q Do you have an opinion as to whether or not some remedial work should be done on the well in conformity with good oil field procedure in the area?

A Several wells in the area have been reacidized and have responded well. This well was acidized in 1937. There is a good chance some of the pay has not been acidized.

Q What is the pay area in the well, sir, what depth?

A It is from 3850 to 3909.

Q Is this the same pay interval as the Bordages Well in NW NW of 33?

A No, several hundred feet deeper. This is the Queen, a limey sand, no water.

Q Now, a moment ago you mentioned remedial work had been done on other wells in the area. My question is: Do you feel remedial work should be done on this well?

A Yes, I do.

Q What rework?

A This is currently a flowing well, just barely flows, but does kick out all the oil it produces. We feel that going in this well and using a packer and selectively acidizing the portion of the pay that hasn't been acidized, that we can make a commercial



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

producer out of it.

Q What is the mechanics of what you would actually do?

A Go in and run a caliper survey on the open hole and find proper seats for an expanding packer. We could acidize, selectively, the zones that haven't been acidized. The survey will show us where the well has been acidized.

Q What do you feel the probable results of such reworking would be?

A Judging by the offset wells that have been reworked we figure somewhere between 15 and 25 barrels will be the recovery per day from this well.

Q That would be as adverse to the one barrel per day in December, 1960?

A Yes.

Q Have you made a cost estimate on the remedial work?

A Yes, we have.

Q I refer you to Applicant's Exhibit 6 and ask you if that is the cost estimate?

A Of the Crutchfield No. 1, correct.

Q And it shows in recapitulation about \$5,800 for well equipment, \$1,200 for electrical equipment, and \$2,500 for intangibles, giving a total of about \$9,600. Are those costs in line with prevailing market prices in this area?

A Yes, they are.

Q In the absence of some unforeseen contingency, do you feel



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

the total there shown will adequately cover the remedial work?

A Yes.

A That will be good, proper remedial work?

A Yes, sir. That is our money we are spending.

Q If the well now makes 1 barrel a day, and will make 15 to 25 barrels a day following the remedial work, about how long will it pay out, about, on the cost of the remedial work?

A The maximum amount required, under the minimum production, would be two years. Of course, if it gives us the maximum amount of production it would pay out in a year, year and a half.

Q Following the remedial work that you have just mentioned, will this Crutchfield well effectively and efficiently drain the 40-acre tract in question of oil in this Queen formation?

A Yes, sir.

Q With respect to these people sought to be force-pooled, do you see where the granting of the application might violate their correlative rights with the knowledge that a portion of them are unleased mineral interests here?

A No, it wouldn't.

Q Will the remedial work suggested result in the prevention of waste?

A Yes, because we will recover oil that otherwise wouldn't be recovered.

Q Were Exhibits 5 and 6 prepared by you or under your direct supervision?



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

A Yes, sir.

MR. CHRISTY: At this point we would like to offer in evidence Applicant's Exhibits 5 and 6.

MR. NUTTER: Exhibits 5 and 6 will be entered in evidence.

MR. CHRISTY: That is all we have of this witness.

BY MR. PAYNE:

Q In the remedial work to be performed on this well, do you intend to perforate any additional sections, or just acidize?

A Just acidize the open section.

BY MR. PORTER:

Q You will use an expanding packer?

A Yes, sir.

Q Is this the method used on the other wells you mentioned?

A Yes, sir.

Q Do you recall what the cumulative production of this Crutchfield well is?

A It seems to me that it is in the neighborhood of 160,000 barrels. Of course, we anticipate pumping this well, too, putting pumping equipment on it as you will notice on the cost evidence.

BY MR. NUTTER:

Q You stated that the producing interval is 3850 to 3909?

A Yes, sir.

Q Open hole or perforated?

A Open hole.

Q You will just reacidize selectively in this same open hole



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

interval?

A Yes, sir.

Q What is the producing interval in the Bordages well?

A By footage, you mean?

Q Yes.

A From about in the neighborhood of 3200 feet. It is the gas zone, some hundreds of feet above this zone.

Q It is producing from the Yates sand, is it, upper Queen?

A They sometimes call it the Yates, sometimes Seven Rivers. I think it is the Yates.

MR. CHRISTY: The transcript shows 3530, 3580 on the Bordages, Page 30.

THE WITNESS: Some 200 feet above.

Q (By Mr. Nutter) And this well is producing from the Queen formation?

A Yes.

Q What pay in the Queen?

A It is a sandy lime. Actually, it is a lime underneath the sand.

Q And that is the interval that this well has been producing from since 1937?

A Correct. It is the same interval that these other wells marked here are producing from.

BY MR. PAYNE:

Q Does this well make any water, Mr. Crews?



A No, sir, it doesn't. If it did it certainly wouldn't flow now.

BY MR. NUTTER:

Q What would you anticipate doing if, on rework, this well became classified as a gas well?

A We already have this area under gas from the Eumont Pool. It would be abandoned if it was not a producer of oil.

MR. NUTTER: Any further questions?

REDIRECT EXAMINATION

BY MR. CHRISTY:

Q What would be the effect of not granting the application, with respect to reworking and allowing the reworking to be done?

A We would probably abandon it.

BY MR. PORTER:

Q Does the record show whether or not this well was acidized when it was first completed?

A Yes, sir. It was acidized in 1937, first with 2,000 gallons, then with 4,000 gallons.

Q Does that record show whether or not the well was reworked or attempted to be reworked?

A We have no record of any attempted remedial work since then. It has been consistently a flowing well. Nobody paid any attention to it.

MR. NUTTER: Any other questions of the witness? He may be excused.

DEARNLEY-MEIER REPORTING SERVICE, Inc.
ALBUQUERQUE, NEW MEXICO

PHONE CH 3-6691



DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-5691

ALBUQUERQUE, NEW MEXICO

MR. CHRISTY: That will be all for the applicant. I will mention we will appreciate consideration of the case. We do have to commence the reworking by March 1st if we are to be successful under the communitization agreement. It terminates by itself, ipso facto, if we do not start March 1st.

MR. NUTTER: Does anyone have anything further they wish to offer in Case 2180? Take the case under advisement.

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

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

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 16th day of February, 1961.

June Paige
Notary Public - Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2180 heard by me on 2/8, 1961.
[Signature]
Examiner
New Mexico Oil Conservation Commission



I N D E X

<u>WITNESS</u>	<u>PAGE</u>
JOHN HUCKABY	
Direct Examination by Mr. Christy	2
QUESTIONS by Mr. Payne	8
QUESTIONS by Mr. Nutter	9
QUESTIONS by Mr. Payne	12
O. H. CREWS	
Direct Examination by Mr. Christy	13
QUESTIONS by Mr. Payne	18
QUESTIONS by Mr. Porter	18
QUESTIONS by Mr. Nutter	18
QUESTIONS by Mr. Payne	19
QUESTIONS by Mr. Nutter	20

E X H I B I T S

<u>NUMBER</u>	<u>EXHIBIT</u>	<u>IDENTIFIED</u>	<u>OFFERED</u>	<u>ADMITTED</u>
Ex.#1	Communitization Agreement	3	8	8
Ex.#2	Plat	3	8	8
Ex.#3	Affidavit	5	6-8	8
Ex.#4	Affidavit	5	6-8	8
Ex.#5	Map	14	18	18
Ex.#6	Cost Estimate	16	18	18

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO



CRUTCHFIELD NO. 1

COST ESTIMATE

WELL EQUIPMENT

1 - Pumping Unit, Parkersburg 42-G57D-10-WB5 w/ 24" PD 3C Sheave	\$3,250.00
3850' - Sucker rods, Norris type 30	1,810.00
1 - Tubing head, 5 1/2" x 2" Norris Two-in-one	159.00
1 - 2" x 1 1/2" x 10' Pump	225.00
1 - Plished rod and clamp	30.00
1 - Pumping tee and stuffing box	26.00
1 set - V belts	45.00
1 - 5 1/2", 14#, J-55 x 6' (approx.) casing nipple	25.00
1 - 7" PD-3C Motor sheave and hub	21.00
Connections for standard hookup	250.00

Total Well Equipment

\$5,820.00

ELECTRICAL EQUIPMENT

1 - 7.5 HP Electric Motor (On Hand)	\$ 350.00
1 - Size 1 Motor Control (On Hand)	215.00
2 - 5KVA 12,000-240/480 volt transformers	320.00
1 - 3KVAR Oil field capacitor	46.00
3 - 30' poles, class 5, 8# creosote retention	60.00
1 - 10' stub pole and motor connection	35.00
2970' - No. 4 ACSR conductor	64.00
90' - Plastic insulated conductor for direct burial	25.00
Miscellaneous Hardware	130.00

Total Electrical Equipment

\$1,245.00

INTANGIBLES

Pulling Unit
Dirt Work
Roustabout Labor
Acidize w/5,000 gallons
Trucking
Electricians Labor

\$ 756.00
80.00
250.00
820.00
300.00
325.00

Total Intangibles

\$2,531.00

Total Estimated Cost

\$9,596.00

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Applic EXHIBIT NO. 6
CASE NO. 2180



R. C. TUCKER, Pres.

February 28, 1961

PHONE MU 2-5241
ADDRESS REPLY TO:
BOX 1659
MIDLAND, TEXAS

Re: Case No. 2180
Order No. R-1883

Oil Conservation Commission
State of New Mexico
P.O. Box 871
Santa Fe, New Mexico


Attention: A. L. Porter, Jr.

Gentlemen:

In conjunction with the captioned Order, we are enclosing Affidavit by our General Production Superintendent in which he states that reworking operations were commenced February 27, 1961. This Affidavit is furnished you as proof of compliance with the time limitation ending March 1, 1961 which was provided for commencing the reworking operations.

Yours very truly,

GREAT WESTERN DRILLING COMPANY


J. B. Huckabay, Jr.
Land Department

JBH:mc
Encl.

cc: Mr. S. B. Christy
Hervey, Dow & Hinkle
P.O. Box 10
Roswell, New Mexico



EXHIBIT "C"

AFFIDAVIT

C. H. McHugh, of lawful age, being first duly sworn, upon his oath deposes and says that he is General Production Superintendent for Great Western Drilling Company and that on February 27, 1961, Great Western Drilling Company commenced reworking operations on the Crutchfield #1 well located 990' from the East line and 2970' from the South line of Section 32, T-19-S, R-37-E, NEPM, Lea County, New Mexico.

C. H. McHugh
C. H. McHugh

INTERVIEWED AND SWORN TO BEFORE ME this 28 day of February, A.D. 1961.

Sam H. Sudds
Notary Public

STATE OF TEXAS)
COUNTY OF HILL)

The foregoing instrument was acknowledged before me this 28 day of February, 1961, by C. H. McHugh.

Sam H. Sudds
Notary Public in and for Hill
County, Texas.

My Commission Expires 6-1-61

GOVERNOR
JOHN BURROUGHS
CHAIRMAN

State of New Mexico
Oil Conservation Commission

LAND COMMISSIONER
MURRAY E. MORGAN
MEMBER



STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY DIRECTOR

P. O. BOX 871
SANTA FE

February 22, 1961

Mr. Sin Christy
Hurvey, Dow & Hinkle
Box 10
Roswell, New Mexico

Re: Case No. 2180
Order No. E-1883
Applicant:
Great Western Drig. Co.

Dear Sir:

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

Very truly yours,

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

ir/

Carbon copy of order also sent to:

Hobbs OCC x
Artesia OCC
Aztec OCC

Other

DOCKET: EXAMINER HEARING - WEDNESDAY, FEBRUARY 8, 1961

OIL CONSERVATION COMMISSION - 9 A. M., CONFERENCE ROOM - STATE LAND OFFICE
BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Oliver E. Payne, Attorney, as alternate examiner:

- CASE 2171: Application of Amerada Petroleum Corporation for permission to commingle the production from several separate pools and for an automatic custody transfer system. Applicant, in the above-styled cause, seeks permission to commingle the production from the Justis-Blinebry, Justis-Drinkard, Justis-Fusselman, and an undesignated 5000 foot pay zone from all wells presently completed or hereafter drilled on the Ida Wimberley Lease comprising portions of Sections 24, 25 and 26, Township 25 South, Range 37 East, Lea County, New Mexico. Applicant further seeks permission to install an automatic custody transfer system to handle said commingled production.
- CASE 2172: Application of Rice Engineering & Operating, Inc. for a salt water disposal well. Applicant, in the above-styled cause, seeks an order authorizing the disposal of produced salt water through its Gulf Houston Well No. 1, located 1980 feet from the South and East lines of Section 19, Township 12 South, Range 38 East, Lea County, New Mexico, with injection to be in the Devonian formation in the interval from 12,200 feet to 12,500 feet.
- CASE 2173: Application of Yates Petroleum Corporation for an order force-pooling a 322.4-acre gas proration unit in the Atoka-Pennsylvanian Gas Pool. Applicant, in the above-styled cause, seeks an order force-pooling all mineral interests in the Atoka-Pennsylvanian Gas Pool in the S/2 of Section 21, Township 18 South, Range 26 East, Eddy County, New Mexico. Interested parties include J. N. Hawkins, J. W. Potter, William H. Swearingen, Smith B. Crane, Frank F. Coon, A. F. Escobar, Olive E. Harrison, Pan American Petroleum Corporation, Mayme Ressinger, J. R. Raymond, Isabell Gallegos, Alice Heck Martin, Maze Heck Pinnell, Wave Heck Hill.

CASE 2174:

Application of Yates Petroleum Corporation for an order force-pooling a 322.2-acre gas proration unit in the Atoka-Pennsylvanian Gas Pool. Applicant, in the above-styled cause, seeks an order force-pooling all mineral interests in the Atoka-Pennsylvanian Gas Pool in the N/2 of Section 28, Township 18 South, Range 26 East, Eddy County, New Mexico. Interested parties include William H. Swearingen, Alice Heck Martin, Maze Heck Pinnell, Wave Heck Hill, J. W. Potter, James W. Hall and Mrs. Lucille Ruddell South.

CASE 2175:

Application of Sunray Mid-Continent Oil Company for an oil-oil dual completion utilizing two strings of casing. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its State "Y" Well No. 1, located in Unit G, Section 32, Township 18 South, Range 31 East, Eddy County, New Mexico, in such a manner as to permit the production of oil from the Culwin-Yates Pool and the production of oil from the North Shugart Queen-Grayburg Pool through parallel strings of 2 7/8-inch casing cemented in a common well bore.

CASE 2176:

Application of Honolulu Oil Corporation for a pressure maintenance project. Applicant, in the above-styled cause, seeks an order authorizing it to install a pressure maintenance project in the Horseshoe-Gallup Oil Pool by the injection of water into the Gallup formation through its Navajo Well No. 4, located in the SE/4 SE/4 of Section 5, Township 31 North, Range 17 West, San Juan County, New Mexico. Applicant further seeks the adoption of special rules governing the operation of said project.

CASE 2177:

Application of Phillips Petroleum Company for an automatic custody transfer system. Applicant, in the above-styled cause, seeks permission to install an automatic custody transfer system to handle the Corbin-Abo Pool production from all wells presently drilled or hereafter completed on the Eilliams Federal Lease comprising portions of Sections 33 and 34, Township 17 South, Range 33 East, Lea County, New Mexico.

CASE 2178:

Application of Humble Oil & Refining Company for permission to commingle the production from several separate leases and for an automatic custody transfer system. Applicant, in the above-styled cause, seeks permission to commingle the

CASE 2178: (Cont.)

Horseshoe-Gallup Oil Pool production from all wells presently completed or hereafter drilled on the Navajo "F" lease, comprising all of Sections 3, 4, 9, and 10, the Navajo "G" lease, comprising all of Sections 1, 2, 11 and 12, and the Navajo "M" lease, comprising the NE/4 of Section 5, all in Township 31 North, Range 17 West, San Juan County, New Mexico. Applicant further seeks permission to install an automatic custody transfer system to handle said commingled production.

CASE 2179:

Application of Drilling and Exploration Company, Inc. for approval of the Mescalero Ridge Unit Agreement. Applicant, in the above-styled cause, seeks approval of the Mescalero Ridge Unit Agreement, which unit embraces 7521 acres of Federal and State lands in Township 19 South, Range 34 East, Lea County, New Mexico.

CASE 2180:

Application of Great Western Drilling Company for an order force-pooling a 40-acre proration unit in the Eumont Gas Pool. Applicant, in the above-styled cause, seeks an order force-pooling all mineral interests in the Eumont Gas Pool in the SE/4 NE/4 of Section 32, Township 19 South, Range 37 East, Lea County, New Mexico. Interested parties include Dr. Hans May, B. A. Bowers, Estate of George F. Henneberry, William R. Kershaw, C. B. Neal, Fred Manley, Mae Williams, and W. L. Crutchfield.

CASE 2181:

Application of Gulf Oil Corporation for approval of the Hackberry Hills Unit Agreement. Applicant, in the above-styled cause, seeks approval of the Hackberry Hills Unit Agreement, which unit embraces 13,920 acres in Townships 21 and 22 South, Ranges 25 and 26 East, Eddy County, New Mexico.

No. 4-61

DOCKET: EXAMINER HEARING - WEDNESDAY, FEBRUARY 8, 1961

OIL CONSERVATION COMMISSION - 9 A. M., CONFERENCE ROOM - STATE LAND OFFICE
BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or
Oliver E. Payne, Attorney, as alternate examiner:

CASE 2171:

Application of Amerada Petroleum Corporation for permission to commingle the production from several separate pools and for an automatic custody transfer system. Applicant, in the above-styled cause, seeks permission to commingle the production from the Justis-Blinebry, Justis-Drinkard, Justis-Fusselman, and an undesignated 5000 foot pay zone from all wells presently completed or hereafter drilled on the Ida Wimberley Lease comprising portions of Sections 24, 25 and 26, Township 25 South, Range 37 East, Lea County, New Mexico. Applicant further seeks permission to install an automatic custody transfer system to handle said commingled production.

CASE 2172:

Application of Rice Engineering & Operating, Inc. for a salt water disposal well. Applicant, in the above-styled cause, seeks an order authorizing the disposal of produced salt water through its Gulf Houston Well No. 1, located 1980 feet from the South and East lines of Section 19, Township 12 South, Range 38 East, Lea County, New Mexico, with injection to be in the Devonian formation in the interval from 12,200 feet to 12,500 feet.

CASE 2173:

Application of Yates Petroleum Corporation for an order force-pooling a 322.4-acre gas proration unit in the Atoka-Pennsylvanian Gas Pool. Applicant, in the above-styled cause, seeks an order force-pooling all mineral interests in the Atoka-Pennsylvanian Gas Pool in the S/2 of Section 21, Township 18 South, Range 26 East, Eddy County, New Mexico. Interested parties include J. N. Hawkins, J. W. Potter, William H. Swearingen, Smith B. Crane, Frank F. Coon, A. F. Escobar, Olive E. Harrison, Pan American Petroleum Corporation, Mayme Ressinger, J. R. Raymond, Isabell Gallegos, Alice Heck Martin, Maze Heck Pinnell, Wave Heck Hill.

CASE 2174:

Application of Yates Petroleum Corporation for an order force-pooling a 322.2-acre gas proration unit in the Atoka-Pennsylvanian Gas Pool. Applicant, in the above-styled cause, seeks an order force-pooling all mineral interests in the Atoka-Pennsylvanian Gas Pool in the N/2 of Section 28, Township 18 South, Range 26 East, Eddy County, New Mexico. Interested parties include William H. Swearingen, Alice Heck Martin, Maze Heck Pinnell, Wave Heck Hill, J. W. Potter, James W. Hall and Mrs. Lucille Ruddell South.

CASE 2175:

Application of Sunray Mid-Continent Oil Company for an oil-oil dual completion utilizing two strings of casing. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its State "Y" Well No. 1, located in Unit G, Section 32, Township 18 South, Range 31 East, Eddy County, New Mexico, in such a manner as to permit the production of oil from the Culwin-Yates Pool and the production of oil from the North Shugart Queen-Grayburg Pool through parallel strings of 2 7/8-inch casing cemented in a common well bore.

CASE 2176:

Application of Honolulu Oil Corporation for a pressure maintenance project. Applicant, in the above-styled cause, seeks an order authorizing it to install a pressure maintenance project in the Horseshoe-Gallup Oil Pool by the injection of water into the Gallup formation through its Navajo Well No. 4, located in the SE/4 SE/4 of Section 5, Township 31 North, Range 17 West, San Juan County, New Mexico. Applicant further seeks the adoption of special rules governing the operation of said project.

CASE 2177:

Application of Phillips Petroleum Company for an automatic custody transfer system. Applicant, in the above-styled cause, seeks permission to install an automatic custody transfer system to handle the Corbin-Abo Pool production from all wells presently drilled or hereafter completed on the Eilliams Federal Lease comprising portions of Sections 33 and 34, Township 17 South, Range 33 East, Lea County, New Mexico.

CASE 2178:

Application of Humble Oil & Refining Company for permission to commingle the production from several separate leases and for an automatic custody transfer system. Applicant, in the above-styled cause, seeks permission to commingle the

CASE 2178: (Cont.)

Horseshoe-Gallup Oil Pool production from all wells presently completed or hereafter drilled on the Navajo "F" lease, comprising all of Sections 3, 4, 9, and 10, the Navajo "G" lease, comprising all of Sections 1, 2, 11 and 12, and the Navajo "M" lease, comprising the NE/4 of Section 5, all in Township 31 North, Range 17 West, San Juan County, New Mexico. Applicant further seeks permission to install an automatic custody transfer system to handle said commingled production.

CASE 2179:

Application of Drilling and Exploration Company, Inc. for approval of the Mescalero Ridge Unit Agreement. Applicant, in the above-styled cause, seeks approval of the Mescalero Ridge Unit Agreement, which unit embraces 7521 acres of Federal and State lands in Township 19 South, Range 34 East, Lea County, New Mexico.

CASE 2180:

Application of Great Western Drilling Company for an order force-pooling a 40-acre proration unit in the Eumont Gas Pool. Applicant, in the above-styled cause, seeks an order force-pooling all mineral interests in the Eumont Gas Pool in the SE/4 NE/4 of Section 32, Township 19 South, Range 37 East, Lea County, New Mexico. Interested parties include Dr. Hans May, B. A. Bowers, Estate of George F. Henneberry, William R. Kershaw, C. B. Neal, Fred Manley, Mae Williams, and W. L. Crutchfield.

CASE 2181:

Application of Gulf Oil Corporation for approval of the Hackberry Hills Unit Agreement. Applicant, in the above-styled cause, seeks approval of the Hackberry Hills Unit Agreement, which unit embraces 13,920 acres in Townships 21 and 22 South, Ranges 25 and 26 East, Eddy County, New Mexico.

Emmott Case 2180

LAW OFFICES
HERVEY, DOW & HINKLE
HINKLE BUILDING
ROSWELL, NEW MEXICO

TELEPHONE MAIN 2-6510
POST OFFICE BOX 547

J. M. HERVEY 1874-1953
HIRAM M. DOW
CLARENCE E. HINKLE
W. E. BONDURANT, JR.
GEORGE H. HUNKER, JR.
HOWARD C. BRATTON
S. B. CHRISTY, IV
LEWIS C. COX, JR.
PAUL W. EATON, JR.
CONRAD E. COFFIELD

January 12, 1961

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

Re: Bordages Oil Communitization
SE¹/₄NE¹/₄ Section 32, Township
19 South, Range 37 East, N.M.P.M.,
Lea County, New Mexico
Our No. 124-4

Gentlemen:

We hand you herewith triplicate counterparts of an Application of Great Western Drilling Company for an order force pooling all mineral interests for the production of oil and associated liquid hydrocarbons producible within the vertical limits of the Queen Formation underlying the captioned lands.

We would thank you in advance to docket the above cause, and we respectfully request an Examiner Hearing at Santa Fe, New Mexico at the Commission's convenience.

By way of explanation, and with reference to paragraph 3 of the Application, we advise that since the preparation of the Application the following additional persons have executed the Communitization and Operating Agreement, to-wit:

L. T. Lewis
Etha Henneberry Newell
✓ J. B. Headley

Frances Smyrl Jennings
Chase Manhattan Bank
J. D. Atwood Estate

due proof of which will be offered at the Hearing on the Application.

However, and in order that the record proper may be complete, we have this day sent a copy of the enclosed Application to each and all of the persons listed in said paragraph 3, registered return receipt requested, and again due proof of this mailing will be made at the Hearing on the Application.

Respectfully,

HERVEY, DOW & HINKLE

By *[Signature]*

SBC:mke
Encls.

cc: Great Western Drilling Co.

*Docketed
Mailed
1-30-61*

DRAFT

RSM/esr
February 9, 1961

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

2/14
2/16
2/21
IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE No. 2180
Order No. R- 1883

APPLICATION OF GREAT WESTERN DRILLING
COMPANY FOR AN ORDER FORCE-POOLING ALL
MINERAL INTERESTS IN A 40-ACRE OIL PRO-
RATION UNIT IN THE EUMONT GAS POOL,
LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on February 8, 1961, at Santa Fe, New Mexico, before Daniel S. Nutter, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this _____ day of February, 1961, the Commission, a quorum being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Daniel S. Nutter, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Great Western Drilling Company, seeks an order force-pooling all mineral interests in the SE/4 NE/4 of Section 32, Township 19 South, Range 37 East, NMPM, Lea County, New Mexico, in order to form a standard 40-acre oil proration unit in the Eumont Gas Pool.

(3) That the applicant has attempted to secure the consent of all interested parties therein to the formation of the above-described oil proration unit.

(4) That inasmuch as the applicant, after diligent effort, has been unable to secure the consent of all interested parties to the formation of the above-described 40-acre oil proration unit, all ^{mineral interests} ~~interested parties~~ therein should be force-pooled.

(5) That denial of the subject application would deprive, or tend to deprive, the interested parties in the said 40-acre tract of the opportunity to recover their just and equitable share of the hydrocarbons in the Eumont Gas Pool.

IT IS THEREFORE ORDERED:

That the interests of all persons having the right to drill for, produce, or share in the production of hydrocarbons from the Eumont Gas Pool underlying the SE/4 NE/4 of Section 32, Township 19 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby force-pooled to form a 40-acre oil proration unit comprising all of said acreage.

~~Done at _____ on _____ 19____~~
~~at _____~~

~~Work on~~ ~~of~~ ~~the~~ ~~proportionate share of the~~ ~~costs~~ ~~of~~ ~~the~~ ~~well~~ ~~which~~ ~~is~~ ~~to~~ ~~be~~ ~~paid~~ ~~out~~ ~~of~~ ~~production~~ ~~by~~ ~~each~~ ~~non-consenting~~ ~~working~~ ~~interest~~ ~~owner~~ ~~shall~~ ~~be~~ ~~100~~ ~~per~~ ~~cent~~ ~~of~~ ~~the~~ ~~same~~ ~~proportion~~ ~~to~~ ~~the~~ ~~total~~ ~~costs~~ ~~that~~ ~~his~~ ~~acreage~~ ~~bears~~ ~~to~~ ~~the~~ ~~total~~ ~~acreage~~ ~~in~~ ~~the~~ ~~pooled~~ ~~unit~~.

PROVIDED FURTHER, That the share of the ~~well~~ ^{remedial work}, as determined above, which is to be paid by the mineral interest owners shall be withheld only from the working interests' share (7/8) of the revenues derived from the sale of the hydrocarbons produced from the well on the pooled unit. Royalty payments are not to be affected by the withholding of any funds for the purpose of paying out a proportionate share of the cost of ~~drilling and~~ ^{remedial work} ~~completing said well~~.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JOHN DUNNINGS, Chairman

MURRAY E. MORGAN, Member

S E A L

esr/

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

-2-
CASE No. 2057
Order No. R-1764

(5) That denial of the subject application would deprive, or tend to deprive, the mineral interest owners in the said 320-acre tract of the opportunity to recover their just and equitable share of the crude petroleum oil or natural gas, or both, in the Dakota Producing Interval.

IT IS THEREFORE ORDERED:

That the interests of all persons having the right to drill for, produce, or share in the production of dry gas and associated liquid hydrocarbons, or either of them, from the Dakota Producing Interval underlying the W/2 of Section 22, Township 29 North, Range 11 West, NMPH, San Juan County, New Mexico, be and the same are hereby force-pooled to form a 320-acre Dakota gas unit comprising all of said acreage, which unit shall be dedicated to the Kay Kimbell Cook Bloomfield Unit Well No. 1, located 790 feet from the South line and 1850 feet from the West line of said Section 22.

PROVIDED HOWEVER, That the proportionate share of the cost of drilling and completing the well on the ~~320~~-acre tract shall be borne by each consenting working interest owner in the same proportion to the total costs that his acreage bears to the total acreage in the pooled unit.

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. 2057
Order No. R-1764

APPLICATION OF KAY KIMBELL
FOR AN ORDER FORCE-POOLING
ALL MINERAL INTERESTS IN A
320-ACRE GAS UNIT IN THE
DAKOTA PRODUCING INTERVAL,
SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on August 24, 1960, at Santa Fe, New Mexico, before Daniel S. Nutter, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

~~... and the applicant, Kay Kimbell, is the operator of the Cook Bloomfield Unit Well No. 1, which well is capable of producing hydrocarbons from the Dakota Producing Interval, and is located 790 feet from the South line and 1850 feet from the West line of Section 22, Township 29 North, Range 11 West, NMPM, San Juan County, New Mexico. Further, that the applicant proposes to dedicate the entire W/2 of said Section 22 to said Cook Bloomfield Unit Well No. 1.~~
evidence adduced, and the recommendations of the Examiner, Daniel S. Nutter, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Kay Kimbell, is the operator of the Cook Bloomfield Unit Well No. 1, which well is capable of producing hydrocarbons from the Dakota Producing Interval, and is located 790 feet from the South line and 1850 feet from the West line of Section 22, Township 29 North, Range 11 West, NMPM, San Juan County, New Mexico. Further, that the applicant proposes to dedicate the entire W/2 of said Section 22 to said Cook Bloomfield Unit Well No. 1.

(3) That a communitization agreement covering the above-described 320-acre unit has been executed, ratified, or consented to by a large majority of persons owning mineral interests in the Dakota Producing Interval under the said 320-acre tract.

(4) That inasmuch as the applicant, after diligent effort, has been unable to secure the consent of all mineral interest owners, it seeks an order force-pooling all Dakota Producing Interval mineral interest owners in the said 320-acre gas unit.

-2-
CASE No. 2057
Order No. R-1764

(5) That denial of the subject application would deprive, or tend to deprive, the mineral interest owners in the said 320-acre tract of the opportunity to recover their just and equitable share of the crude petroleum oil or natural gas, or both, in the Dakota Producing Interval.

IT IS THEREFORE ORDERED:

That the interests of all persons having the right to drill for, produce, or share in the production of dry gas and associated liquid hydrocarbons, or either of them, from the Dakota Producing Interval underlying the W/2 of Section 22, Township 29 North, Range 11 West, NMPM, San Juan County, New Mexico, be and the same are hereby force-pooled to form a 320-acre Dakota gas unit comprising all of said acreage, which unit shall be dedicated to the Kay Kimbell Cook Bloomfield Unit Well No. 1, located 790 feet from the South line and 1850 feet from the West line of said Section 22.

PROVIDED HOWEVER, That the proportionate share of the cost of drilling and completing the well on the 320-acre tract shall be borne by each consenting working interest owner in the same proportion to the total costs that his acreage bears to the total acreage in the pooled unit.

work on ~~the~~ ~~proportionate share of the cost of~~ ~~drilling and completing the well on the 320-acre tract~~ shall be paid out of production by each non-consenting working interest owner shall be ~~100~~ ¹⁰⁰ per cent of the same proportion to the total costs that his acreage bears to the total acreage in the pooled unit.

PROVIDED FURTHER, That the share of the ^{remedial work} ~~well~~, as determined above, which is to be paid by the mineral interest owners shall be withheld only from the working interests' share (7/8) of the revenues derived from the sale of the hydrocarbons produced from the well on the pooled unit. Royalty payments are not to be affected by the withholding of any funds for the purpose of paying out a proportionate share of the cost of ~~drilling and completing said well~~ ^{remedial work}.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

~~JOHN DUNN~~, Chairman

~~MURRAY E. MORGAN~~, Member

S E A L

esr/

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

**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. 2180
Order No. R-1883**

**APPLICATION OF GREAT WESTERN DRILLING
COMPANY FOR AN ORDER FORCE-POOLING ALL
MINERAL INTERESTS IN A 40-ACRE OIL PRO-
DUCTION UNIT IN THE EUMONT GAS POOL,
LEA COUNTY, NEW MEXICO.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on February 8, 1961, at Santa Fe, New Mexico, before Daniel S. Matter, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 22nd day of February, 1961, the Commission, a quorum being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Daniel S. Matter, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Great Western Drilling Company, seeks an order force-pooling all mineral interests in the SE/4 NE/4 of Section 32, Township 19 South, Range 37 East, NMPN Lea County, New Mexico, in order to form a standard 40-acre oil production unit in the Eumont Gas Pool.
- (3) That the applicant has attempted to secure the consent of all interested parties therein to the formation of the above-described oil production unit.
- (4) That inasmuch as the applicant, after diligent effort, has been unable to secure the consent of all interested parties to the formation of the above-described 40-acre oil production unit, all mineral interests therein should be force-pooled.
- (5) That denial of the subject application would deprive, or tend to deprive, the interested parties in the said 40-acre

-2-

CASE No. 2180
Order No. R-1883

tract of the opportunity to recover their just and equitable share of the hydrocarbons in the Eumont Gas Pool.

IT IS THEREFORE ORDERED:

That the interests of all persons having the right to drill for, produce, or share in the production of hydrocarbons from the Eumont Gas Pool underlying the SE/4 NE/4 of Section 32, Township 19 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby force-pooled to form a 40-acre oil proration unit comprising all of said acreage.

PROVIDED HOWEVER, That the proportionate share of the cost of the remedial work on said well which is to be paid out of production by each non-consenting working interest owner shall be 11% per cent of the same proportion to the total costs that his acreage bears to the total acreage in the pooled unit.

PROVIDED FURTHER, That the share of the remedial work, as determined above, which is to be paid by the mineral interest owners shall be withheld only from the working interests' share (7/8) of the revenues derived from the sale of the hydrocarbons produced from the well on the pooled unit. Royalty payments are not to be affected by the withholding of any funds for the purpose of paying out a proportionate share of the cost of remedial work.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

E. L. Mechem

EDWIN L. MECHEM, Chairman

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

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

esx/

RECAPITULATION

<u>TRACT NO.</u>	<u>NO. OF ACRES COMMITTED</u>	<u>PERCENTAGE OF INTEREST IN COMMUNITIZED AREA</u>
1	31	77.500%
2	.48	1.200%
3	2.55	6.375%
4	.53	1.325%
5	4.44	11.100%
6	<u>1</u>	<u>2.500%</u>
TOTAL	40.00 acres	100.000%

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 1
CASE NO. 2186
COMMUNITIZATION AND OPERATING AGREEMENT

THIS AGREEMENT, made and entered into this 1st day of October, 1960, by and between the parties subscribing, ratifying or consenting hereto, such parties being hereinafter referred to as "parties hereto";

WITNESSETH: That,

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

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interest in said lands for the purpose of developing and producing oil and associated liquid hydrocarbons in accordance with the terms and conditions of this Agreement;

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

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

Township 19 South, Range 37 East, N.M.P.M.

Section 32: SE $\frac{1}{4}$ NE $\frac{1}{4}$

containing 40 acres, more or less, Lea County, New Mexico, and this Agreement shall extend to and include only the formations within the vertical limits of the Queen formation underlying said lands and the oil and associated liquid hydrocarbons (hereinafter referred to as "communitized substances") producible from such formation.

2. Attached hereto, and made a part of this Agreement for all purposes, is Exhibit "A" designating the Operator of the communitized area and showing the acreage, percentage, and ownership of communitized substances in all lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this Agreement. A Successor Operator may be designated by a majority in interest of the owners of the working interest in the communitized area.

4. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom, and all costs of operation and production, shall be allocated among the lands comprising said area in the proportion that the acreage interest of each leasehold or mineral fee interest bears to the entire acreage committed to this Agreement.

5. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area shall be determined and paid on the basis prescribed in each of the individual leases. Except as herein modified and changed, the oil and gas leases subject to this Agreement shall remain in full force and effect as originally made or issued.

6. There shall be no obligation on the lessees to offset any oil well or wells completed in the same formation as covered by this Agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diversified ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

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

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

9. It is agreed that it is to the mutual advantage of the parties hereto that the well presently located on the communitized area be reworked in an effort to stimulate production of communitized substances. In this connection, each of the parties hereto owning working, leasehold or operating rights under oil and gas leases and each of the parties hereto owning mineral fee interests embracing parts of the communitized area (hereinafter referred to as "working interest parties hereto") agree that such reworking operations shall be undertaken by Operator for the joint account of the working interest parties hereto, and that all costs and expenses --- estimated at \$10,000.00 --- incident to such reworking operations shall be borne and paid by the working interest parties hereto in the proportion and interest that each owns working, leasehold or operating rights or mineral fee interests in parts of the communitized area; for the purpose of calculating the amount owed by each of the working interest parties hereto, any owner of a mineral fee interest shall be deemed to

be a working or leasehold owner of such mineral interest under a lease providing for the usual 1/8th oil and gas royalty. Such reworking operation shall be commenced by Operator on or before March 1, 1961 or this Agreement shall thereupon terminate without liability or damage to any of the parties hereto.

10. In further connection with the above mentioned reworking operations, and operations on the communitized area subsequent thereto, it is agreed:

(a) Operator shall conduct, direct and have full control of all operations as permitted and required by, and within the limits of, this Agreement. Operator shall conduct all operations hereunder in a good and workmanlike manner, but it shall have no liability as Operator to the other parties hereto for losses sustained or liabilities incurred, except such as may result from gross negligence or from the breach of the provisions of this Agreement. Operator shall control and conduct all future development, producing, maintenance and other operations on the communitized area and communitized substances covered by this Agreement, and in connection therewith Operator is granted full power to do whatever is necessary or proper to that end, subject however to the limitation that subsequent to the completion of such reworking operations, Operator shall make no single expenditure of in excess of \$1,000.00 without the written consent of 75% in interest of the working interest parties hereto.

(b) Operator shall promptly pay and discharge all costs and expenses incurred in the above reworking operations, and in the future operations and development of the communitized area for the production of communitized substances, and Operator shall charge each of the working interest parties hereto with their respective proportionate share thereof upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "B". Each working interest party hereto shall pay to Operator his or her proportionate share of such expenses within fifteen (15) days after receipt of a statement or invoice therefor, and if any such party fails to pay his or her share within such time limit, the amount due shall bear interest at the rate of 6% per annum until paid. Operator is given a first and preferred lien on the interest of each of the working interest party hereto, and in each such party's interest in communitized substances produced, and the proceeds therefrom, and upon each such party's interest in material and equipment in or appurtenant to said well; all to secure the payment of the sums due from each of such party to Operator, and in the event any such party fails to pay any amount owing by he or she to Operator in the amount and within

the time limited for the payment thereof, Operator, without prejudice to other existing remedies, is authorized at its election, to collect from the purchaser or purchasers of communitized substances the proceeds accruing to the net interest of such delinquent party up to the amount owing by such party; and each purchaser of communitized substances is authorized to rely upon Operator's statement as to the amount owing by such party.

(c) Each working interest party hereto shall have the continuing right to receive in kind and separately dispose of his or her proportionate share of all communitized substances produced from the communitized area, exclusive of communitized substances which may be used in development and producing operations, that used in preparing and treating oil for marketing purposes and that unavoidably lost. Each working interest party hereto shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties and other payments due from his or her share of such production, and shall hold the other working interest parties hereto free from all liability therefor. Any extra expenditure incurred in taking in kind or separate disposition by any working interest party hereto of his or her proportionate share of communitized substances shall be borne by such party. In the event any working interest party hereto shall fail to take or otherwise adequately dispose of his or her proportionate share of communitized substances produced from the communitized area currently as and when produced, then so long as such conditions continue, Operator, for the account and at the expense of such working interest party hereto, and in order to avoid curtailment of operations hereunder, may sell or otherwise dispose of such production to itself or to others at not less than the prevailing market price in the area for like production, and the account of such working interest party hereto shall be charged therewith as having received such production. The net proceeds arising from such sale, less any amount due by such working interest party hereto to Operator, shall be paid by Operator to such working interest party hereto. All such sales by Operator shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall such sales be for a period in excess of one year; and in the event such sale is made into interstate commerce, Operator shall give the affected working interest party hereto sixty (60) days' notice of such intended sale.

(d) The liability of the parties hereto shall be several, not joint or collective. It is not the intention of the parties hereto to create, nor shall this Agreement be construed as creating, a partnership, joint venture, mining or other partnership, or association, nor to render them liable as partners. If for Federal Income Tax purposes, this Agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elect to be excluded from the application of all of the provisions of Sub-Chapter K,

Chapter 1, Sub-Title A of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 thereof, and Operator is hereby authorized and directed to execute and deliver on behalf of each of the parties hereto, such evidence of this election as may be required by applicable authority.

11. This Agreement shall be effective as of the date the above reworking operations are commenced on the well presently situated in the communitized area, and shall remain in force and effect for a period of two years and so long thereafter as communitized substances are or can be produced from the communitized area in paying quantities, provided that prior to production in paying quantities from the communitized area, this Agreement may be terminated at any time by mutual agreement of the parties hereto. This Agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

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

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

14. This Agreement may be executed in any number of counterparts, no one of which need be executed by all of the parties, and may be ratified or consented to by separate instrument, in writing, specifically referring hereto; and this Agreement shall be binding upon all parties who have executed such counterpart, ratification, or consent hereto with the same force and effect as if all the parties had signed the same document.

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

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman
R. W. Pearman, Assistant
Secretary

By R. C. Tucker
R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS }
COUNTY OF MIDLAND } SS.

The foregoing instrument was acknowledged before me this 1 day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1961

Sam H. Snoddy
Notary Public

(Notary Seal) Sam H. Snoddy
Notary Public, Midland County, Texas
My Commission Expires 6-1-61

L. R. Kershaw
Miss Orla Gay

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

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman, Assistant Secretary

By R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS }
COUNTY OF MIDLAND } SS.

The foregoing instrument was acknowledged before me this ____ day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation.
My Commission Expires:

June 1, 1961

(Notary Seal)

Notary Public

H. B. Anthony Jr.

Olga M. Atwood
Individually and as Executrix of the
Estate of Jefferson D. Atwood, deceased.

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

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman, Assistant Secretary

By R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS }
COUNTY OF MIDLAND } SS.

The foregoing instrument was acknowledged before me this ____ day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation.
My Commission Expires:

June 1, 1961

Notary Public

(Notary Seal)

Raymond Butthorn

740 Woodbine Ave Glendale, O.

Les Schuch
Richard J. Hickey

Edward C. Golden
Margaret M. Golden

STIPULATION

J. B. Headley, owner of a royalty interest and mineral interest in Tract No. 1, hereby signs this agreement upon the stipulation that his letter of December 16, 1960, to Great Western Drilling Company inquiring the definition of "mineral fee interest"; the answer by Great Western Drilling Company by J. B. Schuch, Jr., Land Department, dated December 19, 1960, defining "mineral fee interest" and that the term means an unleased mineral interest and that such letters shall be made a part of this instrument as far as the J. B. Headley interest (only) is concerned.

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

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman, Assistant Secretary

By R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS)
COUNTY OF MIDLAND) SS.

The foregoing instrument was acknowledged before me this ____ day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1961

(Notary Seal)

Notary Public

James E. Walker
William E. Walker
Mrs. Elaine M. Walker
Estate of William C. Lawrence
E. Bernard Johnston, Executor
Thomas M. Jenkins

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

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman, Assistant Secretary

By R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS }
COUNTY OF MIDLAND } SS.

The foregoing instrument was acknowledged before me this ___ day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1961

Notary Public

(Notary Seal)

ATTEST: [Signature]
Secretary

SOUTHERN PETROLEUM EXPLORATION, INC.
By: [Signature]
President

ATTEST: [Signature]
BY: [Signature]
Secretary

CONTINENTAL CORPORATION
BY: [Signature]
President

ATTEST: [Signature]
BY: [Signature]
Secretary

ATLANTIC OIL CORPORATION
BY: [Signature]
President

WITNESS: [Signature]

[Signature]
C. B. Neal

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

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman, Assistant Secretary

By R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS }
COUNTY OF MIDLAND } SS.

The foregoing instrument was acknowledged before me this ____ day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation. My Commission Expires:

June 1, 1961

(Notary Seal)

Notary Public

G. H. Henneberry, Notary

ATTEST:
[Signature]
Secretary

NORTH CENTRAL OIL CORPORATION

BY:

[Signature]
Vice President

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

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman, Assistant Secretary

By R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS }
COUNTY OF MIDLAND } SS.

The foregoing instrument was acknowledged before me this ____ day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation.
My Commission Expires:

June 1, 1961

(Notary Seal)

Notary Public

Brady M. Lowe
Sec - Treas.

Lowe Land Co.
H. L. Lowe President

L. T. Lewis

EXHIBIT "A" TO COMMUNITIZATION
AND OPERATING AGREEMENT, dated
October 1, 1960, embracing the
SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32, Township 19
South, Range 37 East, N.M.P.M.

OPERATOR: Great Western Drilling Company
P. O. Box 1659
Midland, Texas

Tract No. 1

LANDS: A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 32 described
by metes and bounds as follows:

Beginning at the Northwest corner of the
said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence South along
the West line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section
32, 1320 feet, more or less, to the South-
west corner of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32;
thence East, along the South line of the
said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32, 1320 feet, more or
less, to the Southeast corner of the SE $\frac{1}{4}$ NE $\frac{1}{4}$
Section 32; thence North along the East
line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32, 862
feet; thence West 855 feet; thence North
458 feet, more or less, to the North line
of said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence West
along said North line 94 feet; thence South
210 feet; thence West 100 feet; thence
North 210 feet, more or less, to the North
line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence
West along said North line 271 feet, more
or less, to the point of beginning.

NUMBER OF ACRES: 31 acres, more or less.

LEASE: Lessor: W. L. Crutchfield et ux
Lessee: H. B. Anthony, Jr. et al
Date: March 5, 1931
Interest
Covered: All

Tract No. 1 (cont.)

WORKING INTEREST
AND PERCENTAGE:

H. B. Anthony, Jr.	5/128	W.I.
W. L. Hoyt	10/32	W.I.
Raymond Anthony	5/128	W.I.
Dr. Hans May	5/64	W.I.
Great Western Drilling Company	<u>17/32</u>	W.I.
Total	ALL	W.I.

ROYALTY INTEREST
AND PERCENTAGE:

Southern Petroleum Exploration, Inc.	300/852	R.I.
B. A. Bowers	4/852	R.I.
L. R. Kershaw	30/852	R.I.
Estate of George F. Henneberry	36/852	R.I.
Mrs. Ora B. Gay	12/852	R.I.
H. L. Lowe	8/852	R.I.
Edward A. Golden	6/852	R.I.
Continental Corporation	3/852	R.I.
Harry W. Walker Estate	114/852	R.I.
William R. Kershaw	30/852	R.I.
Atlantic Oil Corporation	36/852	R.I.
M. M. Lawellin	60/852	R.I.
J. B. Headley	12/852	R.I.
L. T. Lewis	12/852	R.I.
W. C. Lawrence Estate	12/852	R.I.
J. D. Atwood Estate	12/852	R.I.
Frances Smyrl Jennings	12/852	R.I.
Chase Manhattan Bank, SPL. A/C F-NC	<u>153/852</u>	R.I.
Total	ALL	R.I.

Tract No. 2

LANDS:

A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 32, described by metes and bounds, as follows:

Commencing at a point which is 271 feet East of the Northwest corner of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence South 210 feet; East 100 feet; North 210 feet, more or less, to the North line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence West, along the North line 100 feet, more or less, to the point of beginning.

NUMBER OF ACRES: .48 acres, more or less.

LEASE: Lessor: Lowe Land Company et al
Lessee: Great Western Drilling Company
Date: July 1, 1960
Interest Covered: All

**WORKING INTEREST
AND PERCENTAGE**

H. B. Anthony, Jr.	5/128	W.I.
W. L. Hoyt	10/32	W.I.
Raymond Anthony	5/128	W.I.
Dr. Hans May	5/64	W.I.
Great Western Drilling Company	<u>17/32</u>	W.I.
Total	ALL	W.I.

**ROYALTY INTEREST
AND PERCENTAGE**

Estate of Nettie Lowe	1/2	R.I.
Lowe Land Company	<u>1/2</u>	R.I.
Total	ALL	R.I.

Tract No. 3

LANDS:

A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 32, described by metes and bounds, as follows:

Beginning at a point which is 465 feet East of the Northwest corner of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence South 380 feet; thence East 285 feet; thence North 380 feet; more or less, to the North line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence West along said North line 285 feet, more or less, to the point of beginning.

NUMBER OF ACRES: 2.55 acres, more or less.

PART A:

Unleased: Fred Manley

Interest: Undivided 1/4th interest

PART B:

LEASE: Lessor: Lowe Land Company et al

Lessee: Great Western Drilling Company

Date: July 1, 1960

Interest Covered: Undivided 3/4ths interest

WORKING INTEREST
AND PERCENTAGE:

H. B. Anthony, Jr.	5/128	} of 3/4 W.I.
W. L. Hoyt.....	10/32	
Raymond Anthony.....	5/128	
Dr. Hans May.....	5/64	
Great Western Drilling Co.	17/32	
Fred Manley.....	1/4	W.I.
Total.....	ALL	W.I.

ROYALTY INTEREST
AND PERCENTAGE:

Estate of Nettie Lowe.....	1/2	} of 3/4 R.I.
Lowe Land Company.....	1/2	
Fred Manley.....	1/4	R.I.
Total.....	ALL	R.I.

Tract No. 4

LANDS:

A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 32, described by metes and bounds, as follows:

Beginning at a point 750 feet East of the Northwest corner of the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 32; thence South 200 feet; thence East 115 feet; thence North 200 feet, more or less, to the North line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence West along said North line 115 feet, more or less, to the point of beginning.

NUMBER OF ACRES: .53 acres, more or less.

Unleased: May Williams

Interest: All

**WORKING INTEREST
AND PERCENTAGE:**

May Williams..... All W.I.

**ROYALTY INTEREST
AND PERCENTAGE:**

May Williams..... All R.I.

Tract No. 5

LANDS:

A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 32, described by metes and bounds, as follows:

Beginning at a point which is 865 feet East of the Northwest corner of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence South 200 feet; thence West 115 feet; thence South 180 feet; thence West 285 feet; thence South 78 feet; thence East 855 feet, more or less, to the East line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence North, along said East line, 248 feet; thence West 210 feet; thence North 210 feet, more or less, to the North line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence West 245 feet, more or less, to the point of beginning.

NUMBER OF ACRES:

4.44 acres, more or less.

LEASE:

Lessor: Lowe Land Company

Lessee: Great Western Drilling Company

Date: July 1, 1960

Interest

Covered: All

**WORKING INTEREST
AND PERCENTAGE:**

H. B. Anthony, Jr.	5/128	W.I.
W. L. Hoyt	10/32	W.I.
Raymond Anthony	5/128	W.I.
Dr. Hans May	5/64	W.I.
Great Western Drilling Company	<u>17/32</u>	W.I.
Total	ALL	W.I.

**ROYALTY INTEREST
AND PERCENTAGE:**

Estate of Nettie Lowe	1/2	R.I.
Lowe Land Company	<u>1/2</u>	R.I.
Total	ALL	R.I.

Tract No. 6

LANDS:

A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of said Section 32, described by metes and bounds, as follows:

Beginning at a point which is 1,110 feet East of the Northwest corner of said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence South 210 feet; thence East 210 feet, more or less, to the East line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence North, along said East line, 210 feet, more or less, to the Northeast corner of said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32; thence West, along the North line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$ Section 32, 210 feet, more or less, to the point of beginning.

NUMBER OF ACRES: 1 acre, more or less.

Unleased: W. L. Crutchfield

Interest: All

WORKING INTEREST
AND PERCENTAGE:

W. L. Crutchfield..... All W.I.

ROYALTY INTEREST
AND PERCENTAGE:

W. L. Crutchfield..... All R.I.

EXHIBIT " "

PASO-T-1955-2

Attached to and made a part of *Communitization and Operating Agreement dated October 1, 1960 between Great Western Drilling Company, Operator and H.P. Anthony, Jr. et al, Non-operators*

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

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

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

2. Statements and Billings

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

- A. Statement in detail of all charges and credits to the joint account.
- B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
- C. Statements as follows:
 - (1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;
 - (2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
 - (3) Detailed statement of any other charges and credits.

3. Payments by Non-Operator

Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DEVELOPMENT AND OPERATING CHARGES

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

1. Rentals and Royalties

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

2. Labor

- A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.
- B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. Material

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

5. Transportation

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

- A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

- B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

- A. Outside Services:
The cost of contract services and utilities procured from outside sources.
- B. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

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

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

- A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.

- B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

- A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
- B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. District and Camp Expense (Field Supervision and Camp Expense)

~~A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's office located at or near _____ (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.~~

12. Administrative Overhead

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

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
T.D.	—	\$80-	—	—

- A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. In connection with overhead charges, the status of wells shall be as follows:
- (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
 - (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
 - (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

- (4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
- (5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.
- (6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.
- (7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.
- (8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.
- C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.
- D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.
- E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

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

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

NONE

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

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

2. Material Furnished by Operator

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

A. New Material (Condition "A")

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

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

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

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

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

5. Operator's Exclusively Owned Facilities

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

- A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

- B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates should generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.
- C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully-owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.
- D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.
- E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

2. Division in Kind

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

2. New Material

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

3. Good Used Material

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

- A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or
- B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price.

4. Other Used Material

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

- A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
- B. Is serviceable for original function but substantially not suitable for reconditioning.

5. Bad-Order Material

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

6. Junk

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

7. Temporarily Used Material

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

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

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property; and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.