CASE 7004: ANADARKO PRODUCTION COMPANY FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO

CASE NO.

7004

APPLICATION,

TRANSCRIPTS,

SMALL EXHIBITS,

ETC.

Anadarko
PRODUCTION COMPANY

A
Panhandle
Eastern
Company

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

RECEIVED
NOV 13 1980
OIL CONSERVATION DIVISION
SANTA FE

November 6, 1980

State of New Mexico
Oil Consexvation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Joe D. Ramey, Director

Re: Case No. 7004
Order No. R-6479
Eddy County, New Mexico

Gentlemen:

Regarding your requirement under the captioned Compulsory Pooling Order, enclosed is a copy of a letter and an itemized schedule of estimated well costs to one (1) of our non-operator working interest owners.

Yours truly,

Anadarko Production Company

Gretchen Davis

GD/dl

Enclosures

APC 1203/78

ANADARKO PRODUCTION COMPANY
AUTHORITY FOR EXPENDITURE

Co. 03 (2) Div. 48 (2) AFE No. ____ (4) Location No. ____ (7) Date-Mo/Da/Yr 1/10/80 (6)

Work Description (12): D,C & E | Well/Location Name (20): APC Glass | Well No. (6): 1 | Field/Prospect (25): Lakewood | State (5): NM | Co.Cd. 30 (2)

Explain Project: Drill, Complete & Equip.

Sec. - Twn. - Range - Des. of Loc. (23): 12 T19S R25E 1980' FN&WL | County (13): Eddy | Co.Cd. 015 (3)

Non APC AFE #: ____

Field Cd.	Proj Cd.	Prosp. Cd.	Budget	T/B	O/L	Amount Authorized
(3)	6660 (4)	016 (3)	310 (4)	139 (3)	230 (3)	353,900 (9)

	Owner Name (24)	Working Int. (5,6)	Owner Name (24)	Working Int. (5,6)
OPER.	Anadarko Production Company	0.685144		
	Others - See Attached Sheet			
			Company Revenue Interest	0.541055

Type -
- [X] Drilling
- [ ] Exploration
- [X] Development
- [ ] Recompletion
- [ ] Plug & Abandon
- [ ] Sale
- [ ] Spacing Unit

Acres: 320

- [ ] Construction
- [ ] LHP
- [ ] Farmin
- [ ] Geophysical
- [ ] DHC or BHC
- [ ] ____

Project Subject to -
- [ ] Carried Interest
- [ ] Net Profits Interest
- [ ] Right to Convert to W.I.
- [ ] ____

Explain: ____

Lse Expiration Date: ____

Originating Office: Midland Divison
Prepared by: B. W. Griffin

FOR DRILLING WELLS

Date Est. Spud ____ Est. TD 9500
Type Well (oil, gas, est.) Gas
Drilling Obligation Date ____
Est. Days to Drill 25
Est Days to Complete 5

DRILLING - DRY HOLE COST

	Total	Jt. Owners	Co. Net
Intangible	$ 300,500	$ 94,600	$ 205,900
Tangible	23,800	7,500	16,300
TOTAL	$ 324,300	$ 102,100	$ 222,200
Less Dry Hole Cont.	($ -)	($ -)	($ -)
TOTAL	$ 324,300	$ 102,100	$ 222,200

RETIREMENT COST

	Total	Jt. Owners	Co. Net
Cost-Removal	$	$	$
Salvage/Rec.			
NET COST (or REC.)	$	$	$

DRILLING - COMPLETION COST

	Total	Jt Owners	Co. Net
Intangible	$ 41,000	$ 12,900	$ 28,100
Tangible	151,200	47,600	103,600
TOTAL	$ 192,200	$ 60,500	$ 131,700
T. COST	$ 516,500	$ 162,600	$ 353,900

EXPLORATION AND OTHER PROJECTS COST

	Total	Jt. Owners	Co. Net
	$	$	$
TOTAL	$	$	$

Remarks: Subject to negotiation and completion of joint operations contract and/or farmin arrangements, title examination and a 320 acre gas pooled unit.

APPROVAL LEVEL: [X] Division [ ] Region [ ] Gen'l Office

APPROVALS

		DATE
Division	[illegible]	1/14/80
	[illegible]	1/18/80
	[illegible]	2/22/80
Region		
Gen'l Office		

NON OPERATORS
Company
By
Title

ECONOMIC ASSUMPTIONS

Chance of Success: Expl. ____ %, Devel. ____ %
Prices: ____ $/Bbl; ____ $/mcf

Reserves -	This Well GROSS	This Well RI	Total Prospect GROSS	Total Prospect RI
Oil, MBbl.				
Gas, MMCF				
NEB, MBbl.				

APC Cash Flow, Before Federal Income Tax $ ____
APC Investment - Unrisked $ ____ Risked $ ____

ECONOMIC YARDSTICKS

Appraisal Rate of Return ____ %
Profit - to - Investment Ratio
Risked ____
Unrisked ____
Payout ____ yrs.
Drilling Cost ____ $/NEB

By ____
Remarks ____

APC 120D 3/78

ANADARKO PRODUCTION COMPANY

AFE DETAIL ESTIMATE

Co. (2) 03 Div. (2) 41 AFE No. (4) _____ Location No. (7) _____ Date-Mo/Da/Yr 1/10/80 (6)

Work Description (12): D.C & E

Well/Location Name (20): AFC Glass (6) Well No. 1

Field / Prospect (25): Lakewood

State (5): NM Co.Cd. 36 (2)

Explain Project: Drill, Complete & Equip.

Sec. - Twn. - Range - Des. of Loc. (23): 12 T19S R25E 1980' FNWL

County (13): Eddy Co.Cd. 015 (3)

Non APC AFE # _____

Field Cd. (3)	Proj Cd. (4)	Prosp.Cd. (3)	Budget (4)	T/B (3)	G/L (3)	Amount Authorized (9)
	6660	011	310	130	210	353,200

	Owner Name (24)	Working Int.(1.6)	Owner Name (24)	Working Int.(1.6)
OPER.	Anadarko Production Company	0.685144		
	Others - See Attached Sheet			
			Company Revenue Interest	0.541055

DETAIL OF DRILLING COST ESTIMATE

PAGE 1 OF _____

CODE	INTANGIBLE DRILLING COSTS	TOTALS DRY HOLE	COMPLETION	COMPLETED
2010	Road and Location	$ 10,000	$ 1000	$ 11000
2020	Contract Rig Costs	185,000		185000
2030	Mud and Chemicals	35,000		35000
2040	Cement and Cementing	12,000	10000	22000
2050	Formation Evaluation	45,000		45000
2060	Completion		25000	25000
2070	Other Tools and Rentals			
2080	Transportation, Trucking and Hauling	5,000	3000	8000
2090	Contract Services			
2100	Company Supervision	2,500	1000	3500
2150	Miscellaneous Intangibles	3,000		3000
2200	Administrative Overhead	3,000	1000	4000
2600	IDC - Non Operated			
	Total Intangible Drilling Cost	$ 300,500	$ 41000	$ 341500
2900	Special Credits - Dry and Bottom Hole Contributions Receivable	( )	( )	( )
	Total Net Intangible Drilling Cost	$ 300,500	$ 41000	$ 341500
	LEASE AND WELL EQUIPMENT			
	Well Casing			
	400 FT., 13-3/8 O.D., 48#H-40 ST&C	7,500		7,500
	1200 FT., 8-5/8 O.D., 24#K-55 ST&C	11,300		11,300
	9500 FT., 4-1/2 O.D., 11.6#K-55 & N-80		49200	49,200
	_____ FT., _____ O.D., _____			
3010	TOTAL WELL CASING	18,800	49200	68,000
	Well Tubing			
	9500 FT., 2-3/8 O.D., 4.7 #N-80 EUE		33000	33,000
	_____ FT., _____ O.D., _____			
	_____ FT., _____ O.D., _____			
3020	TOTAL WELL TUBING		33000	33,000
3070	Other Controllable Subsurface Well Equipment			
3080	Non-Controllable Subsurface Well Equipment		3000	3,000
3110	Wellhead Equipment	5,000	25000	30,000
3120	Pumping Equipment			
3170	Other Controllable Surface Well Equipment			
3180	Non-Controllable Surface Well Equipment			
3190	Installation Costs - Surface Equipment			
3210	Tank Batteries, Separators, Heating, Treating & Salos Equipment		36000	36,000
3220	Compressor Stations			
3230	Electrical Systems and Transmission Lines			
3240	Buildings			
3250	Lease Lines			
3270	Other Controllable Surface Lease Equipment			
3280	Non-Controllable Surface Equipment			
3290	Installation Costs - Surface Lease Equipment		5000	5,000
3400	Drilling and/or Production Platforms			
3800	L&W - Non Operated			
	TOTAL LEASE AND WELL EQUIPMENT	$ 23,800	$ 151200	$ 175,000
	TOTAL AFE COST ESTIMATE	$ 324,300	$ 192200	$ 516,500

Anadarko
PRODUCTION COMPANY

A
Panhandle
Eastern
Company

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

November 13, 1980

Stamets

State of New Mexico
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

RECEIVED
NOV 18 1980
OIL CONSERVATION DIVISION
SANTA FE

Attention: Joe D. Ramey, Director

Re: Case No. 7004
Order No. R-6479
Eddy County, New Mexico

Gentlemen:

Regarding your requirement under the captioned Compulsory Pooling Order, enclosed is a copy of a letter and an itemized schedule of estimated well costs to one (1) of our non-operator working interest owners.

Yours truly,

Anadarko Production Company

Gretchen Davis

/gd
Encl.

Anadarko
PRODUCTION COMPANY

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

A
Panhandle
Eastern
Company

November 13, 1980

Mrs. Sally A. Ellis
771 Crescent
Boulder, Colorado 80202

Re: Anadarko Production Company Glass #1 Well
N/2 Section 12, T19S, R25E, NMPM
Eddy County, New Mexico

Dear Mrs. Ellis:

Please refer to my letter of August 28, 1980, requesting the leasing of your interest for the drilling of the captioned well and the enclosed Compulsory Pooling Order from the State of New Mexico Energy and Minerals Department Oil Conservation Division hereinafter referred to as the Division, covering the subject property. The enclosed compulsory pooling order was effective the 20th day of October 1980 and has pooled your interest under the captioned land for the purposes of drilling a 12,500' Morrow test located 1980' FNL and 1980'FWL of Section 12, T19S, R25E, Eddy County, New Mexico.

As a requirement of the compulsory pooling order, Anadarko Production Company is required by order of the Division to recontact you after the effective date of this order and within 90 days prior to commencing the captioned well and furnish you with another itemized schedule of the estimated well cost (AFE) covering the captioned well. If you wish to consent to join your interest in the drilling of the captioned well, I am providing an operating agreement dated September 1, 1980 with two signature pages and two copies of an AFE covering the the subject property for your review. If your decision is to join, please execute and return one copy of the signature page and a copy of the AFE to Anadarko for further handling. A fully executed copy of the signature page of the operating agreement will be furnished when received from all parties. The operating agreement and one signature page in addition to the extra copy of the executed AFE may be kept for your files.

As you will note in the compulsory pooling order you have 30 days from the date of receipt of this letter in which to respond. After such time has expired

any non-consenting working interest owner who has not paid his share of the estimated well cost will have withheld from production his share of the reasonable well cost plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

Subject to rig availability, Anadarko Production Company is anticipating a drilling date of November 25, 1980. Your immediate attention to this agreement will certainly be appreciated.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

F. Neil Rucker,
Exploration Landman

NR/cw

Midland

NC 12/69/78

ANADARKO PRODUCTION COMPANY
AUTHORITY FOR EXPENDITURE

Co. 03 (2) Div. 48 (2) AFE No. 4200 (4) Location No. (7) Date-Mo/Da/Yr 5/8/80 (6)

Work Description (12)	Well/Location Name (20)	(8) Well No.	Field / Prospect (25)	State (5)	Co.Cd.
D, C, & E	APC GLASS	1	LAKEWOOD	N.M.	30 (2)

Explain Project: Drill, Complete & Equip.

Non APC AFE #:

Sec. - Twn. - Range - Des. of Loc. (25): 12 T19S R25E 1980' FN&WL

County (13): EDDY Co.Cd. 015 (3)

Field Cd.	Proj Cd.	Prosp.Cd.	Budget	T/B	G/L	Amount Authorized
(3)	6660 (4)	016 (3)	310 (4)	139 (3)	230 (3)	390,500 (9)

	Owner Name (24)	Working Int.(1.6)	Owner Name (24)	Working Int.(1.6)
OPER.	Anadarko Production Company	0.685144		
	Others - See Attached Sheet			
			Company Revenue Interest	0.541055

Type -
- [X] Drilling
- [ ] Exploration
- [X] Development
- [ ] Recompletion
- [ ] Plug & Abandon
- [ ] Sale
- [ ] Spacing Unit

Acres 320

- [ ] Construction
- [ ] LHP
- [ ] Farmin
- [ ] Geophysical
- [ ] DHC or BHC
- [ ]

Project Subject to -
- [ ] Carried Interest
- [ ] Net Profits Interest
- [ ] Right to Convert to W.I.
- [ ]

Explain

Lse Expiration Date

Originating Office: Midland Division

Prepared by: B. W. Griffin

FOR DRILLING WELLS

Date Est. Spud ____ Est.TD 9500'

Type Well (oil, gas, est.) GAS

Drilling Obligation Date ____

Est. Days to Drill 25

Est. Days to Complete 5

DRILLING - DRY HOLE COST

	Total	Jt. Owners	Co. Net
Intangible	$ 353,000	$ 111,100	$ 241,900
Tangible	23,800	7,500	16,300
TOTAL	$ 376,800	$ 118,600	$ 258,200
Less Dry Hole Cont.	($)	($)	($)
TOTAL	$ 376,800	$ 118,600	$ 258,200

RETIREMENT COST

	Total	Jt. Owners	Co.Net
Cost-Removal	$	$	$
Solvage/Rec.			
NET COST (or REC.)	$	$	$

DRILLING - COMPLETION COST

	Total	Jt. Owners	Co. Net
Intangible	$ 42,000	$ 13,300	$ 28,700
Tangible	151,200	47,600	103,600
TOTAL	$ 193,200	$ 60,900	$ 132,300
T. COST	$ 570,000	$ 179,500	$ 390,500

EXPLORATION AND OTHER PROJECTS COST

	Total	Jt. Owners	Co.Net
	$	$	$
TOTAL	$	$	$

Remarks: Subject to negotiation and completion of joint operations contract and/or farmin arrangements, title examination and a 320 acre gas pooled unit.

APPROVAL LEVEL: [ ] Division [ ] Region [X] Gen'l Office

APPROVALS

		DATE
Division		5/28/80
8/5/80		8/5/80
KES		8/5/80
Region		8-7-80
		8-7-80
Gen'l Office		8-18-80
		8/28/80
Company	APPROVED FOR OPERATOR	
Title		

ECONOMIC ASSUMPTIONS

Chance of Success: Expl. ____ %, Devel. ____ %

Prices: ____ $/Bbl; ____ $/mcf

Reserves -	This Well GROSS	This Well RI	Total Prospect GROSS	Total Prospect RI
Oil, MBbl			-	-
Gas, MMCF			-	-
NGL, MBbl			-	-

Cash Flow, Before Federal Income Tax $

Present Worth - Unrisked $ Risked $

ECONOMIC YARDSTICKS

Approisal Rate of Return ____ %

Profit - to - Investment Ratio
- Risked
- Unrisked

Payout ____ yrs.

Drilling Cost ____ $/NEB

By

Remarks

APC 1200 3/78

ANADARKO PRODUCTION COMPANY

AFE DETAIL ESTIMATE

Co. 03 (2) Div. 48 (2) AFE No. 4200 (4) Location No. (7) Date-Mo/Da/Yr 5/8/80 (6)

Work Description (12): D, C, & E

Well/Location Name (20): EPC GLASS (5) Well No. 1

Field / Prospect (25): LAKEWOOD

State (5): N.M. Co.Cd. 30 (2)

Explain Project: Drill, Complete & Equip.

Non APC AFE #:

Sec.-Twn.-Range-Des.of Loc. (23): 12 T19S R25E 1980' FNWL

County (15): EDDY Co.Cd. 015 (3)

Field Cd.	Proj Cd.	Prosp.Cd.	Budget	T/B	G/L	Amount Authorized
(3)	6660 (4)	016 (3)	310 (4)	139 (3)	230 (3)	390,500 (9)

	Owner Name (24)	Working Int.(1.6)	Owner Name (24)	Working Int.(1.6)
OPER.	Anadarko Production Company	0.685144		
	Others - See Attached Sheet			
			Company Revenue Interest	0.541055

DETAIL OF DRILLING COST ESTIMATE

PAGE 1 OF _____

CODE	INTANGIBLE DRILLING COSTS	TOTALS DRY HOLE	TOTALS COMPLETION	TOTALS COMPLETED
2010	Road and Location	$ 10000	$ 1000	$ 11,000
2020	Contract Rig Costs	230000		230,000
2030	Mud and Chemicals	35000		35,000
2040	Cement and Cementing	12000	10000	22,000
2050	Formation Evaluation	45000		45,000
2060	Completion		25000	25,000
2070	Other Tools and Rentals	5000	1000	6,000
2080	Transportation, Trucking and Hauling	5000	3000	8,000
2090	Contract Services			
2100	Company Supervision	3000	1000	4,000
2150	Miscellaneous Intangibles	5000		5,000
2200	Administrative Overhead	3000	1000	4,000
2600	IDC - Non Operated			
	Total Intangible Drilling Cost	$ 353000	$ 42000	$ 395,000
2900	Special Credits - Dry and Bottom Hole Contributions Receivable	( )	( )	( )
	Total Net Intangible Drilling Cost	$ 353000	$ 42000	$ 395,000
	LEASE AND WELL EQUIPMENT			
	Well Casing			
	400 FT., 13-3/8 O.D., 48#H-40 ST&C	7500		7,500
	1200 FT., 8-5/8 O.D., 24#K-55 ST&C	11300		11,300
	9500 FT., 4-1/2 O.D., 11.6#K-55 & N-80		49200	49,200
	FT., O.D.,			
3010	TOTAL WELL CASING	18800	49200	68,000
	Well Tubing			
	9500 FT., 2-3/8 O.D., 4.7# N-80 EUE		33000	33,000
	FT., O.D.,			
	FT., O.D.,			
3020	TOTAL WELL TUBING		33000	33,000
3070	Other Controllable Subsurface Well Equipment			
3080	Non-Controllable Subsurface Well Equipment		3000	3,000
3110	Wellhead Equipment	5000	25000	30,000
3120	Pumping Equipment			
3170	Other Controllable Surface Well Equipment			
3180	Non-Controllable Surface Well Equipment			
3190	Installation Costs - Surface Equipment			
3210	Tank Batteries, Separators, Heating, Treating & Sales Equipment		36000	36,000
3220	Compressor Stations			
3230	Electrical Systems and Transmission Lines			
3240	Buildings			
3250	Lease Lines			
3270	Other Controllable Surface Lease Equipment			
3280	Non-Controllable Surface Equipment			
3290	Installation Costs - Surface Lease Equipment		5000	5,000
3400	Drilling and/or Production Platforms			
3600	L & W - Non Operated			
	TOTAL LEASE AND WELL EQUIPMENT	$ 23800	$ 151200	$ 175,000
	TOTAL AFE COST ESTIMATE	$ 376800	$ 193200	$ 570000

Anadarko
PRODUCTION COMPANY

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

RECEIVED
NOV 03 1980
OIL CONSERVATION DIVISION
SANTA FE
Panhandle Eastern

October 31, 1980

State of New Mexico
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention : Joe D. Ramey, Director

Re: Case No. 7004
Order No. R-6479
Eddy County, New Mexico

Gentlemen:

Regarding your requirement under the captioned Compulsory Pooling Order, enclosed is a copy of a letter and an itemized schedule of estimated well costs to one (1) of our non-operator working interest owners.

Yours truly,

Anadarko Production Company

F. Neil Rucker
Landman

FNR/gd
Encl.

Anadarko
PRODUCTION COMPANY
P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1626
A Panhandle Eastern Company

RECEIVED
NOV 03 1980
OIL CONSERVATION DIVISION
SANTA FE

October 30, 1980

Mr. Richard Moore
404 Blanks Building
Midland, Texas 79701

Re: Anadarko Production Company Glass #1 Well
Richard Moore, et. al. Interest
N/2 Section 12, T19S, R25E, NMPM
Eddy County, New Mexico

Dear Mr. Moore:

Please refer to my letters of July 29, 1980 and August 29, 1980 requesting joinder of your interest for the drilling of the captioned well and the enclosed Compulsory Pooling Order from the State of New Mexico Energy and Minerals Department Oil Conservation Division hereinafter referred to as the Division, covering the subject property. The enclosed compulsory pooling order was effective the 20th day of October 1980 and has pooled your interest under the captioned land for the purposes of drilling a 12,500' Morrow test located 1980' FNL and 1980' FWL of Section 12, T19S, R25E, Eddy County, New Mexico.

As a requirement of the compulsory pooling order, Anadarko Production Company is required by order of the Division to recontact you after the effective date of this order and within 90 days prior to commencing the captioned well and furnish you with another itemized schedule of the estimated well cost (AFE) covering the captioned well. If you wish to consent to join your interest in the drilling of the captioned well, I am providing an operating agreement dated September 1, 1980 with two signature pages and two copies of an AFE covering the subject property for your review. If your decision is to join, please execute and return one copy of the signature page and a copy of the AFE to Anadarko for further handling. A fully executed copy of the signature page of the operating agreement will be furnished when received from all parties. The operating agreement and one signature page in addition to the extra copy of the executed AFE may be kept for your files.

As you will note in the compulsory pooling order you have 30 days from the date of receipt of this letter in which to respond. After such time has expired

any non-consenting working interest owner who has not paid his share of the estimated well cost will have withheld from production his share of the reasonable well cost plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

Subject to rig availability, Anadarko Production Company is anticipating a drilling date of December 1, 1980. Your immediate attention to this agreement will certainly be appreciated.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Neil Rucker,
Exploration Landman

NR/cw

APC 1203/78

ANADARKO PRODUCTION COMPANY
AUTHORITY FOR EXPENDITURE

Co. (2) 03 Div. (2) 48 AFE No (4) _____ Location No. (7) _____ Date-Mo/Da/Yr 1/10/80 (6)

Work Description (12): D,C & E | Well/Location Name (20): APC Glass | (8) Well No. 1 | Field/Prospect (25): Lakewood | State (5): NM | Co.Cd. 30 (2)

Explain Project: Drill, Complete & Equip.

Non APC AFE # _____

Sec. - Twn. - Range - Des. of Loc. (23): 12 T19S R25E 1980' FN&WL

County (13): Eddy | Co.Cd. 015 (3)

Field Cd.	Proj Cd.	Prosp.Cd.	Budget	T/B	G/L	Amount Authorized
(3)	6660 (4)	016 (3)	310 (4)	139 (3)	230 (3)	353,900 (9)

	Owner Name (24)	Working Int.(1.6)	Owner Name (24)	Working Int.(1.6)
OPER.	Anadarko Production Company	0.685144		
	Others - See Attached Sheet			
			Company Revenue Interest	0.541055

Type -
- [X] Drilling
- [ ] Exploration
- [X] Development
- [ ] Recompletion
- [ ] Plug & Abandon
- [ ] Sole
- [ ] Spacing Unit

Acres 320

- [ ] Construction
- [ ] LHP
- [ ] Farmin
- [ ] Geophysical
- [ ] DHC or BHC
- [ ] _____

Project Subject to -
- [ ] Carried Interest
- [ ] Net Profits Interest
- [ ] Right to Convert to W.I.
- [ ] _____

Explain _____

Lse Expiration Date _____

Originating Office: Midland Divison
Prepared by: B. W. Griffin

FOR DRILLING WELLS

Date Est. Spud _____ Est. TD 9500
Type Well (oil, gas, est.) Gas
Drilling Obligation Date _____
Est. Days to Drill 25
Est Days to Complete 5

DRILLING - DRY HOLE COST

	Total	Jt. Owners	Co. Net
Intangible	$ 300,500	$ 94,600	$ 205,900
Tangible	23,800	7,500	16,300
TOTAL	$ 324,300	$ 102,100	$ 222,200
Less Dry Hole Cont.	($ -)	($ -)	($ -)
TOTAL	$ 324,300	$ 102,100	$ 222,200

RETIREMENT COST

	Total	Jt. Owners	Co. Net
Cost-Removal	$	$	$
Salvage/Rec.			
NET COST (or REC.)	$	$	$

DRILLING - COMPLETION COST

	Total	Jt Owners	Co. Net
Intangible	$ 41,000	$ 12,900	$ 28,100
Tangible	151,200	47,600	103,600
TOTAL	$ 192,200	$ 60,500	$ 131,700
T. COST	$ 516,500	$ 162,600	$ 353,900

EXPLORATION AND OTHER PROJECTS COST

	Total	Jt. Owners	Co. Net
	$	$	$
TOTAL	$	$	$

Remarks: Subject to negotiation and completion of joint operations contract and/or farmin arrangements, title examination and a 320 acre gas pooled unit.

APPROVAL LEVEL: [X] Division [ ] Region [ ] Gen'l Office

APPROVALS

	DATE
Division	1/14/80
	1/18/80
	2/22/80
Region	

	DATE
Gen'l Office	

NON OPERATORS

Company	
By	
Title	

ECONOMIC ASSUMPTIONS

Chance of Success: Expl. _____ %, Devel. _____ %
Prices: _____ $/Bbl; _____ $/mcf

Reserves -	This Well GROSS	This Well RI	Total Prospect GROSS	Total Prospect RI
Oil, MBbl.				
Gas, MMCF				
NEB, MBbl.				

APC Cash Flow, Before Federal Income Tax $ _____
APC Investment - Unrisked $ _____ Risked $ _____

ECONOMIC YARDSTICKS

Appraisal Rate of Return _____ %
Profit - to - Investment Ratio
Risked _____
Unrisked _____
Payout _____ yrs.
Drilling Cost _____ $/NEB

By _____
Remarks _____

APC 1200 3/78

ANADARKO PRODUCTION COMPANY

AFE DETAIL ESTIMATE

Co. (2) 03 Div. (2) 40 AFE No. (4) _____ Location No. (7) _____ Date-Mo/Da/Yr 1/10/80 (6)

Work Description (12): D,C & E | Well/Location Name (20): NFC Glass | (6) Well No.: 1 | Field/Prospect (25): Lakewood | State (5): NM | Co.Cd.: 36 (2)

Explain Project: Drill, Complete & Equip. | Sec.-Twn.-Range-Des.of Loc. (23): 12 T19S R25E 1980' FNWL | County (13): Eddy | Co.Cd.: 015 (3)

Non APC AFE # _____ | Field Cd. (3) _____ | Proj Cd. (4) 6660 | Prosp.Cd. (3) 010 | Budget (4) 310 | T/B (3) 130 | G/L (3) 230 | Amount Authorized (9) 353,200

	Owner Name (24)	Working Int.(1.6)	Owner Name (24)	Working Int.(1.6)
OPER.	Anadarko Production Company	0.685144		
	Others - See Attached Sheet			
			Company Revenue Interest	0.541055

DETAIL OF DRILLING COST ESTIMATE

PAGE 1 OF _____

CODE	INTANGIBLE DRILLING COSTS	TOTALS DRY HOLE	TOTALS COMPLETION	TOTALS COMPLETED
2010	Road and Location	$ 10,000	$ 1000	$ 11000
2020	Contract Rig Costs	185,000		185000
2030	Mud and Chemicals	35,000		35000
2040	Cement and Cementing	12,000	10000	22000
2050	Formation Evaluation	45,000		45000
2060	Completion		25000	25000
2070	Other Tools and Rentals			
2080	Transportation, Trucking and Hauling	5,000	3000	8000
2090	Contract Services			
2100	Company Supervision	2,500	1000	3500
2150	Miscellaneous Intangibles	3,000		3000
2200	Administrative Overhead	3,000	1000	4000
2600	IDC - Non Operated			
	Total Intangible Drilling Cost	$ 300,500	$ 41000	$ 341,500
2900	Special Credits - Dry and Bottom Hole Contributions Receivable	( )	( )	( )
	Total Net Intangible Drilling Cost	$ 300,500	$ 41000	$ 341,500
	LEASE AND WELL EQUIPMENT			
	Well Casing			
	400 FT., 13-3/8 O.D., 48#H-40 ST&C	7,500		7,500
	1200 FT., 8-5/8 O.D., 24#K-55 ST&C	11,300		11,300
	9500 FT., 4-1/2 O.D., 11.6#K-55 & N-80		49200	49,200
	FT., O.D.,			
3010	TOTAL WELL CASING	18,800	49200	68,000
	Well Tubing			
	9500 FT., 2-3/8 O.D., 4.7 #N-80 EUE		33000	33,000
	FT., O.D.,			
	FT., O.D.,			
3020	TOTAL WELL TUBING		33000	33,000
3070	Other Controllable Subsurface Well Equipment			
3080	Non-Controllable Subsurface Well Equipment		3000	3,000
3110	Wellhead Equipment	5,000	25000	30,000
3120	Pumping Equipment			
3170	Other Controllable Surface Well Equipment			
3180	Non-Controllable Surface Well Equipment			
3190	Installation Costs - Surface Equipment			
3210	Tank Batteries, Separators, Heating, Treating & Sales Equipment		36000	36,000
3220	Compressor Stations			
3230	Electrical Systems and Transmission Lines			
3240	Buildings			
3250	Lease Lines			
3270	Other Controllable Surface Lease Equipment			
3280	Non-Controllable Surface Equipment			
3290	Installation Costs - Surface Lease Equipment		5000	5,000
3400	Drilling and/or Production Platforms			
3800	L&W - Non Operated			
	TOTAL LEASE AND WELL EQUIPMENT	$ 23,800	$ 151,200	$ 175,000
	TOTAL AFE COST ESTIMATE	$ 324,300	$ 192200	$ 516,500

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

October 23, 1980

Mr. Thomas Kellahin
Kellahin & Kellahin
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: CASE NO. 7004
ORDER NO. R-6479

Applicant:

Anadarko Production Company

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7004
Order No. R-6479

APPLICATION OF ANADARKO PRODUCTION
COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on September 17, 1980, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 20th day of October, 1980, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Anadarko Production Company, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 12, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be

approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $3000.00 per month while drilling and $330.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before January 1, 1981, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 12, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of January, 1981, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp and Pennsylvanian formations.

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of January, 1981, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Anadarko Production Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $3000.00 per month while drilling and $330.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition

thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

S E A L

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
17 September 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico.

CASE 7004

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
Santa Fe, New Mexico 87501

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I N D E X

NEIL RUCKER

Direct Examination by Mr. Kellahin 3

Cross Examination by Mr. Stamets 12

Cross Examination by Mr. Padilla 16

RICHARD ERICKSON

Direct Examination by Mr. Kellahin 17

E X H I B I T S

Applicant Exhibit One, Plat 4

Applicant Exhibit Two, List 5

Applicant Exhibit Three, Letters 6

Applicant Exhibit Four, Letter 6

Applicant Exhibit Five, AFE 9

Applicant Exhibit Six, Operating Agreement 10

Applicant Exhibit Seven, Structure Map 18

Applicant Exhibit Eight, Isopach 20

Applicant Exhibit Nine, Cross Section 22

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MR. STAMETS: We'll call next Case 7004.

MR. PADILLA: Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico.

MR. STAMETS: Call for appearances in this case.

MR. KELLAHIN: I'm Tom Kellahin of Santa Fe, New Mexico, appearing on behalf of the applicant and I have two witnesses.

MR. STAMETS: I'd like to have both witnesses stand and be sworn at this time, please.

(Witnesses sworn.)

NEIL RUCKER

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Would you please state your name, by whom you're employed, and in what capacity?

A. I'm Neil Rucker, employed by Anadarko Production Company as a petroleum landman.

Q. Mr. Rucker, have you previously testified

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before the Division as a landman?

A. No, I haven't.

Q. Would you explain to the Examiner how long you've been employed by Anadarko as a landman?

A. I've been employed by Anadarko for approximately six months as a landman; previously employed by Texas Oil and Gas, a year and a half.

Q. What are your responsibilities as a landman for Anadarko?

A. Putting together units, writing contracts, leases.

Q. Do your responsibilities for Anadarko include the application before the Division today?

A. Yes, it does.

Q. And pursuant to those duties have you prepared certain exhibits?

A. Yes, I have.

MR. KELLAHIN: We tender Mr. Rucker as a petroleum landman, Mr. Stamets.

MR. STAMETS: The witness is considered qualified.

Q. Mr. Rucker, would you refer to the plat that we've marked as Exhibit Number One and generally identify that plat for us?

A. The plat shows the Section 12, Township

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19 South, Range 25 East, north half of the section, which we're attempting to put together a unit for the drilling of a Morrow test.

Q. Would you describe generally how that north half of the section is divided among the various owners?

A. It does have divided interest in 80-acre tracts, four 80-acre tracts, in which there's different ownerships under each tract.

Q. I show you what is marked as Applicant Exhibit Number Two and ask you to identify that.

A. This shows working interest owners throughout the north half, their total interest in the north half of Section 12, and depicts in more detail the Don Phillips and Associates group.

Q. This is a tabulation of all the working interest owners in the entire north half of the section?

A. That's correct.

Q. And for each working interest owner you have taken their interest and reduced it to a percentage of the north half.

A. That's right.

Q. All right. Now, there are certain of these parties that have not agreed to participate or join in the drilling of the well, is that correct?

A. That's correct.

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Q. Let me show you Exhibit Number Three, which is a package of some six letters, and ask you to identify those letters.

A. These are the letters that we've sent out, attached to an operating agreement, requesting that the parties, working interest parties, join us in the drilling of this Morrow test in the north half.

Q. Okay. And Exhibit Number Four, would you identify that for me?

A. Exhibit Number Four is the letter that was originally sent to Don Phillips and Associates requesting that these people also sign our AFE and join us in the drilling of the Morrow test.

Q. Okay. Now, Mr. Rucker, I'd like you to take a copy of the application and go down the list of working interest owners and indicate those individuals that as of today have not agreed to join in the drilling of the well, have not leased to you, or for which you have no response.

A. Okay. Yates Petroleum has given me a verbal that they would join us in the well.

On Don Phillips and Associates, if you'll refer to the letter depicting the ownership of Don Phillips and Associates.

Q. Don Phillips and Associates --

A. Comprise approximately 27 people.

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Q. There are 27 different individuals in the Don Phillips and Associates ownership. The tabulation of those interests is an attachment to the application.

If you'll turn to the attachment, Mr. Rucker, and indicate for us those people from which you do not have an agreement.

A. Okay. Sally P. Ellis, attorney-in-fact for Haywood and Margaret B. Ayres; the Minneapolis Foundation, estate of Frances E. Andrews; the estate of Lester R. Badger.

MR. STAMETS: Not quite so fast, now. Now Minneapolis, which page is that on?

A. That's on the first page, second.

MR. STAMETS: That's number two. Now the next is what?

A. Sally P. Ellis, attorney-in-fact for Haywood and Margaret B. Ayres.

MR. STAMETS: Okay, I must have missed the first one. What was the first one that wasn't signed up?

MR. KELLAHIN: Start again from the top of the page.

A. Okay, it would be the Minneapolis Foundation, estate of Frances E. Andrews; Sally P. Ellis, attorney-in-fact for --

MR. STAMETS: Okay, I'm with you.

A. Okay. The estate of Lester R. Badger,

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deceased.

MR. STAMETS: Okay.

A. The estate of Helen H. Bristol, Eloise W. Kaufman and the First National Bank of Minnesota.

Josephine Hildrith.

Then we turn to the second page, F. B. Hubechek (sic); the estate of E. E. McGibbon, deceased; Mrs. Jan M. Fox; J. Laird Marshall and Owen Marshall; Richard H. Marshall, Junior; Mrs. James J. Norton; Rufus R. Rand estate.

Now we turn to page three, Robert Westman; Marian M. Whitney Trust, San Diego Trust and Savings Bank; and Elizabeth Melanie Winston.

MR. STAMETS: And those are all the people in this Don Phillips estate, or associates, who have not agreed at this point?

A. That is correct. We -- I do have verbal on several of these people but as far as having anything -- instrument in hand, those are people I do not have an instrument in hand at this time.

MR. STAMETS: Okay. Then as to the other interests --

A. Okay, that would be Quetico Superior Foundation; Michael Moore; Richard Moore; --

Q. Is this the next page?

A. Second page, I'm sorry. Stephen Moore;

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John Edward McMahan; Donna Kay McMahan; and Steve Helbing.

MR. STAMETS: And again, those are the people who have not at this point signed --

A. That's correct.

MR. STAMETS: Or you don't have any signed papers.

A. They have not submitted any signed papers.

MR. STAMETS: Okay.

Q. Mr. Rucker, I show you what is marked as Applicant Exhibit Number Five and ask you to identify that.

A. Exhibit Number Five is our AFE for the drilling of the Morrow well.

Q. And what are the total estimated costs for the drilling of the well?

A. Total cost is $353,900.

Q. For a completed well or for a dry hole?

A. Let's see, completed well, I believe.

Q. This is a Morrow test?

A. That's correct.

Q. Mr. Rucker, have you examined similar area fees for other Morrow test wells in the area to determine whether this represents a reasonable estimate of the cost of drilling the subject well?

A. Yes, I have.

Q. Mr. Rucker, I show you what is marked as

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the Applicant's Exhibit Number Six and ask you to identify that.

A. This is our joint operating agreement that we have sent to all the working interest partners in an attempt to get them to sign and join us in the drilling of the well.

Q. What, if any, of the working interest owners have actually executed the joint operating agreement?

A. Marshall and Winston, Incorporated, have executed, and Joe Bohanen has executed.

Q. Marshall and Winston have about 11 percent interest in the well?

A. That's correct.

Q. What does the joint operating agreement provide for overhead charges while drilling and after completion of the well?

A. The overhead charges are $3000 for -- let's see. Drilling well rate. And producing well rate is $330.

Q. With regard to those overhead charges, Mr. Rucker, have you examined similar instruments for the drilling of Morrow wells in the area to determine whether those charges are reasonable?

A. Yes, I have.

Q. And what is your opinion?

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A. They are reasonable.

Q. Okay. What is the risk factor for the nonconsenting parties set forth in the joint operating agreement?

A. The risk factors are 300 percent nonconsent penalty -- 300 percent nonconsent penalty and --

MR. STAMETS: When you say 300 percent, does that mean you would get back $3.00 for every $1.00 you spent or --

A. Yes, sir. That's correct.

MR. STAMETS: Okay, so that's the same thing that our statute calls for with the 200 percent?

A. Uh-huh.

Q. When does Anadarko propose to commence the well, Mr. Rucker?

A. At this time we have a rig scheduled for October the 15th.

Q. And as of today, Mr. Rucker, have you notified either in writing or orally, all the nonconsenting working interest owners?

A. Yes, I have.

Q. All right. Mr. Rucker, were exhibits One through Six prepared by you or compiled under your supervision and direction?

A. That is correct.

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MR. KELLAHIN: We move the introduction of Exhibits One through Six.

MR. STAMETS: These exhibits will be admitted.

MR. KELLAHIN: I have a second witness, my geological witness, on the risk factor.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Let me ask a question at this point. I'm not sure if it needs to be asked of the witness or the attorney, but let's throw it out here and see who'd like to answer it.

Have you ever experienced a situation in compulsory pooling where you've submitted an AFE and one of the parties has signed the AFE but then refused to pay his or her share?

A. I've never experienced that.

MR. KELLAHIN: I've not.

MR. STAMETS: Mr. Kellahin, do you feel that under those circumstances that person would still be liable for the risk charges?

MR. KELLAHIN: Yes, I do.

MR. STAMETS: Do you feel that our order requires that an AFE be sent to the parties being pooled, or

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simply some sort of a document indicating what the cost would be and what their share would be?

MR. KELLAHIN: My understanding of all the forced pooling orders I've seen, that after the effective date of the order and within a certain number of days prior to commencing the well, the operator is required to furnish a notice which includes the estimated well cost.

MR. STAMETS: And that's not necessarily an AFE, is that correct?

MR. KELLAHIN: It's been our practice to furnish the AFE that was furnished at the hearing.

MR. STAMETS: Do you feel that that is a requirement of the order or do you feel that any sort of a document setting out well costs would be acceptable?

MR. KELLAHIN: If the orders are specifically clear that you provide them a schedule of estimated well costs, which in my opinion would be the itemized one used at the hearings, and commonly used in the industry, and similar to the one introduced here today.

I don't know if that responds to the question.

MR. STAMETS: I'm not certain, Mr. Kellahin. We've had some people advise us that perhaps unscrupulous operators are signing AFE's, returning AFE's, and then not paying their share, and claiming that this gets them out from

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under the 200 percent risk factor, or whatever factor we provide in the order, because in signing the AFE they've joined.

Mr. Dickerson, I'd like you to comment on this particular thing while we've got some --

MR. DICKERSON: Mr. Stamets, I think the problem comes up when you have an insolvent, or possibly insolvent operator who signs an operating agreement and an AFE but then waits until the well's down to -- and then they refuse to pay his share of costs for a dry hole.

There's not any problem that comes up when you drill a producer because the -- the -- if you have a pooling order you can recover the cost of the well out of production, but when it's a good well, this unscrupulous operator can pay his share of cost out of production, whereas if it's a dry hole, he then has an operating agreement and an AFE signed, but you have to chase this guy in the courthouse to see if you can get any money.

MR. KELLAHIN: The order specifically requires that he pay his share of the well cost within the 30 days. If he doesn't pay, he's subject to the order.

MR. DICKERSON: The statute says when the interest owner has not agreed to pool his interest;by signing an AFE and an operating agreement he agrees to pool his interest. All he has refused to do is pay his share of a dry hole

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cost in advance. And that's how the problems come up.

MR. STAMETS: Well, Mr. Dickerson, the -- the terms of the order I don't believe require the operator doing the pooling to submit an AFE or an operating agreement to the persons being pooled.

MR. DICKERSON: Yes, sir, I agree, but look at the statute, 70-2-17, which authorizes compulsory pooling by the Commission. When the owner has not agreed to pool his interest, it says, the Commission shall pool.

When this problem comes up the owner agrees to pool his interest. He signs an operating agreement, contract, saying that he will pay his share of costs of this well.

MR. STAMETS: Where does he get that operating agreement to sign?

MR. DICKERSON: Usually furnished by the operator.

MR. STAMETS: Is there any requirement that the operator furnish him such an agreement?

MR. DICKERSON: In the statute, you mean?

MR. STAMETS: Yes, in the statute or anywhere?

MR. DICKERSON: No, sir.

MR. STAMETS: It would appear, then, that the fault is not in the Commission -- or Division's order or

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in the statute but in the interpretation of that by the operator who sends out this operating agreement to sign.

MR. DICKERSON: Well, the operating agreement, standard form operating agreement, has a provision in it that the operator can request from all parties prepayment of costs in advance, but it's limited to the next 30 days in advance. It doesn't clearly apply to dry hole costs, but the problem still comes up, you've got some guy who says that he's going to pay his share of the costs, which might be $100,000, of a well, but you know he's not good for it.

MR. STAMETS: Well, let's go on with this hearing. This is a question that has been raised and I thought this was an appropriate time to try to get it resolved. I think it's not a problem with the law or our orders, but a problem that can be resolved by the persons doing the pooling, how they handle the situation after the order is issued.

This witness may be excused.

Oh, I'm sorry, Mr. Padilla?

CROSS EXAMINATION

BY MR. PADILLA:

Q. Mr. Rucker, I have one question.

A. Yes.

Q. I believe you testified that the operating agreement called for a 300 percent risk factor, and on page

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nine of the operating agreement it calls for 150 percent.

A. I'm sorry, I gave you the nonconsent penalty. 150.

Q. 150?

A. Uh-huh.

MR. STAMETS: The operating agreement does provide for 150 percent?

A. Uh-huh.

MR. STAMETS: Okay. Are you making any recommendation as to what risk factor the order should contain based on this 150 percent factor?

MR. KELLAHIN: This witness isn't.

MR. STAMETS: Okay, fine.

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

RICHARD ERICKSON

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. All right, sir, would you tell us your name?

A. My name is Richard Erickson.

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Q. Mr. Erickson, by whom are you employed?

A. Employed by Anadarko Production Company in Midland.

Q. In what capacity?

A. As a geological engineer.

Q. Mr. Erickson, have you previously testified before the Division as geological engineer?

A. Yes.

Q. And have your qualifications been accepted and made a matter of record?

A. Yes.

Q. Pursuant to that employment have you made certain exhibits and conducted certain studies pursuant to this application?

A. Yes.

MR. KELLAHIN: We tender Mr. Erickson as an expert petroleum geologist.

MR. STAMETS: The witness is considered qualified.

Q. Mr. Erickson, would you turn to Exhibit Number Seven and identify that exhibit for us?

A. That exhibit is the top of the Morrow Clastics in the area.

Q. What's the proposed well location?

A. The proposed well location is 1980 from

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the north and west lines of Section 12, Township 19 South, Range 25 East, Eddy County.

Q. And how is that indicated on the map?

A. It's indicated by the green dot.

Q. What, if any, significance does structure play in the Morrow development for which you're looking?

A. Generally it plays a very unimportant role and there's a minor association in this area of sand trends with slight noses in the structure, but it's fairly unimportant.

Q. Does this plat identify all the wells in the area or just the Morrow wells?

A. This shows all the wells in the area.

Q. Would you take a moment and identify for us the Morrow wells, or the wells that have penetrated the Morrow formation in the proximity of the location?

A. Okay. The two wells in Section 1 were both Morrow wells or tests. The well in the south half of Section 2 is a Morrow well. Both wells in Section 11 are Morrow wells. The well in the north half of Section 14 is a very recent Morrow test. In Township 19, 26, both wells in Section 6 are Morrow tests. The well in Section 7 is a Morrow test. One of the wells in the south half of Section 18 is a Morrow test.

Q. Okay. Would you turn to Exhibit Number

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Eight and identify that exhibit?

A. Exhibit Number Eight is the gross sand Isopach of the intended producing horizon. We call it the B Zone. We break the Morrow into three zones in this area.

Q. Is the Morrow B Zone the principal zone to which you intend to complete this well?

A. Yes.

Q. And you've Isopached only the Morrow B Zone?

A. Yes.

Q. And what is the gross number of sand you've Isopached for the proposed location?

A. 40 to 45 feet.

Q. Going immediately north into Section 1, there's a well with 21 feet of gross B Sand?

A. Yes.

Q. What is that well?

A. That well is a dry hole in the Morrow. It was drilled by PanAmerican.

Q. Proceeding north in Section 1 there is a well with 12 feet of gross B Morrow Sand. What well is that?

A. That well is the Amoco's Alley Unit No. 1.

Q. Does that well produce from the Morrow B Sand?

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A. No, it does not.

Q. Is it economic in any other Morrow Sand?

A. Yes, it's economic in the A Zone.

Q. Mr. Erickson, I show you a copy of a Division order entered in Case 6882, Order No. R-6351, in an application by Amoco Production Company.

Can you identify that order?

A. This is theirs for their Alley Unit No. 1, I believe. Yes.

Q. Okay. Would you describe for us the quality of the wells in Section 11, the section immediately to the west?

A. The quality?

Q. Yeah, are they economic in the Morrow B?

A. Okay. The well in the north half of Section 11 is an economic well in the Morrow B. The well in the south half is not.

Q. Mr. Erickson, do you have an opinion as to the risk involved in drilling the subject well?

A. Yes. I believe that this well is a -- has significant risk because we are offsetting a dry hole and we're a mile or better away from any economic producer.

Q. In terms of a percentage, Mr. Erickson, do you have a recommendation as to a risk factor penalty to be assessed in this case?

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A. We would ask for the maximum, 200 percent.

Q. I show you Exhibit Number Nine and ask you to identify that.

A. Exhibit Number Nine is a cross section that cuts across the north half of Section 12, showing correlation of the B Zone and the sands developed in the B Zone.

Q. Where does the proposed well fall on this cross section?

A. It would fall between the two wells on the righthand side.

Q. Mr. Erickson, do you know what the risk factor penalty granted Amoco for their well in the north half of Section 1 was?

A. I believe it was 200 percent.

Q. In your opinion is the risk involved in drilling this well equal to, greater, or less than the risk of drilling that Amoco well?

A. I believe it's at least equal to, if not greater.

Q. Were Exhibits Seven, Eight, and Nine prepared by you or compiled under your direction and supervision?

A. Yes.

Q. In your opinion will approval of this application be in the best interests of conservation, the prevention of waste, and the protection of correlative rights?

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A. Yes.

MR. KELLAHIN: We move the introduction of Exhibit Seven, Eight, and Nine.

MR. STAMETS: These exhibits will be admitted.

Any questions of the witness? He may be excused.

Anything further in this case?

The case will be taken under advisement.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7004, heard by me on 9-17 1980.

Richard L. Stamets, Examiner
Oil Conservation Division

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
17 September 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico.

CASE 7004

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
Santa Fe, New Mexico 87501

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I N D E X

NEIL RUCKER

Direct Examination by Mr. Kellahin 3

Cross Examination by Mr. Stamets 12

Cross Examination by Mr. Padilla 16

RICHARD ERICKSON

Direct Examination by Mr. Kellahin 17

E X H I B I T S

Applicant Exhibit One, Plat 4

Applicant Exhibit Two, List 5

Applicant Exhibit Three, Letters 6

Applicant Exhibit Four, Letter 6

Applicant Exhibit Five, AFE 9

Applicant Exhibit Six, Operating Agreement 10

Applicant Exhibit Seven, Structure Map 18

Applicant Exhibit Eight, Isopach 20

Applicant Exhibit Nine, Cross Section 22

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MR. STAMETS: We'll call next Case 7004.

MR. PADILLA: Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico.

MR. STAMETS: Call for appearances in this case.

MR. KELLAHIN: I'm Tom Kellahin of Santa Fe, New Mexico, appearing on behalf of the applicant and I have two witnesses.

MR. STAMETS: I'd like to have both witnesses stand and be sworn at this time, please.

(Witnesses sworn.)

NEIL RUCKER

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you please state your name, by whom you're employed, and in what capacity?

A. I'm Neil Rucker, employed by Anadarko Production Company as a petroleum landman.

Q Mr. Rucker, have you previously testified

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before the Division as a landman?

A. No, I haven't.

Q. Would you explain to the Examiner how long you've been employed by Anadarko as a landman?

A. I've been employed by Anadarko for approximately six months as a landman; previously employed by Texas Oil and Gas, a year and a half.

Q. What are your responsibilities as a landman for Anadarko?

A. Putting together units, writing contracts, leases.

Q. Do your responsibilities for Anadarko include the application before the Division today?

A. Yes, it does.

Q. And pursuant to those duties have you prepared certain exhibits?

A. Yes, I have.

MR. KELLAHIN: We tender Mr. Rucker as a petroleum landman, Mr. Stamets.

MR. STAMETS: The witness is considered qualified.

Q. Mr. Rucker, would you refer to the plat that we've marked as Exhibit Number One and generally identify that plat for us?

A. The plat shows the Section 12, Township

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19 South, Range 25 East, north half of the section, which we're attempting to put together a unit for the drilling of a Morrow test.

Q. Would you describe generally how that north half of the section is divided among the various owners?

A. It does have divided interest in 80-acre tracts, four 80-acre tracts, in which there's different ownerships under each tract.

Q. I show you what is marked as Applicant Exhibit Number Two and ask you to identify that.

A. This shows working interest owners throughout the north half, their total interest in the north half of Section 12, and depicts in more detail the Don Phillips and Associates group.

Q. This is a tabulation of all the working interest owners in the entire north half of the section?

A. That's correct.

Q. And for each working interest owner you have taken their interest and reduced it to a percentage of the north half.

A. That's right.

Q. All right. Now, there are certain of these parties that have not agreed to participate or join in the drilling of the well, is that correct?

A. That's correct.

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Q. Let me show you Exhibit Number Three, which is a package of some six letters, and ask you to identify those letters.

A. These are the letters that we've sent out, attached to an operating agreement, requesting that the parties, working interest parties, join us in the drilling of this Morrow test in the north half.

Q. Okay. And Exhibit Number Four, would you identify that for me?

A. Exhibit Number Four is the letter that was originally sent to Don Phillips and Associates requesting that these people also sign our AFE and join us in the drilling of the Morrow test.

Q. Okay. Now, Mr. Rucker, I'd like you to take a copy of the application and go down the list of working interest owners and indicate those individuals that as of today have not agreed to join in the drilling of the well, have not leased to you, or for which you have no response.

A. Okay. Yates Petroleum has given me a verbal that they would join us in the well.

On Don Phillips and Associates, if you'll refer to the letter depicting the ownership of Don Phillips and Associates.

Q. Don Phillips and Associates --

A. Comprise approximately 27 people.

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Q. There are 27 different individuals in the Don Phillips and Associates ownership. The tabulation of those interests is an attachment to the application.

If you'll turn to the attachment, Mr. Rucker, and indicate for us those people from which you do not have an agreement.

A. Okay. Sally P. Ellis, attorney-in-fact for Haywood and Margaret B. Ayres; the Minneapolis Foundation, estate of Frances E. Andrews; the estate of Lester R. Badger.

MR. STAMETS: Not quite so fast, now. Now Minneapolis, which page is that on?

A. That's on the first page, second.

MR. STAMETS: That's number two. Now the next is what?

A. Sally P. Ellis, attorney-in-fact for Haywood and Margaret B. Ayres.

MR. STAMETS: Okay, I must have missed the first one. What was the first one that wasn't signed up?

MR. KELLAHIN: Start again from the top of the page.

A. Okay, it would be the Minneapolis Foundation, estate of Frances E. Andrews; Sally P. Ellis, attorney-in-fact for --

MR. STAMETS: Okay, I'm with you.

A. Okay. The estate of Lester R. Badger,

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deceased.

MR. STAMETS: Okay.

A. The estate of Helen H. Bristol, Eloise W. Kaufman and the First National Bank of Minnesota.

Josephine Hildrith.

Then we turn to the second page, F. B. Hubechek (sic); the estate of E. E. McGibbon, deceased; Mrs. Jan M. Fox; J. Laird Marshall and Owen Marshall; Richard H. Marshall, Junior; Mrs. James J. Norton; Rufus R. Rand estate.

Now we turn to page three, Robert Westman; Marian M. Whitney Trust, San Diego Trust and Savings Bank; and Elizabeth Melanie Winston.

MR. STAMETS: And those are all the people in this Don Phillips estate, or associates, who have not agreed at this point?

A. That is correct. We -- I do have verbal on several of these people but as far as having anything -- instrument in hand, those are people I do not have an instrument in hand at this time.

MR. STAMETS: Okay. Then as to the other interests --

A. Okay, that would be Quetico Superior Foundation; Michael Moore; Richard Moore; --

Q. Is this the next page?

A. Second page, I'm sorry. Stephen Moore;

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John Edward McMahan; Donna Kay McMahan; and Steve Helbing.

MR. STAMETS: And again, those are the people who have not at this point signed --

A. That's correct.

MR. STAMETS: Or you don't have any signed papers.

A. They have not submitted any signed papers.

MR. STAMETS: Okay.

Q. Mr. Rucker, I show you what is marked as Applicant Exhibit Number Five and ask you to identify that.

A. Exhibit Number Five is our AFE for the drilling of the Morrow well.

Q. And what are the total estimated costs for the drilling of the well?

A. Total cost is $353,900.

Q. For a completed well or for a dry hole?

A. Let's see, completed well, I believe.

Q. This is a Morrow test?

A. That's correct.

Q. Mr. Rucker, have you examined similar area fees for other Morrow test wells in the area to determine whether this represents a reasonable estimate of the cost of drilling the subject well?

A. Yes, I have.

Q. Mr. Rucker, I show you what is marked as

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the Applicant's Exhibit Number Six and ask you to identify that.

A. This is our joint operating agreement that we have sent to all the working interest partners in an attempt to get them to sign and join us in the drilling of the well.

Q. What, if any, of the working interest owners have actually executed the joint operating agreement?

A. Marshall and Winston, Incorporated, have executed, and Joe Bohanen has executed.

Q. Marshall and Winston have about 11 percent interest in the well?

A. That's correct.

Q. What does the joint operating agreement provide for overhead charges while drilling and after completion of the well?

A. The overhead charges are $3000 for -- let's see. Drilling well rate. And producing well rate is $330.

Q. With regard to those overhead charges, Mr. Rucker, have you examined similar instruments for the drilling of Morrow wells in the area to determine whether those charges are reasonable?

A. Yes, I have.

Q. And what is your opinion?

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A. They are reasonable.

Q. Okay. What is the risk factor for the nonconsenting parties set forth in the joint operating agreement?

A. The risk factors are 300 percent nonconsent penalty -- 300 percent nonconsent penalty and --

MR. STAMETS: When you say 300 percent, does that mean you would get back $3.00 for every $1.00 you spent or --

A. Yes, sir. That's correct.

MR. STAMETS: Okay, so that's the same thing that our statute calls for with the 200 percent?

A. Uh-huh.

Q. When does Anadarko propose to commence the well, Mr. Rucker?

A. At this time we have a rig scheduled for October the 15th.

Q. And as of today, Mr. Rucker, have you notified either in writing or orally, all the nonconsenting working interest owners?

A. Yes, I have.

Q. All right. Mr. Rucker, were exhibits One through Six prepared by you or compiled under your supervision and direction?

A. That is correct.

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MR. KELLAHIN: We move the introduction of Exhibits One through Six.

MR. STAMETS: These exhibits will be admitted.

MR. KELLAHIN: I have a second witness, my geological witness, on the risk factor.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Let me ask a question at this point. I'm not sure if it needs to be asked of the witness or the attorney, but let's throw it out here and see who'd like to answer it.

Have you ever experienced a situation in compulsory pooling where you've submitted an AFE and one of the parties has signed the AFE but then refused to pay his or her share?

A. I've never experienced that.

MR. KELLAHIN: I've not.

MR. STAMETS: Mr. Kellahin, do you feel that under those circumstances that person would still be liable for the risk charges?

MR. KELLAHIN: Yes, I do.

MR. STAMETS: Do you feel that our order requires that an AFE be sent to the parties being pooled, or

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simply some sort of a document indicating what the cost would be and what their share would be?

MR. KELLAHIN: My understanding of all the forced pooling orders I've seen, that after the effective date of the order and within a certain number of days prior to commencing the well, the operator is required to furnish a notice which includes the estimated well cost.

MR. STAMETS: And that's not necessarily an AFE, is that correct?

MR. KELLAHIN: It's been our practice to furnish the AFE that was furnished at the hearing.

MR. STAMETS: Do you feel that that is a requirement of the order or do you feel that any sort of a document setting out well costs would be acceptable?

MR. KELLAHIN: If the orders are specifically clear that you provide them a schedule of estimated well costs, which in my opinion would be the itemized one used at the hearings, and commonly used in the industry, and similar to the one introduced here today.

I don't know if that responds to the question.

MR. STAMETS: I'm not certain, Mr. Kellahin. We've had some people advise us that perhaps unscrupulous operators are signing AFE's, returning AFE's, and then not paying their share, and claiming that this gets them out from

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under the 200 percent risk factor, or whatever factor we provide in the order, because in signing the AFE they've joined.

Mr. Dickerson, I'd like you to comment on this particular thing while we've got some --

MR. DICKERSON: Mr. Stamets, I think the problem comes up when you have an insolvent, or possibly insolvent operator who signs an operating agreement and an AFE but then waits until the well's down to -- and then they refuse to pay his share of costs for a dry hole.

There's not any problem that comes up when you drill a producer because the -- the -- if you have a pooling order you can recover the cost of the well out of production, but when it's a good well, this unscrupulous operator can pay his share of cost out of production, whereas if it's a dry hole, he then has an operating agreement and an AFE signed, but you have to chase this guy in the courthouse to see if you can get any money.

MR. KELLAHIN: The order specifically requires that he pay his share of the well cost within the 30 days. If he doesn't pay, he's subject to the order.

MR. DICKERSON: The statute says when the interest owner has not agreed to pool his interest; by signing an AFE and an operating agreement he agrees to pool his interest. All he has refused to do is pay his share of a dry hole

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cost in advance. And that's how the problems come up.

MR. STAMETS: Well, Mr. Dickerson, the -- the terms of the order I don't believe require the operator doing the pooling to submit an AFE or an operating agreement to the persons being pooled.

MR. DICKERSON: Yes, sir, I agree, but look at the statute, 70-2-17, which authorizes compulsory pooling by the Commission. When the owner has not agreed to pool his interest, it says, the Commission shall pool.

When this problem comes up the owner agrees to pool his interest. He signs an operating agreement, contract, saying that he will pay his share of costs of this well.

MR. STAMETS: Where does he get that operating agreement to sign?

MR. DICKERSON: Usually furnished by the operator.

MR. STAMETS: Is there any requirement that the operator furnish him such an agreement?

MR. DICKERSON: In the statute, you mean?

MR. STAMETS: Yes, in the statute or anywhere?

MR. DICKERSON: No, sir.

MR. STAMETS: It would appear, then, that the fault is not in the Commission -- or Division's order or

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in the statute but in the interpretation of that by the operator who sends out this operating agreement to sign.

MR. DICKERSON: Well, the operating agreement, standard form operating agreement, has a provision in it that the operator can request from all parties prepayment of costs in advance, but it's limited to the next 30 days in advance. It doesn't clearly apply to dry hole costs, but the problem still comes up, you've got some guy who says that he's going to pay his share of the costs, which might be $100,000, of a well, but you know he's not good for it.

MR. STAMETS: Well, let's go on with this hearing. This is a question that has been raised and I thought this was an appropriate time to try to get it resolved. I think it's not a problem with the law or our orders, but a problem that can be resolved by the persons doing the pooling, how they handle the situation after the order is issued.

This witness may be excused.

Oh, I'm sorry, Mr. Padilla?

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BY MR. PADILLA:

Q. Mr. Rucker, I have one question.

A. Yes.

Q. I believe you testified that the operating agreement called for a 300 percent risk factor, and on page

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nine of the operating agreement it calls for 150 percent.

A. I'm sorry, I gave you the nonconsent penalty. 150.

Q. 150?

A. Uh-huh.

MR. STAMETS: The operating agreement does provide for 150 percent?

A. Uh-huh.

MR. STAMETS: Okay. Are you making any recommendation as to what risk factor the order should contain based on this 150 percent factor?

MR. KELLAHIN: This witness isn't.

MR. STAMETS: Okay, fine.

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

RICHARD ERICKSON

being called as a witness and having been duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. All right, sir, would you tell us your name?

A. My name is Richard Erickson.

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Phone (505) 455-7409

Q. Mr. Erickson, by whom are you employed?

A. Employed by Anadarko Production Company in Midland.

Q. In what capacity?

A. As a geological engineer.

Q. Mr. Erickson, have you previously testified before the Division as geological engineer?

A. Yes.

Q. And have your qualifications been accepted and made a matter of record?

A. Yes.

Q. Pursuant to that employment have you made certain exhibits and conducted certain studies pursuant to this application?

A. Yes.

MR. KELLAHIN: We tender Mr. Erickson as an expert petroleum geologist.

MR. STAMETS: The witness is considered qualified.

Q. Mr. Erickson, would you turn to Exhibit Number Seven and identify that exhibit for us?

A. That exhibit is the top of the Morrow Clastics in the area.

Q. What's the proposed well location?

A. The proposed well location is 1980 from

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the north and west lines of Section 12, Township 19 South, Range 25 East, Eddy County.

Q. And how is that indicated on the map?

A. It's indicated by the green dot.

Q. What, if any, significance does structure play in the Morrow development for which you're looking?

A. Generally it plays a very unimportant role and there's a minor association in this area of sand trends with slight noses in the structure, but it's fairly unimportant.

Q. Does this plat identify all the wells in the area or just the Morrow wells?

A. This shows all the wells in the area.

Q. Would you take a moment and identify for us the Morrow wells, or the wells that have penetrated the Morrow formation in the proximity of the location?

A. Okay. The two wells in Section 1 were both Morrow wells or tests. The well in the south half of Section 2 is a Morrow well. Both wells in Section 11 are Morrow wells. The well in the north half of Section 14 is a very recent Morrow test. In Township 19, 26, both wells in Section 6 are Morrow tests. The well in Section 7 is a Morrow test. One of the wells in the south half of Section 18 is a Morrow test.

Q. Okay. Would you turn to Exhibit Number

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

Eight and identify that exhibit?

A. Exhibit Number Eight is the gross sand Isopach of the intended producing horizon. We call it the B Zone. We break the Morrow into three zones in this area.

Q. Is the Morrow B Zone the principal zone to which you intend to complete this well?

A. Yes.

Q. And you've Isopached only the Morrow B Zone?

A. Yes.

Q. And what is the gross number of sand you've Isopached for the proposed location?

A. 40 to 45 feet.

Q. Going immediately north into Section 1, there's a well with 21 feet of gross B Sand?

A. Yes.

Q. What is that well?

A. That well is a dry hole in the Morrow. It was drilled by PanAmerican.

Q. Proceeding north in Section 1 there is a well with 12 feet of gross B Morrow Sand. What well is that?

A. That well is the Amoco's Alley Unit No. 1.

Q. Does that well produce from the Morrow B Sand?

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

A. No, it does not.

Q. Is it economic in any other Morrow Sand?

A. Yes, it's economic in the A Zone.

Q. Mr. Erickson, I show you a copy of a Division order entered in Case 6882, Order No. R-6351, in an application by Amoco Production Company.

Can you identify that order?

A. This is theirs for their Alley Unit No. 1, I believe. Yes.

Q. Okay. Would you describe for us the quality of the wells in Section 11, the section immediately to the west?

A. The quality?

Q. Yeah, are they economic in the Morrow B?

A. Okay. The well in the north half of Section 11 is an economic well in the Morrow B. The well in the south half is not.

Q. Mr. Erickson, do you have an opinion as to the risk involved in drilling the subject well?

A. Yes. I believe that this well is a -- has significant risk because we are offsetting a dry hole and we're a mile or better away from any economic producer.

Q. In terms of a percentage, Mr. Erickson, do you have a recommendation as to a risk factor penalty to be assessed in this case?

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

A. We would ask for the maximum, 200 percent.

Q. I show you Exhibit Number Nine and ask you to identify that.

A. Exhibit Number Nine is a cross section that cuts across the north half of Section 12, showing correlation of the B Zone and the sands developed in the B Zone.

Q. Where does the proposed well fall on this cross section?

A. It would fall between the two wells on the righthand side.

Q. Mr. Erickson, do you know what the risk factor penalty granted Amoco for their well in the north half of Section 1 was?

A. I believe it was 200 percent.

Q. In your opinion is the risk involved in drilling this well equal to, greater, or less than the risk of drilling that Amoco well?

A. I believe it's at least equal to, if not greater.

Q. Were Exhibits Seven, Eight, and Nine prepared by you or compiled under your direction and supervision?

A. Yes.

Q. In your opinion will approval of this application be in the best interests of conservation, the prevention of waste, and the protection of correlative rights?

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

A. Yes.

MR. KELLAHIN: We move the introduction of Exhibit Seven, Eight, and Nine

MR. STAMETS: These exhibits will be admitted.

Any questions of the witness? He may be excused.

Anything further in this case?

The case will be taken under advisement.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. _____, heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division

WORKING INTEREST PARTNERS

Anadarko Production Company # 1 Glass

Party	Interest
Anadarko Production Company P.O. Box 2497 Midland, Texas 79702	56.0144 %
Marshall & Winston P.O. Box 874 Midland, Texas 79702	10.937500%
OK Yates Petroleum 207 S. 4th Street Artesia, New Mexico 88210	28.28125 %
✓ Don Phillips and Associates (see attachment)	2.343700%
✓ Quetico Superior Foundation 1730 Plymouth Road Ridgedale State Bank Minnetonka, Minnesota 55343	0.781200%
✓ Michael Moore 404 Blanks Building Midland, Texas 79701	0.410200%
✓ Richard Moore 404 Blanks Building Midland, Texas 79701	0.410200%
✓ Stephen Moore 404 Blanks Building Midland, Texas 79701	0.410200%
✓ Steve Helbing 490 Colorado State Bank Building Denver, Colorado 80202	0.175800%
Joe Bohannon 5950 E; 55th Street Tulsa, Oklahoma 74135	0.099205%

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Anadarko EXHIBIT NO. 2
CASE NO. 7004
Submitted by
Hearing Date 12 Sept 80

Party	Interest
Marianne B. Jost 1100 Bedford Drive Oklahoma City, Oklahoma 73116	0.099205%
John Edward McMahan 709 Slaton Las Vegas, Nevada 89107	0.018600%
Donna Kay McMahan Attn: Jane Wade Rt. #2, Box 370-B Heber Springs, Arkansas 72542	0.018600%
	100.000000%

OWNERSHIP OF DON PHILLIPS AND ASSOCIATES
Undivided 3/32 Mineral Interest In: The
E/2, NW/4, Section 12, T-19-S, Range 25E
N.M.P.M., Eddy County, New Mexico

ADDRESS	INTEREST
H. Cedric Alward, M.D. 4224 Francis Avenue Los Angeles, California 90005	.00312500
The Minneapolis Foundation, Estate of Frances E. Andrews % First National Bank of Minneapolis, Trust Department P.O. Box A700 Minneapolis, Minnesota 55440	.00312500
Estate of James G. Bennett % Mr. John P. Somers, Executor 2016 East Broadway Tucson, Arizona 85719	.00625000
Sally P. Ellis Attorney-inFact for Hayward & Marguerite B. Ayres 1204 Pine Street South Pasadena, California 91030	.00312500
Estate of Lester R. Badger, deceased % Stephen S. Badger Route 1, Box 528B 27920 Smithtown Road Excelsior, Minnesota 55331	.00312500
Estate of Helen H. Bristol, % Frederick P. Wheeler, Co-Trustee 627 Pebble Hill Road Doylestown, Pa. 18901	.00625000
Eloise W. Carleton & First National Bank of Minnesota As Trustee U/W of Frank H. Carleton, deceased Box A700, Minneapolis, Minnesota 55480 Att: D. R. Cadwallader	.00312500
Paul Dickerson, deceased % Erle L. Dickerson, wife 3145 Cahuenga Blvd. Los Angeles, California 90068	.00156250
Josephine Hildrith 1811 La Custa Drive Santa Ana, California 92705	.00312500
Joyce A. Holliday 1034 Princeton Street Santa Monica, California 90403	.00625000

ADDRESS	INTEREST
F. B. Hubachek Suite 3220, Prudential Plaza Chicago, Illinois 60601	.00312500
Charles S. Kelly Suite 3220 Prudential Plaza Chicago, Illinois 60601	.00312500
Estate of E.E. MacGibbon, deceased % MacGibbon & Danforth Attorneys 321 Lowell Elk River, Minnesota 55330	.00312500
Mrs. Jan M. Fox 8505 Winnequah Road Madison, Wisconsin 53716	.00104166
J. Laird Marshall 1411 Bible Camp Road McFarland, Wisconsin 53558	.00104167
Owen Marshall 2470 Rivermont Avenue Lynchburg, Virginia 24504	.00104167
Richard H. Marshall, Jr. 29 Austin Crescent Toronto M5R-3E3 Ontario, Canada	.00312500
Douglas B. MacKinnon, M.D. 4240 Dundee Road Los Angeles, California 90027	.00312500
Robert Ray Newton Trust % Donald W. Newton, Trustee Route 22, Meeting House Lane Knoxville, Tennessee 37921	.00625000
Mrs. James J. Norton 2880 Lorain Road San Marino, California 91108	.00312500
Paid Mary A. Phillips 9025 National Blvd. Los Angeles, California 90034 / or 2244 Q. Via Puerta LaGuna Hills, California 92653	.00781250
Rufus R. Ran Estate % Palmer First National Bank & Trust Box 2018 Sarasota, Florida 33578/ or 8446 Sanderling Road Sarasota, Florida 33578	.00312500

ADDRESS	INTEREST
L. Raymond Scherer, M.D. 1930 Irving Avenue South Minneapolis, Minnesota 55403	.00312500
Kathryan Knops 3044 - 12th Avenue South Minneapolis, Minnesota 55416	.00312500
Robert Westman 257 North 117th Avenue Omaha, Nebraska 68154	.00312500
Marian M. Whitney Trust San Diego Trust & Savings Bank Trust Dept., Box X-1013 San Diego, California 92112 Att: Gerald C. Jessop	.00312500
Elizabeth Melone Winston 2706 W. Lake of the Isles Blvd. Minneapolis, Minnesota 55416	.00312500

Anadarko
PRODUCTION COMPANY

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

A Panhandle Eastern Company

August 28, 1980

Marshall & Winston
P.O. Box 874
Midland, Texas 79702

Steve Helbing
4090 Colorado State Bank Building
Denver, Colorado 80202

Joe Bohannon
5950 East 55th Street
Tulsa, Oklahoma 24135

Marianne B. Jost
1100 Bedford Drive
Oklahoma City, Oklahoma 73116

Estate of Helen H. Bristol
% Frederick P. Wheeler, Co-Trustee
627 Pebble Hill Road
Doylestown, Pennsylvania 18901

RE: Lakewood Prospect
N/2 Sec. 12, T19S, R25E
Eddy County, New Mexico

Gentlemen:

Enclosed please find a copy of an Operating Agreement and two signature pages dated September 1, 1980 covering the subject property.

Provided said contract meets with your approval, please execute and return one signature page to Anadarko for further handling. A fully executed copy of the signature page will be furnished when received. A signed copy of the AFE affecting this project has been received by this office at an earlier date.

Subject to rig availability Anadarko Production Company is anticipating a drilling date of October 15, 1980. Your immediate attention to this agreement will be sincerely appreciated.

Should you have any questions please do not hesitate to contact me.

Very truly yours,

Neil Rucker,
Exploration Landman

NR/cw
Enc.

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Anadarko EXHIBIT NO. 3
CASE NO. 7004
Submitted by
Hearing Date

Anadarko
PRODUCTION COMPANY

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

A
Panhandle
Eastern
Company

August 29, 1980

Mr. John Edward McMahan
709 Slaton
Las Vegas, Nevada 89107

Re: Lakewood Prospect
N/2 Sec. 12, T19S, R25E
Eddy County, New Mexico

Dear Mr. McMahan:

Enclosed please find a copy of an Operating Agreement with two signature pages dated September 1, 1980 and two copies of an AFE covering the subject property.

You had earlier indicated that you wished to join Anadarko in the drilling of the well.

Provided said contract and AFE meets with your approval, please execute and return the signature page and a copy of the AFE to Anadarko for further handling. A fully executed copy of the signature page will be furnished when received. The executed copy of the AFE may be kept for your files.

Subject to rig availability, Anadarko Production Company is anticipating a drilling date of October 15, 1980. Your immediate attention to this agreement will be sincerely appreciated.

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

Neil Rucker,
Exploration Landman

NR/cw
Enc.

Anadarko
PRODUCTION COMPANY

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

A
Panhandle
Eastern
Company

August 29, 1980

Mrs. Donna Kay McMahan
Att: Jane Wade
Route 2, Box 370-B
Heber Springs, Arkansas

RE: Lakewood Prospect
N/2 Sec. 12, T19S, R25E
Eddy County, New Mexico

Dear Mrs. McMahan:

Enclosed please find a copy of an Operating Agreement with two signature pages dated September 1, 1980 and two copies of an AFE covering the subject property.

You had earlier indicated that you wished to join Anadarko in the drilling of the well.

Provided said contract and AFE meets with your approval, please execute and return the signature page and a copy of the AFE to Anadarko for further handling. A fully executed copy of the signature page will be furnished when received. The executed copy of the AFE may be kept for your files.

Subject to rig availability, Anadarko Production Company is anticipating a drilling date of October 15, 1980. Your immediate attention to this agreement will be sincerely appreciated.

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

Neil Rucker,
Exploration Landman

NR/cw
Enc.

Leave

Anadarko
PRODUCTION COMPANY

A
Panhandle
Eastern
Company

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

August 28, 1980

Yates Petroleum Corporation
207 South 4th Street
Artesia, New Mexico 88210

Attn: Randy Patterson

Re: Lakewood Prospect
N/2 Sec. 12, T19S, R25E
EDDY COUNTY, New Mexico

Dear Sir:

Please find enclosed one copy with two signature pages of a Joint Operating Agreement covering your interest in the subject property.

Subject to rig availability, Anadarko Production Company is anticipating the drilling of a Morrow test located 1980' FNL and 1980' FWL Sec. 12, T19S, R25E on October 15, 1980. As you are probably aware the ownership of this property is quite diversified and complicated. However, Anadarko Production Company feels that we have received enough positive response from the mineral and leasehold owners to warrant negotiations on the referenced Joint Operating Agreement.

The enclosed Operating Agreement reflects Yates current interest according to our most recent Title Opinion which I have enclosed. However, a final opinion is now underway which will further clarify your interest, specifically in the E/2 NW/4. Should you have information which would assist us in the effort, please contact me as soon as possible.

Upon your approval of the Operating Agreement, please return the executed signature page. The fully executed agreement will be returned as soon as I have received all signatures. Also, upon approval of the Operating Agreement, a signed copy of the AFE for this well should be returned.

Because of the short time period before our anticipated drilling date, your usual immediate attention to this matter is sincerely appreciated.

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

Neil Rucker,
Exploration Landman

NR/cw
Enc.

Anadarko
PRODUCTION COMPANY

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

A
Panhandle
Eastern
Company

July 29, 1980

Mr. Richard Moore
404 Blanks Building
Midland, Texas 79701

Re: Richard Moore et. al. Interest
Anadarko #1 Glass
N/2, Sec. 12, T-19-S, R-25-E
Eddy County, New Mexico

Dear Mr. Moore:

With reference to the captioned and our telephone conversation of recent date, I have enclosed for your review our letter of February 25, 1980, which outlines our proposal for the drilling of a 9500' Morrow test on the subject property.

I have also included copies of our AFE to assist you in your decision and I am currently in the process of preparing an Operating Contract which I will forward to you upon completion.

As we have tentatively scheduled a rig for October 15, 1980, your immediate response as to your position would be deeply appreciated. Please return one executed copy of the attached AFE should you choose to join.

Please do not hesitate to contact me at 682-1666 if you should have any questions concerning this proposal.

Very truly yours,

Neil Rucker,
Exploration Landman

NR/cw
Enc.

cc 3

Anadarko
PRODUCTION COMPANY

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1626

A
Panhandle
Eastern
Company

July 30, 1980

RECEIVED

AUG 29 1980

MIDLAND EXPLORATION

Quetico Superior Foundation
2400 First National Bldg.
Minneapolis, Minnesota 55480

Re: Lakewood Prospect Area
Anadarko #1 Glass
N/2 Section 12, T-19-S, R-25-E
Eddy County, New Mexico

Gentlemen:

Anadarko Production Company is formulating plans for the #1 Glass to be located in the E/2 NW/4 Section 12, T-19-S, R-25-E, a 9500' Morrow test with the spaced unit being the entirety of the N/2. From the information available to me at present, the division of the working interest appears to be as shown on the attached page. If you have information to the contrary, please advise. I have a title examination in progress and the results may be complex.

Also attached hereto are two copies of our AFE to assist in your decision. I will follow with an operating contract once I have positive responses from a sufficient number of parties to justify proceeding. If any party desires not to join in this proposed test, Anadarko Production Company offers to carry such party under a 100% working interest arrangement to payout with the carried party retaining a 1/16 overriding royalty and the option to convert said override to a 40% working interest at payout, all proportionately reduced.

Please advise as to your position as soon as possible. I will eventually need the return of one executed copy of the attached AFE.

Very truly yours,

F. Neil Rucker,
Exploration Landman

FNR/cw

Enc.

FRED Wheeler
(609) 396-8251

Anadarko
PRODUCTION COMPANY

A Panhandle Eastern Company

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

May 12, 1980

SEE ATTACHED LIST

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Anadarko EXHIBIT NO. 4
CASE NO. 7004
Submitted by
Hearing Date

Re: Lakewood Prospect Area
Anadarko #1 Glass
N/2 Sec. 12, T19S, R25E,
Eddy County, New Mexico

Anadarko Production Company is formulating plans for the drilling of the #1 Glass well to be located in the E/2 NW/4 Section 12, T19S, R25E, a 9500' Morrow test with the space unit being the entirety of the N/2. From the information available to me at present, there was a conveyance of an undivided 3/32 mineral interest in the E/2 NW/4 of the captioned to Don Phillips & Associates by Donald Winston and his wife Elizabeth M. Winston. Don Phillips & Associates was a limited partnership which dissolved upon the death of Don Phillips, its sole general partner on September 24, 1972, therefore, the property standing in the name of the partnership is now owned as indicated in the proportionate interest disclosed by the attached list. If you have any information to the contrary, as to the interest or addresses, please advise at your earliest convenience.

Also attached hereto are two copies of our AFE to assist you in your decision. I will follow with a Joint Operating Contract once I have positive responses from a sufficient number of parties to justify proceeding. If any party desires to not join in the proposed test, Anadarko Production Company offers to carry such party under a 100% working interest arrangement to payout with the carried party retaining a 1/16 overriding royalty and the option to convert said override to a 40% working interest at payout, all proportionately reduced.

Your response to your position as soon as possible would be greatly appreciated. I will eventually need the return of one executed copy of the attached AFE.

Very truly yours,

F. Neil Rucker
Exploration Landman

FNR/bjt

Attachments

ADDRESS LIST

1. H. Cedric Alward, M.D.
   4224 Francis Avenue
   Los Angeles, CA 90005

2. The Minneapolic Foundation
   Legatee of Estate of Frances E. Andrews
   Trust Dept. - First National Bank of
   Minneapolis, P.O. Box A700
   Minneapolis, Minnesota 55440

3. Sally P. Ellis, Attorney-in-Fact for
   Hayward & Marguerite B. Ayres
   1204 Pine Street
   South Pasadena, CA 91030

   Boulder, Colorado

4. Estate of Lester R. Badger, deceased
   c/o Stephen S. Badger
   Route 1, Box 528B
   27920 Smithtown Road
   Excelsior, Minn. 55331

5. Helen H. Bristol Estate
   151 Library Place
   Princeton, New Jersey 08540

   Mail to: c/o Bristol-Meyers
   345 Park Ave.
   NY, NY 10022

6. First National Bank of Minneapolis
   Executor of Estate of Frank H. Carleton
   Box A700
   Minneapolis, Minnesota 55440

7. Paul Dickerson
   3145 Cahuenga Blvd.
   Los Angeles, CA 90068

8. Josephine ~~Hilditch~~ Hilditch
   1811 La Cuesta Drive
   Santa Ana, CA 92705

9. Estate of James G. Bennett
   c/o Mr. John P. Somers, Executor
   2016 East Broadway
   Tucson, Arizona 85719

10. Joyce A. Holliday
    1034 Princeton Street
    Santa Monica, CA 90403

11. F.B. Hubachek
    Suite 3220, Prudential Plaza
    Chicago, Ill. 60601

12. Charles S. Kelly
    Suite 3220, Prudential Plaza
    Chicago, Ill. 60601

13. Estate of E.E. MacGibbon, deceased
    c/o MacGibbon & Danforth Attorneys
    321 Lowell
    Elk River, Minn. 55330

14. Mrs. Jan M. Fox
    5805 Winnequal Road
    Madison, Wisc. 53716

15. John Marshall
    5805 Winnequah Road
    Madison, Wisc. 53704

16. Mr. J. Laird Marshall
1411 Bible Camp Road
McFarland, Wisconsin 53558

17. Mr. Owen Marshall
2470 Rivermont Avenue
Lynchburg, Virginia 24504

18. Richard H. Marshall, Jr.
28 Austin Crescent,
Toronto M5R-3E3, Ontario, Canada

19. Richard H. Marshall
175 Lakewood Blvd.
Madison, Wisc. 53704

20. Douglas D. ~~MacKimon~~ MacKinnon, M.D.
4240 Dundee Road
Los Angeles, CA 90027

21. Robert Ray Newton Trust
c/o Donald W. Newton, Trustee
Route 22, Meeting House Lane
Knoxville, Tenn. 37921

22. Mrs. James J. Norton
2880 Lorain Road
San Marino, CA 91108

23. Mary A. Phillips
9025 National Blvd.
Los Angeles, CA 90034

2244 Q Via Puerta
LaGuna Hills, CA 92653

24. Rufus R. Rand Estate
c/o Palmer First National Bank & Trust
Box 2018
Sarasota, Fla. 33578

8446 Sanderling Road
Sarasota, Bla. 33578

25. L. Raymond Scherer, M.D.
1930 Irving Ave. So.
Minneapolis, Minn. 55403

26. Kathryan Knops
3044 - 12th Ave. So.
Minneapolis, Minn. 55416

27. ~~Roger~~ Robert Westman
257 N. 117th Ave.
Omaha, Neb. 68154

28. Estate of Marian Whitney, Dec.
c/o First National Bank of Mpls.
Agent for the Trustee
P.O. Box A700
Minneapolis, Minn. 55440

San Diego Trust & Savings Bank
Trust Dept., Box 1871
San Diego, CA 92112

29. Elizabeth Melone Winston
2706 W. Lake of the Isles Blvd.
Minneapolis, Minn. 55416

	INTEREST
H. Cedric Alward	.00312500
Estate of Frances E. Andrews, deceased	.00312500
Marguerite B. Ayres	.00312500
Estate of Lester R. Badger, deceased	.00312500
Helen H. Bristol	.00625000
Frank H. Carleton Trust	.00312500
Paul Dickerson	.00156250
Josephine Hildrith	.00312500
Estate of James G. Bennett, deceased	.00625000
Joyce A. Holliday	.00625000
F.B. Hubachek	.00312500
Charles S. Kelly	.00312500
Estate of E.E. MacGibbon, deceased	.00312500
Mrs. Jan M. Fox	.00104166
J. Laird Marshall	.00104167
Owen Marshall	.00104167
Richard H. Marshall	.00312500
Douglas B. MacKinnon, M.D.	.00312500
Robert Ray Newton Trust	.00625000
Mrs. James J. Norton	.00312500
Mary A. Phillips	.0078125C
Estate of Rufus R. Rand, deceased	.00312500
L. Raymond Scherer, M.D.	.00312500
Kathryan Knops	.00312500
Robert Westman	.00312500
Marian Whitney Trust	.00312500
Elizabeth Malone Winston	.00312500

APC 120 3/78

ANADARKO PRODUCTION COMPANY
AUTHORITY FOR EXPENDITURE

Co. (2) 03 Div. (2) 48 AFE No. (4) _____ Location No. (7) _____ Date-Mo/Da/Yr (6) 1/10/80

Work Description (12): D.C & E | Well/Location Name (20): APC Glass | (6) Well No.: 1 | Field/Prospect (25): Lakewood | State (5): NM | Co.Cd.: 30 (2)

Explain Project: Drill, Complete & Equip.

Non APC AFE #: _____

Sec. - Twn. - Range - Des. of Loc. (23): 12 T19S R25E 1980' FN&WL | County (13): Eddy | Co.Cd.: 015 (5)

Field Cd.	Proj Cd.	Prosp. Cd.	Budget	T/B	G/L	Amount Authorized
(3)	6660 (4)	016 (3)	310 (4)	139 (3)	230 (3)	353,900 (9)

	Owner Name (24)	Working Int. (1,6)	Owner Name (24)	Working Int. (1,6)
OPER.	Anadarko Production Company	0.685144		
	Others - See Attached Sheet			
			Company Revenue Interest	0.541055

Type -
- [X] Drilling
- [ ] Exploration
- [X] Development
- [ ] Recompletion
- [ ] Plug & Abandon
- [ ] Sale
- [ ] Spacing Unit

Acres 320

Project Subject to -
- [ ] Construction
- [ ] LHP
- [ ] Farmin
- [ ] Geophysical
- [ ] DHC or BHC
- [ ] _____
- [ ] Carried Interest
- [ ] Net Profits Interest
- [ ] Right to Convert to W.I.
- [ ] _____

Explain _____

Lse Expiration Date _____

Originating Office: Midland Divison
Prepared by: B. W. Griffin

FOR DRILLING WELLS
- Date Est. Spud _____ Est. TD 9500
- Type Well (oil, gas, est.) Gas
- Drilling Obligation Date _____
- Est. Days to Drill 25
- Est. Days to Complete 5

DRILLING - DRY HOLE COST

	Total	Jt. Owners	Co. Net
Intangible	$ 300,500	$ 94,600	$ 205,900
Tangible	23,800	7,500	16,300
TOTAL	$ 324,300	$ 102,100	$ 222,200
Less Dry Hole Cont.	($ -)	($ -)	($)
TOTAL	$ 324,300	$ 102,100	$ 222,200

RETIREMENT COST

	Total	Jt. Owners	Co. Net
Cost-Removal	$	$	$
Salvage/Rec.			
NET COST (or REC.)	$	$	$

DRILLING - COMPLETION COST

	Total	Jt. Owners	Co. Net
Intangible	$ 41,000	$ 12,900	$ 28,100
Tangible	151,200	47,600	103,600
TOTAL	$ 192,200	$ 60,500	$ 131,700
T. COST	$ 516,500	$ 162,600	$ 353,900

EXPLORATION AND OTHER PROJECTS COST

	Total	Jt. Owners	Co. Net
	$	$	$
TOTAL	$	$	$

Remarks: Subject to negotiation and completion of joint operations contract and/or farmin arrangements, title examination and a 320 acre gas pooled unit.

APPROVAL LEVEL: [X] Division [ ] Region [ ] Gen'l Office

APPROVALS

		DATE
Division	[signature]	1/14/80
	[signature]	1/14/80
	[signature]	1/22/80
Region		
Gen'l Office		

NON OPERATORS
- Company _____ DATE _____
- By _____
- Title _____

ECONOMIC ASSUMPTIONS

Chance of Success: Expl. _____ %, Devel. _____ %
Prices: _____ $/Bbl; _____ $/mcf

Reserves -	This Well GROSS	This Well RI	Total Prospect GROSS	Total Prospect RI
Oil, MBbl.				
Gas, MMCF				

ECONOMIC YARDSTICKS

- Appraisal Rate of Return _____ %
- Profit - to - Investment Ratio
  - Risked _____
  - Unrisked _____
- Payout _____ yrs.
- Drilling Cost _____ $/NEB

APC 120 D 3/78

ANADARKO PRODUCTION COMPANY

AFE DETAIL ESTIMATE

Co. (2) 03 Div. (2) 40 AFE No. (4) _____ Location No. (7) _____ Date-Mo/Da/Yr 1/10/80 (6)

Work Description (12): D,C & E
Well/Location Name (20): AFC Glass
(8) Well No.: 1
Field/Prospect (25): Lakewood
State (5): NM
Co.Cd.: 30 (2)

Explain Project: Drill, Complete & Equip.
Sec. - Twn. - Range - Des. of Loc. (23): 12 T19S R25E 1980' FNWL
County (13): Eddy
Co.Cd.: 015 (3)

Non APC AFE #: _____

Field Cd.	Proj Cd.	Prosp.Cd.	Budget	T/B	G/L	Amount Authorized
(3)	6660 (4)	01 (3)	310 (4)	139 (3)	230 (3)	353,200 (9)

	Owner Name (24)	Working Int.(1,6)	Owner Name (24)	Working Int.(1,6)
OPER.	Anadarko Production Company	0.685144		
	Others - See Attached Sheet			
			Company Revenue Interest	0.541055

DETAIL OF DRILLING COST ESTIMATE

PAGE 1 OF _____

CODE	INTANGIBLE DRILLING COSTS	TOTALS DRY HOLE	TOTALS COMPLETION	TOTALS COMPLETED
2010	Road and Location	$ 10,000	$ 1000	$ 11000
2020	Contract Rig Costs	185,000		185000
2030	Mud and Chemicals	35,000		35000
2040	Cement and Cementing	12,000	10000	22000
2050	Formation Evaluation	45,000		45000
2060	Completion		25000	25000
2070	Other Tools and Rentals			
2080	Transportation, Trucking and Hauling	5,000	3000	8000
2090	Contract Services			
2100	Company Supervision	2,500	1000	3500
2150	Miscellaneous Intangibles	3,000		3000
2200	Administrative Overhead	3,000	1000	4000
2600	IDC - Non Operated			
	Total Intangible Drilling Cost	$ 300,500	$ 41000	$ 341,500
2900	Special Credits - Dry and Bottom Hole Contributions Receivable	( )	( )	( )
	Total Net Intangible Drilling Cost	$ 300,500	$ 41000	$ 341,500
	LEASE AND WELL EQUIPMENT			
	Well Casing			
	400 FT., 13-3/8 O.D., 48#H-40 ST&C	7,500		7,500
	1200 FT., 8-5/8 O.D., 24#K-55 ST&C	11,300		11,300
	9500 FT., 4-1/2 O.D., 11.6#K-55 & N-80		49200	49,200
	____ FT., ____ O.D., ____			
3010	TOTAL WELL CASING	18,800	49200	68,000
	Well Tubing			
	9500 FT., 2-3/8 O.D., 4.7 #N-80 EUE		33000	33,000
	____ FT., ____ O.D., ____			
	____ FT., ____ O.D., ____			
3020	TOTAL WELL TUBING		33000	33,000
3070	Other Controllable Subsurface Well Equipment			
3080	Non-Controllable Subsurface Well Equipment		3000	3,000
3110	Wellhead Equipment	5,000	25000	30,000
3120	Pumping Equipment			
3170	Other Controllable Surface Well Equipment			
3180	Non-Controllable Surface Well Equipment			
3190	Installation Costs - Surface Equipment			
3210	Tank Batteries, Separators, Heating, Treating & Sales Equipment		36000	36,000
3220	Compressor Stations			
3230	Electrical Systems and Transmission Lines			
3240	Buildings			
3250	Lease Lines			
3270	Other Controllable Surface Lease Equipment			
3280	Non-Controllable Surface Equipment			
3290	Installation Costs - Surface Lease Equipment		5000	5,000
3400	Drilling and/or Production Platforms			
3800	L & W - Non Operated			
	TOTAL LEASE AND WELL EQUIPMENT	$ 23,800	$ 151,200	$ 175,000

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

Arradarko EXHIBIT NO. 5

CASE NO. 7004

Submitted by

Hearing Date

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Anadarko EXHIBIT NO. 6
CASE NO. 7004
Submitted by
Hearing Date

OPERATING AGREEMENT

DATED

1 SEPTEMBER, 1980,

OPERATOR ANADARKO PRODUCTION CO.

CONTRACT AREA N/2 Section 12, T-19-S, R-25-E

COUNTY ~~OR XXXXXXXXXXX~~ EDDY STATE OF NEW MEXICO

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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

TABLE OF CONTENTS

Article	Title	Page
I.	DEFINITIONS	1
II.	EXHIBITS	1
III.	INTERESTS OF PARTIES	2
	A. OIL AND GAS INTERESTS	2
	B. INTEREST OF PARTIES IN COSTS AND PRODUCTION	2
IV.	TITLES	2
	A. TITLE EXAMINATION	2
	B. LOSS OF TITLE	2
	1. Failure of Title	2-3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	OPERATOR	3
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	3
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	DRILLING AND DEVELOPMENT	4
	A. INITIAL WELL	4
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6
	C. RIGHT TO TAKE PRODUCTION IN KIND	6-7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	7
	E. ABANDONMENT OF WELLS	7
	1. Abandonment of Dry Holes	7
	2. Abandonment of Wells that have Produced	7-8
VII.	EXPENDITURES AND LIABILITY OF PARTIES	8
	A. LIABILITY OF PARTIES	8
	B. LIENS AND PAYMENT DEFAULTS	8
	C. PAYMENTS AND ACCOUNTING	8
	D. LIMITATION OF EXPENDITURES	9
	1. Drill or Deepen	9
	2. Rework or Plug Back	9
	3. Other Operations	9
	E. ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	9
	F. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	9-10
	G. TAXES	10
	H. INSURANCE	10
VIII.	ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST	10
	A. SURRENDER OF LEASES	10-11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. ACREAGE OR CASH CONTRIBUTION	11
	D. SUBSEQUENTLY CREATED INTEREST	11-12
	E. MAINTENANCE OF UNIFORM INTEREST	12
	F. WAIVER OF RIGHT TO PARTITION	12
	G. PREFERENTIAL RIGHT TO PURCHASE	12
IX.	INTERNAL REVENUE CODE ELECTION	12-13
X.	CLAIMS AND LAWSUITS	13
XI.	FORCE MAJEURE	13
XII.	NOTICES	13
XIII.	TERM OF AGREEMENT	13-14
XIV.	COMPLIANCE WITH LAWS AND REGULATIONS	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
XV.	OTHER PROVISIONS	14
XVI.	MISCELLANEOUS	

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between ANADARKO PRODUCTION COMPANY _____, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III: Interests of Parties

A. Unleased Oil and Gas Interests:

If it develops that any interest owned and contributed by a party hereto is an unleased interest in the oil and gas rights, then such unleased interest shall be treated for all purposes of this agreement as if it were a term (for the term of this Operating Agreement) oil and gas lease covering such unleased interest on a form providing for a three-sixteenths (3/16ths) royalty and containing the usual and customary "lesser interest clause". This agreement shall in no way affect the right of the owner of any such unleased interest to receive an amount or share of production equivalent to the royalty which would be payable if such unleased interest were subject to an oil and gas lease as provided in the preceding sentence. Where any provision of this agreement shall operate to require an assignment from any party contributing an unleased mineral interest, such provision shall be construed (insofar as such unleased mineral interest is concerned) as requiring instead the execution and delivery by such party of an oil and gas lease, for a primary term of one year from the date of its delivery and so long thereafter or as oil or gas is produced, which lease shall reserve unto the Lessor a 3/16ths royalty and contain the usual "lesser interest clause".

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Account~~, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined ~~by attorneys on its staff~~ or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) ~~the title has been approved by the examining attorney or~~ title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in full force and effect as to all parties and interests as to

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost; and

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded; and

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, ~~shall not be considered failure of title but~~ shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

ANADARKO PRODUCTION CO. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 15th day of December, 1980, Operator shall commence the drilling of a well for oil and gas at the following location:

1980' FNL & 1980' FWL of Sec. 12, T19S, R25E, Eddy County, New Mexico.

and shall thereafter continue the drilling of the well with due diligence to an approximate depth of 9500' or depth sufficient to test the Morrow formation, whichever is the lesser depth.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) ~~100%~~ 150% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus ~~100%~~ 150% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

300 % of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had ~~it~~* participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first ~~giving such other party thirty (30) days notice of such intended sale.~~ obtaining the prior written consent of such other party.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with the ~~any~~ Gas Balancing Agreement between the parties hereto. ~~whether such Agreement is~~ attached as Exhibit "E", ~~or is a separate Agreement.~~

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes

vals of the formation or formations covered thereby, ~~such lease to be on the form attached as Exhibit "B"~~. The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. ~~Upon request~~ At its' election, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

[ ] Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

[X] Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties ~~to the extent of~~ 12.50% or 3/16 due on ~~its share of production~~ and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

F. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment without warranty of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~**G. Preferential Right to Purchase:**~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and~~ interests in the Contract Area, it shall promptly give written notice to the other parties, with ~~full~~ information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent ~~company, or to any company in which any one party owns a majority of the stock.~~

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regula-

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand Dollars ($ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.
Except pursuant to Article VIII.B.,

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or other

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

(a.) Non-operators agree to release operator from any and all losses, damages injuries, claims and causes of action arising out of incident to or resulting directly or indirectly from operator's interpretation or application of rules, rulings, regulations or orders of any local, state, or federal agency, or any other regulatory agency having jurisdiction, along with any predecessors or successors to any agency, to the extent operators interpretation or application of such rules, rulings, regulations or orders was made in good faith. Non-Operators further agree to reimburse operator for their proportionate share of any amounts operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with the non-Operators proportionate part of interest and penalties owing by operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1 day of September, 1980.

OPERATOR

Anadarko Production Company

A. D. Fleming

by: A. D. Fleming
Agent & Attorney-in-Fact

NON-OPERATORS

Yates Petroleum Corporation	Attest:
Estate of Helen H. Bristol, Frederick P. Wheeler, Co-Trustee	Steve Helbing
Marshall & Winston, Inc. by: William S. Marshall, President	Michael Moore
Marianne B. Jost	Richard Moore
Joe Bohannon	Stephen Moore
Donna Kay McMahan	John Edward McMahan

EXHIBIT "A"

Attached to and made a part of Operating Agreement dated September 1, 1980 between ANADARKO PRODUCTION COMPANY, as Operator, and Yates Petroleum Corp. et al, as Non-Operators.

1. LANDS SUBJECT TO AGREEMENT:

The Contract Area subject to this Operating Agreement shall consist of the oil and gas rights from the surface of the earth down to the base of the geological formation known as the "Morrow" formation, in and under the following described land in Eddy County, New Mexico:

N/2 Section 12, T19S, R25E.

The leases contributed to the contract area by the parties hereto are listed on Exhibit "A-1" attached hereto and made a part hereof, each party hereto contributing to the Contract Area the leases described in said Exhibit "A-1" under said party's name, insofar (and only insofar) as said leases cover the Contract Area. This Operating Agreement covers all interests owned by the parties in the contract area, whether said interests are unleased mineral interests or leasehold interests, including such interests which may be acquired during the term of this Operating Agreement.

2. NAMES ADDRESSES AND INTERESTS OF THE PARTIES:

The names, addresses and interests in the Contract Area of each party to this agreement are set out herein below:

Anadarko Production Company
P.O. Box 2497
Midland, Texas 79702

Marshall & Winston
P.O. Box 874
Midland, Texas 79702

Yates Petroleum
207 South 4th Street
Artesia, New Mexico 88210

Michael Moore
404 Blanks Building
Midland, Texas 79701

Richard Moore
404 Blanks Building
Midland, Texas 79701

Stephen Moore
404 Blanks Building
Midland, Texas 79701

Steve Helbing
4090 Colorado State Bank Building
Denver, Colorado 80202

Joe Bohannon
5950 East 55th Street
Tulsa, Oklahoma 24135

Marianne B. Jost
1100 Bedford Drive
Oklahoma City, Ok. 73116

John Edward McMahan
709 Slaton
Las Vegas, Nevada 89107

Donna Kay McMahan
Att: Jane Wade
Route 2, Box 370-B
Heber Springs, Arkansas

Estate of Helen H. Bristol
% Frederick P. Wheeler, Co-Trustee
627 Pebble Hill Road
Doylestown, Pennsylvania 18901

INTERESTS OF PARTIES TO AGREEMENT

Anadarko Production Company	68.5144 %
Marshall & Winston	10.9375 %
Yates Petroleum Corporation	15.7812 %
Michael Moore	.4102 %
Richard Moore	.4102 %
Stephen Moore	.4102 %
Steve Helbing	.1758 %
Joe Bohannon	.0992 %
Marianne B. Jost	.0992 %
John Edward McMahan	.0186 %
Donna Kay McMahan	.0186 %
Estate of Helen H. Bristol	.0146 %
Interest not committed to this agreement*	3.1103 %
	100.0000 %

* Operator will seek an order to compulsory pool all uncommitted interest underlying the N/2 Sec. 12, T-19-S, R-25-E, New Mexico oil conservation division.

EXHIBIT "A-1"

PAGE 1 of 5 STATE OF New Mexico COUNTY OF Eddy

LESSOR	ORIGINAL LESSEE	DATE	Township 19 South, Range 25 East DESCRIPTION	RECORDED BOOK	RECORDED PAGE
ntributed by Anadarko Production Company					
-0151-01	Raymond McCollum & wife Flora G. McCollum	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	113
-0186-01 -0151-02	Floyd A. Evans & Lael A. Evans, Husband & wife individually & as Trustee of the Floyd A. Evans 1972 Revocable Trust	Anadarko Production Company	7-16-80	Section 12:E/2 NE/4	168 187	1026 569
-0151-03	W.E. Secrest, Jr. & wife Doris Ann Secrest	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	119
-0151-04	Francis Bernard Heer, Bernard Darvin Heer, John Edmond Heer & Rose Marie Snell	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	117
-0151-05	Marinus W. Warne Trustee for Dora J. Warne, Trust	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	115
-0151-06	Don Bohannon	Anadarko Production Company	10-02-77	Section 12:E/2 NE/4	153	132
-0151-07	Gordon E. Rose	Anadarko Production Company	5-24-78	Section 12:E/2 NE/4	160	278
-0151-09	Agnes Bohannon Scott, Jerry Reese Bohannon & Judith Marie Thompson	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	918

EXHIBIT "A-1"

PAGE 1 of 5 STATE OF New Mexico COUNTY OF Eddy

Township 19 South, Range 25 East

ORIGINAL LESSEE		DATE	DESCRIPTION	RECORDED BOOK	RECORDED PAGE
uction Company					
lum & wife llum	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	113
s & Husband & lly & as Floyd A. rocable	Anadarko Production Company	7-16-80	Section 12:E/2 NE/4	168 187	1026 569
Jr. & wife est	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	119
d Heer, Heer, er & Rose	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	117
ne Trustee rne, Trust	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	115
	Anadarko Production Company	10-02-77	Section 12:E/2 NE/4	153	132
	Anadarko Production Company	5-24-78	Section 12:E/2 NE/4	160	278
Scott, annon & ompson	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	918

EXHIBIT "A-1"

PAGE 2 of 5 STATE OF New Mexico COUNTY OF Eddy

Township 19 South, Range 25 East

	LESSOR	ORIGINAL LESSEE	DATE	DESCRIPTION	RECORDED BOOK	RECORDED PAGE
1-10	Orville Bohannon	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	920
1-11	The First National Bank & Trust Company of Oklahoma City, Trustee U/W of George Sohlberg & The First National Bank & Trust Company of Oklahoma City, Virginia E. Weinmann & John G. Weinmann, Co-Trustees of the Virginia Eason Weinmann Living Trust	Anadarko Production Company	6-29-78	Section 12: E/2 NE/4	162	911
1-12	Robert K. Williams & W. Gayle Williams	Anadarko Production Company	6-29-78	Section 12:E/2 NE/4	162	922
1-13	Violet Bohannon	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	927
1-14	Robert A. Bohannon	Anadarko Production Company	7-10-79	Section 12:E/2 NE/4	162	929
1-15	Fred Bohannon	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	931
1-16	Edna J. Bohannon	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	933
1-17	Roberta M. Green	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	935
1-18	Ruby Ann Bohannon	Anadarko Production Company	7-10-78	Section 12: E/2 NE/4	164	183
1-19	Lynn Bohannon	Anadarko Production Company	7-10-78	Section 12: E/2 NE/4	163	944
1-20	Jane Wade	Anadarko Production Company	7-10-78	Section 12: E/2 NE/4	164	426

EXHIBIT "A-1"

PAGE 3 of 5 STATE OF New Mexico COUNTY OF Eddy

Township 19 South, Range 25 East

	LESSOR	ORIGINAL LESSEE	DATE	DESCRIPTION	RECORDED BOOK	RECORDED PAGE
21	Marvin J. Bohannon	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	164	882
22	Gail McClease	Anadarko Production Company	7-10-78	Section 12: E/2 NE/4	165	153
23	Don McMahan	Anadarko Production Company	11-20-78	Section 12:E/2 NE/4	165	944
25	Lynett W. Layton, a married woman, individually, as ancillary executrix of the Estate of Lynette Wall, deceased, and as Conservator of the Estates of Kellie M. Layton, Patrick J. Layton & Kerry M. Layton, protected persons; Colleen L. Layton, a single woman; Patsy Lucille Madden, a married woman, individually and as Conservator of the Estates of Timothy Earl Madden, Mary Jo Madden, Nancy Christine Madden & Janette Patsy Madden, protected persons; & Deborah Lynn Madden, a single woman.	Anadarko Production Company	1-18-79	Section 12: E/2 NE/4	169	32

EXHIBIT "A-1"

PAGE 4 of 5 STATE OF New Mexico COUNTY OF Eddy

Township 19 South, Range 25 East

	LESSOR	ORINIAL LESSEE	DATE	DESCRIPTION	RECORDED BOOK	RECORDED PAGE
8-07	First National Bank of Roswell, Roswell, New Mexico, Trustee of R.R. Hinkle Trust	Anadarko Production Company	12-08-77	Section 12: E/2 NW/4	153	127
8-06	C.A. (Bar) Land & Cattle Company	Anadarko Production Company	12-08-77	Section 12: E/2 NW/4	153	125
8-04	Clarence E. Hinkle & wife Lillian T. Hinkle	Anadarko Production Company	12-08-77	Section 12: E/2 NW/4	153	711
8-05	I.J. Marshall & wife Claribel Marshall	Anadarko Production Company	12-08-77	Section 12: E/2 NW/4	153	713
8-08	Margaret W. Childress, a widow, The First National Bank of Roswell and T.T. Sanders, Jr., Trustees under the last will and testament of Floyd Childress, deceased	Anadarko Production Company	12-08-77	Section 12: E/2 NW/4	154	820
06	R.E. Glass & wife Mary Milner Glass	Anadarko Production Company	02-14-77	Section 12: E/2 NW/4	143	120
07	Cordella M. Kincaid	Anadarko Production Company	02-12-80	Section 12: E/2 NW/4	182	796
06	Hugh M. Kincaid Trustee for Ella La Voda Swope	Anadarko Production Company	02-15-80	Section 12: E/2 NW/4	182	798
03	Thelma Mae Schafer	Anadarko Production Company	02-15-80	Section 12: E/2 NW/4	182	457

EXHIBIT "A-1"

 STATE OF New Mexico COUNTY OF Eddy

Township 19 South, Range 25 East

	LESSOR	ORIGINAL LESSEE	DATE	DESCRIPTION	RECORDED BOOK	RECORDED PAGE
180-05	Madlyn Cauhape Daboll	Anadarko Production Company	02-15-80	Section 12: E/2 NW/4	182	800
80-04	Sterling Mark Carter, Kenna Carter Scott & Michael T. Carter	Anadarko Production Company	02-15-80	Section 12: E/2 NW/4	182	900
75-01	A.M. Routh, Jack B. Wilkinson, Jr. & Don L. Bradshaw	R.F. Fort	12-20-79	Section 12: W/2 NE/4	180	836
75-02	J. C. Barnes, Jr. Jane B. Ramsland & Shirley B. Wynn, Trustee of Barnes Adelante Trust and Barnes Adelante Trust #2; Claude Wynn; W.F. Wynn, Trustee of Shirley B. Cummings Trust #1 & Claudia R. Burch	R.F. Fort	12-20-79	Section 12: W/2 NE/4	182	411
buted by Yates Petroleum						
	Nancy P. Tonkin, a widow; Linley Tonkin Solari, a married woman, Also known as Linley Tonkin; Nancy Tonkin Cutter, a married woman, also known as Nancy Cecil Tonkin	Yates Petroleum Corporation	8-18-77	Section 12: W/2 NW/4	148	457
	First Nat'l Bank of Roswell & R. R. Hinkle Estate	Petro Service & T.J. Sivley	8-23-80	Section 12: W/2 NW/4	104	486

EXHIBIT "B"

Attached to and made a part of Operating Agreement dated September 1, 1980 between ANADARKO PRODUCTION COMPANY, as Operator, and YATES PETROLEUM CORP. et al, as Non-Operators.

(THERE IS NO EXHIBIT B)

KraftBill 601. BOX 800 TULSA OK 74101

COPAS — 1974
Recommended by the Council of Petroleum Accountants Societies of North America

COPAS

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated September 1, 980, between Anadarko Production Company as Operators, and Yates Petroleum Corporation et al as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators 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 a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

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 Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. 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. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Non-Operators

approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Opera-

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**

   Lease rentals and royalties paid by Operator for the Joint Operations.

2. **Labor**

   A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

   (2) Salaries of First Level Supervisors in the field.

   (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

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

   C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

   D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. ***Employee Benefits***

   Operator's current costs 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 chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed ~~twenty per cent (20%).~~ twenty-three percent (23%) or the percent most recently recommended by the Council of Petroleum Accountants Societies of North America.

4. **Material**

   Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. **Transportation**

   Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

   A. If Material is moved to the Joint Property 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, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

   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 to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

   C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. **Services**

   The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. **Equipment and Facilities Furnished by Operator**

   A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

   B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. **Damages and Losses to Joint Property**

   All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses as soon as practicable after a report thereof has been received by Operator.

9. **Legal Expense**

   A. Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is to be covered by the overhead provisions of Section III unless otherwise agreed to by the

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost net to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ 3,000.00
Producing Well Rate $ 330.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:
For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $_____:

A. _____% of total costs if such costs are more than $_____ but less than $_____; plus

B. _____% of total costs in excess of $_____ but less than $1,000,000; plus

C. _____% of total costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV,

(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices 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 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. 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-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated September 1, 1980, between Anadarko Production Company as Operator, and Yates Petroleum Corporation et al, as Non-Operator.

INSURANCE:

Operator will require drilling contractors or subcontractors to carry insurance to cover drilling operations on the unit area as follows:

TYPE OF COVERAGE	LIABILITY LIMITS	
Workmen's Compensation	Statutory	
Employer's Liability	$100,000 per accident	
Comprehensive General Public Liability	Bodily Injury:	$100,000 per person 300,000 per occurrence
	Property Damage:	$100,000 per accident 300,000 annual aggregate
Comprehensive Automobile Liability	Bodily Injury:	$100,000 per person 300,000 per occurrence
	Property Damage:	$ 50,000 per accident
*Contractor's Contingent Liability	Bodily Injury:	$100,000 per person 300,000 per occurrence
(If sub-contracting authorized)	Property Damage:	$100,000 per accident

*Contractor's Contingent Liability insurance requirement may be waived if the contractor follows a regular practice of requiring Certificate of Insurance from subcontractors evidencing their financial responsibility for their own negligent acts.

With respect to producing operations conducted hereunder on the unit area by Operator for the joint account of the parties hereto, Operator shall carry Workmen's Compensation insurance as required by the laws of the State of New Mexico and it is agreed that no other insurance will be carried by the parties hereto for the benefit of the joint account.

It is further understood and agreed that Operator is not a warrantor of the financial responsibility of the insurer with whom such insurance is carried, and that except for willful negligence Operator shall not be liable to Non-Operator for any loss suffered on account of the insufficiency of the insurance carried, or of insurer with whom carried. Operator shall not be liable to Non-Operator for any loss accruing by reason of Operator's inability to procure or maintain the insurance above mentioned. Operator agrees that if at any time during the life of this agreement it is unable to obtain or maintain such insurance, it shall immediately notify in writing Non-Operators of such fact.

EXHIBIT "E"

GAS BALANCING AND STORAGE AGREEMENT

Attached to and made a part of Operating Agreement dated September 1, 1980, between Anadarko Production Company, as Operator, and Yates Petroleum Corporation et al, as Non-Operator.

Subject to and under the terms of that certain Operating Agreement dated September 1, 1980, the parties hereto own and are entitled to share in the oil and gas production from the Unit Area in accordance with their respective interests as set forth in said Operating Agreement. Each party has made or will make arrangements to sell or utilize its share of the gas production; however it is recognized that one or more of the parties may be unable from time to time to take in kind or otherwise dispose of its interest in the gas production. In order to permit each party to produce and utilize or dispose of its interest in the gas production with as much flexibility as possible, the parties hereto agree as follows:

1. From and after the date of initial delivery of gas from the Unit Area, during any period when a party is taking less than its full share of the gas production, any other party may produce from the Unit Area and take or deliver to a purchaser, each month, all or a part of that portion of the allowable gas production which is not produced by a party taking less than its full share. The parties hereto shall share in and own the liquid hydrocarbons recovered from such gas in accordance with their respective interests in the Unit Area as set forth in said Operating Agreement. Disposition of such liquid hydrocarbons is covered by Article VI. C. of said Operating Agreement.

2. On a cumulative basis, a party taking or disposing of less than its full share of the gas produced shall be credited with gas in storage equal to its full share of the total gas produced, less such party's share of the gas used in operations on the Unit Area or vented or lost, and less that portion of the gas such party took or delivered to its purchaser. Operator will maintain an account of the gas balance as between the parties hereto and will furnish each party monthly statements showing the total quantity of gas produced, the portion thereof used in operations on the Unit Area, vented or lost, the total quantity of gas taken by each party or delivered to its purchaser, and the monthly and cumulative over and under delivery of each party.

3. After written notice to the Operator, any party may at any time begin taking or delivering to a purchaser its full share of the gas produced (less such party's share of gas used in operations in the Unit Area, vented or lost). To allow the recovery of gas in storage and to balance the gas account of the parties in accordance with their respective interests, as set forth hereinabove, a party with gas in storage shall be entitled to take or deliver to a purchaser its current share of the gas produced (less such party's share of gas used in operations in the Unit Area, vented or lost), plus a share of gas not to exceed its gas in storage determined by multiplying (1) thirty-seven and one-half percent (37-1/2%), by (2) the volume of gas attributable to the interest in current production of the party or parties having taken more than their share of cumulative gas production from the Unit Area, by (3) a fraction, the numerator of which is the interest in the Unit Area of such party with gas in storage and the denominator of which is the total percentage interest in the Unit Area of all parties currently recovering gas from storage.

4. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser. Each party shall, at all times, use its best efforts to regulate its takes and deliveries from the Unit Area so that the wells will not be shut-in for overproducing the allowable, if any, assigned thereto by the regulatory body having jurisdiction.

5. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of gas production, and shall hold the other parties free from any liability therefor.

6. Should production of gas from the Unit Area be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. Underproduced and overproduced parties are those parties who have received credit for a lesser and a greater quantity, respectively, than their share of the cumulative unit gas production (less such parties' share of gas used in operations on the Unit Area, vented or lost) at such time as production is permanently discontinued. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party or parties received at the price, subject to the further provisions of this paragraph 6, received by the overproduced party or parties at the time and from time to time when the overproduced party or parties delivered and sold that portion of gas production from the Unit Area that was attributable to the interest of the underproduced party or parties. In the event the overproduced party or parties took such gas in kind, the price basis shall be the market value of the gas utilized by the overproduced party or parties at the time and from time to time when gas was utilized attributable to the share of the underproduced party or parties. For gas sold in a sale where the price is not regulated by a governmental authority, the price basis shall be the price received from time to time. For gas sold in a sale where the price is regulated by a governmental authority, the price shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority pursuant to final order or settlement applicable to the gas produced from the Unit Area and sold by the overproduced party, plus any additional collected amount which is not ultimately required to be refunded by order of said Commission or any successor governmental authority having jurisdiction in the premises, such additional collected amount to be accounted for at such time as final determination is made with respect thereto. Notwithstanding the foregoing, should the underproduced party elect to receive such additional collected amount which is subject to possible refund pending the issuance of said final order, such underproduced party shall be entitled to the payment thereof from the overproduced party upon the underproduced party executing and delivering to said overproduced party or parties a letter in which the underproduced party agrees to repay the overproduced party or parties that amount so paid that is required by said final order to be refunded, plus the interest thereon as specified in the pertinent order of the Federal Energy Regulatory Commission or other governmental authority.

7. This agreement shall be and remain in full force and effect for a term concurrent with the term of the Operating Agreement between the parties to which it comprises Exhibit "E".

8. Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on the Unit Area, as its share thereof is set forth in the above-described Operating Agreement.

9. Any party transferring its interest, or any part thereof, which is covered by the Operating Agreement shall give notice of this Gas Balancing Agreement to any transferee and such transfer shall not be binding upon the parties until such transferee has agreed in writing to be bound by the Operating Agreement, including this Gas Balancing Agreement.

10. All costs and expenses of administering this Gas Balancing Agreement shall be an item of unit expense chargeable to the Joint Account in accordance with the provisions of the Operating Agreement.

EXHIBIT "F"

Attached to and made a part of Operating Agreement dated September 1, 1980, between Anadarko Production Company, as Operator, and Yates Petroleum Corporation et al as Non-Operator.

Definition: The word "Contractor" wherever used below shall mean "Operator" when this exhibit form is attached to an Operating Agreement and shall mean "Farmee" when attached to a Farmout Agreement.

A. During the performance of this contract, the Contractor agrees as follows:

1. The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Contractor will take afirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer, setting forth the provisions of this nondiscrimination clause.

2. The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

3. The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representatives of the Contractor's commitments under Section 202 of Executive Order No. 11246 of September 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. The Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

5. The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

6. In the event of Contractor's non-compliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rules, regulation or order of the Secretary of Labor, or as otherwise provided by law.

7. The Contractor will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event the Contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interest of the United States.

B. EQUAL EMPLOYMENT OPPORTUNITY REPORTING

The Contractor, unless exempt, agrees to file with the appropriate federal agency a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after the signing of this agreement or the award of any such purchase order, as the case may be, (unless such a report has been filed in the last 12 months), and agrees to continue to file such reports annually on or before March 31st. (41 CFR 60-1.7(a))

C. AFFIRMATIVE ACTION COMPLIANCE PROGRAM

The Contractor agrees to develop and maintain a current written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order 11246, as amended. (41 CFR 60-1.40)

D. VETERAN'S EMPLOYMENT

In the event the agreement to which this exhibit is attached is for the purpose of carrying out a contract with any department or agency of the United States for the procurement of personal property and non-personal services (including construction) for the United States as provided by Section 2012 of Title 38 USC, Contractor agrees to give special emphasis to the employment of qualified disabled veterans and veterans of the Veitnam era and to list immediately with the appropriate local employment service office all of its suitable employment openings.

E. EQUAL OPPORTUNITY IN EMPLOYMENT CERTIFICATION OF NONSEGREGATED FACILITIES

Contractor, by entering into the contract to which this Exhibit "F" is attached, certifies that he does not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. He certifies further that he will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained, Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, sex or national origin, because of habit, local custom, or otherwise. He further agrees that (except where he has obtained identical certifications from proper subcontractors for specific time periods) he will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity clause; that he will retain such certifications in his files; and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certification of Nonsegregated Facilities, as required by the May 9, 1967, Order (32 F.R. 7439, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually, or annually).

WORKING INTEREST PARTNERS

Anadarko Production Company # 1 Glass

Party	Interest
Anadarko Production Company P.O. Box 2497 Midland, Texas 79702	56.0144 %
Marshall & Winston P.O. Box 874 Midland, Texas 79702	10.937500%
Yates Petroleum 207 S. 4th Street Artesia, New Mexico 88210	28.28125 %
Don Phillips and Associates (see attachment)	2.343700%
Quetico Superior Foundation 1730 Plymouth Road Ridgedale State Bank Minnetonka, Minnesota 55343	0.781200%
Michael Moore 404 Blanks Building Midland, Texas 79701	0.410200%
Richard Moore 404 Blanks Building Midland, Texas 79701	0.410200%
Stephen Moore 404 Blanks Building Midland, Texas 79701	0.410200%
Steve Helbing 490 Colorado State Bank Building Denver, Colorado 80202	0.175800%
Joe Bohannon 5950 E; 55th Street Tulsa, Oklahoma 74135	0.099205%

E/2
Case 7004

Party	Interest
Marianne B. Jost 1100 Bedford Drive Oklahoma City, Oklahoma 73116	0.099205%
John Edward McMahan 709 Slaton Las Vegas, Nevada 89107	0.018600%
Donna Kay McMahan Attn: Jane Wade Rt. #2, Box 370-B Heber Springs, Arkansas 72542	0.018600%
	100.000000%

OWNERSHIP OF DON PHILLIPS AND ASSOCIATES
Undivided 3/32 Mineral Interest In: The E/2, NW/4, Section 12, T-19-S, Range 25E N.M.P.M., Eddy County, New Mexico

ADDRESS	INTEREST
H. Cedric Alward, M.D. 4224 Francis Avenue Los Angeles, California 90005.	.00312500
The Minneapolis Foundation, Estate of Frances E. Andrews % First National Bank of Minneapolis, Trust Department P.O. Box A700 Minneapolis, Minnesota 55440	.00312500
Estate of James G. Bennett % Mr. John P. Somers, Executor 2016 East Broadway Tucson, Arizona 85719	.00625000
Sally P. Ellis Attorney-inFact for Hayward & Marguerite B. Ayres 1204 Pine Street South Pasadena, California 91030	.00312500
Estate of Lester R. Badger, deceased % Stephen S. Badger Route 1, Box 528B 27920 Smithtown Road Excelsior, Minnesota 55331	.00312500
Estate of Helen H. Bristol, % Frederick P. Wheeler, Co-Trustee 627 Pebble Hill Road Doylestown, Pa. 18901	.00625000
Eloise W. Carleton & First National Bank of Minnesota As Trustee U/W of Frank H. Carleton, deceased Box A700, Minneapolis, Minnesota 55480 Att: D. R. Cadwallader	.00312500
Paul Dickerson, deceased % Erle L. Dickerson, wife 3145 Cahuenga Blvd. Los Angeles, California 90068	.00156250
Josephine Hildrith 1811 La Custa Drive Santa Ana, California 92705	.00312500
Joyce A. Holliday 1034 Princeton Street Santa Monica, California 90403	.00625000

ADDRESS	INTEREST
F. B. Hubachek Suite 3220, Prudential Plaza Chicago, Illinois 60601	.00312500
Charles S. Kelly Suite 3220 Prudential Plaza Chicago, Illinois 60601	.00312500
Estate of E.E. MacGibbon, deceased % MacGibbon & Danforth Attorneys 321 Lowell Elk River, Minnesota 55330	.00312500
Mrs. Jan M. Fox 8505 Winnequah Road Madison, Wisconsin 53716	.00104166
J. Laird Marshall 1411 Bible Camp Road McFarland, Wisconsin 53558	.00104167
Owen Marshall 2470 Rivermont Avenue Lynchburg, Virginia 24504	.00104167
Richard H. Marshall, Jr. 29 Austin Crescent Toronto M5R-3E3 Ontario, Canada	.00312500
Douglas B. MacKinnon, M.D. 4240 Dundee Road Los Angeles, California 90027	.00312500
Robert Ray Newton Trust % Donald W. Newton, Trustee Route 22, Meeting House Lane Knoxville, Tennessee 37921	.00625000
Mrs. James J. Norton 2880 Lorain Road San Marino, California 91108	.00312500
Paid Mary A. Phillips 9025 National Blvd. Los Angeles, California 90034 / or 2244 Q. Via Puerta LaGuna Hills, California 92653	.00781250
Rufus R. Ran Estate % Palmer First National Bank & Trust Box 2018 Sarasota, Florida 33578/ or 8446 Sanderling Road Sarasota, Florida 33578	.00312500

ADDRESS	INTEREST
L. Raymond Scherer, M.D. 1930 Irving Avenue South Minneapolis, Minnesota 55403	.00312500
Kathryan Knops 3044 - 12th Avenue South Minneapolis, Minnesota 55416	.00312500
Robert Westman 257 North 117th Avenue Omaha, Nebraska 68154	.00312500
Marian M. Whitney Trust San Diego Trust & Savings Bank Trust Dept., Box X-1013 San Diego, California 92112 Att: Gerald C. Jessop	.00312500
Elizabeth Melone Winston 2706 W. Lake of the Isles Blvd. Minneapolis, Minnesota 55416	.00312500

Anadarko
PRODUCTION COMPANY

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

A Panhandle Eastern Company

August 28, 1980

Marshall & Winston
P.O. Box 874
Midland, Texas 79702

Steve Helbing
4090 Colorado State Bank Building
Denver, Colorado 80202

Joe Bohannon
5950 East 55th Street
Tulsa, Oklahoma 24135

Marianne B. Jost
1100 Bedford Drive
Oklahoma City, Oklahoma 73116

Estate of Helen H. Bristol
% Frederick P. Wheeler, Co-Trustee
627 Pebble Hill Road
Doylestown, Pennsylvania 18901

RE: Lakewood Prospect
N/2 Sec. 12, T19S, R25E
Eddy County, New Mexico

Gentlemen:

Enclosed please find a copy of an Operating Agreement and two signature pages dated September 1, 1980 covering the subject property.

Provided said contract meets with your approval, please execute and return one signature page to Anadarko for further handling. A fully executed copy of the signature page will be furnished when received. A signed copy of the AFE affecting this project has been received by this office at an earlier date.

Subject to rig availability Anadarko Production Company is anticipating a drilling date of October 15, 1980. Your immediate attention to this agreement will be sincerely appreciated.

Should you have any questions please do not hesitate to contact me.

Very truly yours,

Neil Rucker,
Exploration Landman

NR/cw
Enc.

13
case 7004

Lingle Tulcher

Anadarko
PRODUCTION COMPANY

A Panhandle Eastern Company

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

August 29, 1980

Mr. John Edward McMahan
709 Slaton
Las Vegas, Nevada 89107

Re: Lakewood Prospect
N/2 Sec. 12, T19S, R25E
Eddy County, New Mexico

Dear Mr. McMahan:

Enclosed please find a copy of an Operating Agreement with two signature pages dated September 1, 1980 and two copies of an AFE covering the subject property.

You had earlier indicated that you wished to join Anadarko in the drilling of the well.

Provided said contract and AFE meets with your approval, please execute and return the signature page and a copy of the AFE to Anadarko for further handling. A fully executed copy of the signature page will be furnished when received. The executed copy of the AFE may be kept for your files.

Subject to rig availability, Anadarko Production Company is anticipating a drilling date of October 15, 1980. Your immediate attention to this agreement will be sincerely appreciated.

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

Neil Rucker,
Exploration Landman

NR/cw
Enc.

Leonard Gretchen

Anadarko
PRODUCTION COMPANY

A
Panhandle
Eastern
Company

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

August 29, 1980

Mrs. Donna Kay McMahan
Att: Jane Wade
Route 2, Box 370-B
Heber Springs, Arkansas

RE: Lakewood Prospect
N/2 Sec. 12, T19S, R25E
Eddy County, New Mexico

Dear Mrs. McMahan:

Enclosed please find a copy of an Operating Agreement with two signature pages dated September 1, 1980 and two copies of an AFE covering the subject property.

You had earlier indicated that you wished to join Anadarko in the drilling of the well.

Provided said contract and AFE meets with your approval, please execute and return the signature page and a copy of the AFE to Anadarko for further handling. A fully executed copy of the signature page will be furnished when received. The executed copy of the AFE may be kept for your files.

Subject to rig availability, Anadarko Production Company is anticipating a drilling date of October 15, 1980. Your immediate attention to this agreement will be sincerely appreciated.

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

Neil Rucker,
Exploration Landman

NR/cw
Enc.

Lease

Anadarko
PRODUCTION COMPANY

A
Panhandle
Eastern
Company

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1636

August 28, 1980

Yates Petroleum Corporation
207 South 4th Street
Artesia, New Mexico 88210

Attn: Randy Patterson

Re: Lakewood Prospect
N/2 Sec. 12, T19S, R25E
EDDY COUNTY, New Mexico

Dear Sir:

Please find enclosed one copy with two signature pages of a Joint Operating Agreement covering your interest in the subject property.

Subject to rig availability, Anadarko Production Company is anticipating the drilling of a Morrow test located 1980' FNL and 1980' FWL Sec. 12, T19S, R25E on October 15, 1980. As you are probably aware the ownership of this property is quite diversified and complicated. However, Anadarko Production Company feels that we have received enough positive response from the mineral and leasehold owners to warrant negotiations on the referenced Joint Operating Agreement.

The enclosed Operating Agreement reflects Yates current interest according to our most recent Title Opinion which I have enclosed. However, a final opinion is now underway which will further clarify your interest, specifically in the E/2 NW/4. Should you have information which would assist us in the effort, please contact me as soon as possible.

Upon your approval of the Operating Agreement, please return the executed signature page. The fully executed agreement will be returned as soon as I have received all signatures. Also, upon approval of the Operating Agreement, a signed copy of the AFE for this well should be returned.

Because of the short time period before our anticipated drilling date, your usual immediate attention to this matter is sincerely appreciated.

Should you have any questions, please do not hesitate to contact me.

Very truly yours,

Neil Rucker,
Exploration Landman

NR/cw
Enc.

Anadarko
PRODUCTION COMPANY

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

A
Panhandle
Eastern
Company

July 29, 1980

Mr. Richard Moore
404 Blanks Building
Midland, Texas 79701

Re: Richard Moore et. al. Interest
Anadarko #1 Glass
N/2, Sec. 12, T-19-S, R-25-E
Eddy County, New Mexico

Dear Mr. Moore:

With reference to the captioned and our telephone conversation of recent date, I have enclosed for your review our letter of February 25, 1980, which outlines our proposal for the drilling of a 9500' Morrow test on the subject property.

I have also included copies of our AFE to assist you in your decision and I am currently in the process of preparing an Operating Contract which I will forward to you upon completion.

As we have tentatively scheduled a rig for October 15, 1980, your immediate response as to your position would be deeply appreciated. Please return one executed copy of the attached AFE should you choose to join.

Please do not hesitate to contact me at 682-1666 if you should have any questions concerning this proposal.

Very truly yours,

Neil Rucker,
Exploration Landman

NR/cw
Enc.

cc 3

Anadarko
PRODUCTION COMPANY
P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1668

A
Panhandle
Eastern
Company

RECEIVED
AUG 29 1980
MIDLAND EXPLORATION

July 30, 1980

Quetico Superior Foundation
2400 First National Bldg.
Minneapolis, Minnesota 55480

Re: Lakewood Prospect Area
Anadarko #1 Glass
N/2 Section 12, T-19-S, R-25-E
Eddy County, New Mexico

Gentlemen:

Anadarko Production Company is formulating plans for the #1 Glass to be located in the E/2 NW/4 Section 12, T-19-S, R-25-E, a 9500' Morrow test with the spaced unit being the entirety of the N/2. From the information available to me at present, the division of the working interest appears to be as shown on the attached page. If you have information to the contrary, please advise. I have a title examination in progress and the results may be complex.

Also attached hereto are two copies of our AFE to assist in your decision. I will follow with an operating contract once I have positive responses from a sufficient number of parties to justify proceeding. If any party desires not to join in this proposed test, Anadarko Production Company offers to carry such party under a 100% working interest arrangement to payout with the carried party retaining a 1/16 overriding royalty and the option to convert said override to a 40% working interest at payout, all proportionately reduced.

Please advise as to your position as soon as possible. I will eventually need the return of one executed copy of the attached AFE.

Very truly yours,

F. Neil Rucker,
Exploration Landman

FNR/cw

Enc.

FRED
(609) Wheeler
396-8251

Anadarko
PRODUCTION COMPANY

P. O. Box 2497 • Midland, Texas 79702 • (915) 682-1666

A
Panhandle
Eastern
Company

May 12, 1980

SEE ATTACHED LIST

Re: Lakewood Prospect Area
Anadarko #1 Glass
N/2 Sec. 12, T19S, R25E,
Eddy County, New Mexico

Anadarko Production Company is formulating plans for the drilling of the #1 Glass well to be located in the E/2 NW/4 Section 12, T19S, R25E, a 9500' Morrow test with the space unit being the entirety of the N/2. From the information available to me at present, there was a conveyance of an undivided 3/32 mineral interest in the E/2 NW/4 of the captioned to Don Phillips & Associates by Donald Winston and his wife Elizabeth M. Winston. Don Phillips & Associates was a limited partnership which dissolved upon the death of Don Phillips, its sole general partner on September 24, 1972, therefore, the property standing in the name of the partnership is now owned as indicated in the proportionate interest disclosed by the attached list. If you have any information to the contrary, as to the interest or addresses, please advise at your earliest convenience.

Also attached hereto are two copies of our AFE to assist you in your decision. I will follow with a Joint Operating Contract once I have positive responses from a sufficient number of parties to justify proceeding. If any party desires to not join in the proposed test, Anadarko Production Company offers to carry such party under a 100% working interest arrangement to payout with the carried party retaining a 1/16 overriding royalty and the option to convert said override to a 40% working interest at payout, all proportionately reduced.

Your response to your position as soon as possible would be greatly appreciated. I will eventually need the return of one executed copy of the attached AFE.

Very truly yours,

F. Neil Rucker
Exploration Landman

E/4
case 7004

FNR/bjt

Attachments

ADDRESS LIST

1. H. Cedric Alward, M.D.
   4224 Francis Avenue
   Los Angeles, CA 90005

2. The Minneapolic Foundation
   Legatee of Estate of Frances E. Andrews
   Trust Dept. - First National Bank of
   Minneapolis, P.O. Box A700
   Minneapolis, Minnesota 55440

3. Sally P. Ellis, Attorney-in-Fact for
   Hayward & Marguerite B. Ayres
   1204 Pine Street
   South Pasadena, CA 91030

   Boulder, Colorado

4. Estate of Lester R. Badger, deceased
   c/o Stephen S. Badger
   Route 1, Box 528B
   27920 Smithtown Road
   Excelsior, Minn. 55331

5. Helen H. Bristol Estate
   151 Library Place
   Princeton, New Jersey 08540

   Mail to: c/o Bristol-Meyers
   345 Park Ave.
   NY, NY 10022

6. First National Bank of Minneapolis
   Executor of Estate of Frank H. Carleton
   Box A700
   Minneapolis, Minnesota 55440

7. Paul Dickerson
   3145 Cahuenga Blvd.
   Los Angeles, CA 90068

8. Josephine ~~Hilditch~~ Hilditch
   1811 La Cuesta Drive
   Santa Ana, CA 92705

9. Estate of James G. Bennett
   c/o Mr. John P. Somers, Executor
   2016 East Broadway
   Tucson, Arizona 85719

10. Joyce A. Holliday
    1034 Princeton Street
    Santa Monica, CA 90403

11. F.B. Hubachek
    Suite 3220, Prudential Plaza
    Chicago, Ill. 60601

12. Charles S. Kelly
    Suite 3220, Prudential Plaza
    Chicago, Ill. 60601

13. Estate of E.E. MacGibbon, deceased
    c/o MacGibbon & Danforth Attorneys
    321 Lowell
    Elk River, Minn. 55330

14. Mrs. Jan M. Fox
    5805 Winnequal Road
    Madison, Wisc. 53716

15. John Marshall
    5805 Winnequah Road
    Madison, Wisc. 53704

16. Mr. J. Laird Marshall
1411 Bible Camp Road
McFarland, Wisconsin 53558

17. Mr. Owen Marshall
2470 Rivermont Avenue
Lynchburg, Virginia 24504

18. Richard H. Marshall, Jr.
28 Austin Crescent,
Toronto M5R-3E3, Ontario, Canada

19. Richard H. Marshall
175 Lakewood Blvd.
Madison, Wisc. 53704

20. Douglas D. MacKimon, M.D.
4240 Dundee Road
Los Angeles, CA 90027

21. Robert Ray Newton Trust
c/o Donald W. Newton, Trustee
Route 22, Meeting House Lane
Knoxville, Tenn. 37921

22. Mrs. James J. Norton
2880 Lorain Road
San Marino, CA 91108

23. Mary A. Phillips
9025 National Blvd.
Los Angeles, CA 90034

2244 Q Via Puerta
LaGuna Hills, CA 92653

24. Rufus R. Rand Estate
c/o Palmer First National Bank & Trust
Box 2018
Sarasota, Fla. 33578

8446 Sanderling Road
Sarasota, Bla. 33578

25. L. Raymond Scherer, M.D.
1930 Irving Ave. So.
Minneapolis, Minn. 55403

26. Kathryan Knops
3044 - 12th Ave. So.
Minneapolis, Minn. 55416

27. Roger Westman
257 N. 117th Ave.
Omaha, Neb. 68154

28. Estate of Marian Whitney, Dec.
c/o First National Bank of Mpls.
Agent for the Trustee
P.O. Box A700
Minneapolis, Minn. 55440

San Diego Trust & Savings Bank
Trust Dept., Box 1871
San Diego, CA 92112

29. Elizabeth Melone Winston
2706 W. Lake of the Isles Blvd.
Minneapolis, Minn. 55416

	INTEREST
H. Cedric Alward	.00312500
Estate of Frances E. Andrews, deceased	.00312500
Marguerite B. Ayres	.00312500
Estate of Lester R. Badger, deceased	.00312500
Helen H. Bristol	.00625000
Frank H. Carleton Trust	.00312500
Paul Dickerson	.00156250
Josephine Hildrith	.00312500
Estate of James G. Bennett, deceased	.00625000
Joyce A. Holliday	.00625000
F.B. Hubachek	.00312500
Charles S. Kelly	.00312500
Estate of E.E. MacGibbon, deceased	.00312500
Mrs. Jan M. Fox	.00104166
J. Laird Marshall	.00104167
Owen Marshall	.00104167
Richard H. Marshall	.00312500
Douglas B. MacKinnon, M.D.	.00312500
Robert Ray Newton Trust	.00625000
Mrs. James J. Norton	.00312500
Mary A. Phillips	.00781250
Estate of Rufus R. Rand, deceased	.00312500
L. Raymond Scherer, M.D.	.00312500
Kathryan Knops	.00312500
Robert Westman	.00312500
Marian Whitney Trust	.00312500
Elizabeth Malone Winston	.00312500

APC 120 3/76

ANADARKO PRODUCTION COMPANY
AUTHORITY FOR EXPENDITURE

Co. 03 (2) Div. 48 (2) AFE No. (4) Location No. (7) Date-Mo/Da/Yr 1/10/80 (6)

Work Description (12): D,C & E

Well/Location Name (20): APC Glass (8) Well No. 1

Field/Prospect (25): Lakewood

State (9): NM Co.Cd. 30 (2)

Explain Project: Drill, Complete & Equip.

Sec. - Twn. - Range - Des. of Loc. (23): 12 T19S R25E 1980' FNL&WL

County (13): Eddy Co.Cd. 015 (3)

Non APC AFE #:

Field Cd. (3) Proj Cd. 6660 (4) Prosp.Cd. 016 (3) Budget 310 (4) T/B 139 (3) O/L 230 (3) Amount Authorized 353,900 (9)

	Owner Name (24)	Working Int.(1.6)	Owner Name (24)	Working Int.(1.6)
OPER.	Anadarko Production Company	0.685144		
	Others - See Attached Sheet			
			Company Revenue Interest	0.541055

Type -
- [X] Drilling
- [ ] Exploration
- [X] Development
- [ ] Recompletion
- [ ] Plug & Abandon
- [ ] Sale
- [ ] Spacing Unit

Acres 320

- [ ] Construction
- [ ] LHP
- [ ] Farmin
- [ ] Geophysical
- [ ] DHC or BHC
- [ ]

Project Subject to -
- [ ] Carried Interest
- [ ] Net Profits Interest
- [ ] Right to Convert to W.I.
- [ ]

Explain

Lse Expiration Date

Originating Office: Midland Divison

Prepared by: B. W. Griffin

FOR DRILLING WELLS

Date Est. Spud

Est. TD 9500

Type Well (oil, gas, est.) Gas

Drilling Obligation Date

Est. Days to Drill 25

Est. Days to Complete 5

DRILLING - DRY HOLE COST

	Total	Jt. Owners	Co. Net
Intangible	$ 300,500	$ 94,600	$ 205,900
Tangible	23,800	7,500	16,300
TOTAL	$ 324,300	$ 102,100	$ 222,200
Less Dry Hole Cont.	($ -)	($ -)	($ -)
TOTAL	$ 324,300	$ 102,100	$ 222,200

DRILLING - COMPLETION COST

	Total	Jt. Owners	Co. Net
Intangible	$ 41,000	$ 12,900	$ 28,100
Tangible	151,200	47,600	103,600
TOTAL	$ 192,200	$ 60,500	$ 131,700
T. COST	$ 516,500	$ 162,600	$ 353,900

RETIREMENT COST

	Total	Jt. Owners	Co. Net
Cost-Removal	$	$	$
Salvage/Rec.			
NET COST (or REC.)	$	$	$

EXPLORATION AND OTHER PROJECTS COST

	Total	Jt. Owners	Co. Net
	$	$	$
TOTAL	$	$	$

Remarks: Subject to negotiation and completion of joint operations contract and/or farmin arrangements, title examination and a 320 acre gas pooled unit.

APPROVAL LEVEL: [X] Division [ ] Region [ ] Gen'l Office

APPROVALS

		DATE
Division	[illegible]	1/14/80
	[illegible]	1/14/80
	Edward Johnson	2/22/80
Region		
Gen'l Office		DATE

NON OPERATORS

Company

By

Title

E/5

Case 7004

ECONOMIC ASSUMPTIONS

Chance of Success: Expl. ____ %, Devel. ____ %

Prices: ____ $/Bbl; ____ $/mcf

Reserves -	This Well GROSS	This Well RI	Total Prospect GROSS	Total Prospect RI
Oil, MBbl.				
Gas, MMCF				
NEB MBbl				

ECONOMIC YARDSTICKS

Appraisal Rate of Return ____ %

Profit - to - Investment Ratio

Risked

Unrisked

Payout ____ yrs.

Drilling Cost ____ $/NEB

APC 1200 5/76

ANADARKO PRODUCTION COMPANY

AFE DETAIL ESTIMATE

Co. 03 (2) Div. 41 (2) AFE No. ____ (4) Location No. ____ (7) Date-Mo/Da/Yr 1/10/80 (6)

Work Description (12): D.C & E | Well/Location Name (20): AFC Glass | (8) Well No.: 1 | Field / Prospect (25): Lakewood | State (5): NM | Co.Cd.: 30 (2)

Explain Project: Drill, Complete & Equip. | Sec. - Twn. - Range - Des. of Loc. (23): 12 T19S R25E 1950' FNWL | County (13): Eddy | Co.Cd.: 015 (3)

Non APC AFE # ____ | Field Cd. (3) | Proj Cd.: 6660 (4) | Prosp.Cd.: 010 (3) | Budget: 310 (4) | T/B: 139 (3) | G/L: 230 (3) | Amount Authorized: 353,200 (9)

	Owner Name (24)	Working Int.(1.6)	Owner Name (24)	Working Int.(1.6)
OPER.	Anadarko Production Company	0.685144		
	Others - See Attached Sheet			
			Company Revenue Interest	0.541055

DETAIL OF DRILLING COST ESTIMATE

PAGE 1 OF ____

CODE	INTANGIBLE DRILLING COSTS	TOTALS DRY HOLE	COMPLETION	COMPLETED
2010	Road and Location	$ 10,000	$ 1000	$ 11000
2020	Contract Rig Costs	185,000		185000
2030	Mud and Chemicals	35,000		35000
2040	Cement and Cementing	12,000	10000	22000
2050	Formation Evaluation	45,000		45000
2060	Completion		25000	25000
2070	Other Tools and Rentals			
2080	Transportation, Trucking and Hauling	5,000	3000	8000
2090	Contract Services			
2100	Company Supervision	2,500	1000	3500
2150	Miscellaneous Intangibles	3,000		3000
2200	Administrative Overhead	3,000	1000	4000
2600	IDC - Non Operated			
	Total Intangible Drilling Cost	$ 300,500	$ 41000	$ 341,500
2900	Special Credits - Dry and Bottom Hole Contributions Receivable	( )	( )	( )
	Total Net Intangible Drilling Cost	$ 300,500	$ 41000	$ 341,500
	LEASE AND WELL EQUIPMENT			
	Well Casing			
	400 FT., 13-3/8 O.D., 48#H-40 ST&C	7,500		7,500
	1200 FT., 8-5/8 O.D., 24#K-55 ST&C	11,300		11,300
	9500 FT., 4-1/2 O.D., 11.6#K-55 & N-80		49200	49,200
	____ FT., ____ O.D., ____			
3010	TOTAL WELL CASING	18,800	49200	68,000
	Well Tubing			
	9500 FT., 2-3/8 O.D., 4.7 #N-80 EUE		33000	33,000
	____ FT., ____ O.D., ____			
	____ FT., ____ O.D., ____			
3020	TOTAL WELL TUBING		33000	33,000
3070	Other Controllable Subsurface Well Equipment			
3080	Non-Controllable Subsurface Well Equipment		3000	3,000
3110	Wellhead Equipment	5,000	25000	30,000
3120	Pumping Equipment			
3170	Other Controllable Surface Well Equipment			
3180	Non-Controllable Surface Well Equipment			
3190	Installation Costs - Surface Equipment			
3210	Tank Batteries, Separators, Heating, Treating & Sales Equipment		36000	36,000
3220	Compressor Stations			
3230	Electrical Systems and Transmission Lines			
3240	Buildings			
3250	Lease Lines			
3270	Other Controllable Surface Lease Equipment			
3280	Non-Controllable Surface Equipment			
3290	Installation Costs - Surface Lease Equipment		5000	5,000
3400	Drilling and/or Production Platforms			
3800	L & W - Non Operated			
	TOTAL LEASE AND WELL EQUIPMENT	$ 23,800	$ 151,200	$ 175,000

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

1 SEPTEMBER, 1980 ,

OPERATOR ANADARKO PRODUCTION CO.

CONTRACT AREA N/2 Section 12, T-19-S, R-25-E

COUNTY ~~OR PARISH OF~~ EDDY STATE OF NEW MEXICO

Exhibit 6
Case 7004

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

TABLE OF CONTENTS

Article	Title	Page
I.	DEFINITIONS	1
II.	EXHIBITS	1
III.	INTERESTS OF PARTIES	2
	A. OIL AND GAS INTERESTS	2
	B. INTEREST OF PARTIES IN COSTS AND PRODUCTION	2
IV.	TITLES	2
	A. TITLE EXAMINATION	2
	B. LOSS OF TITLE	2
	1. Failure of Title	2-3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	OPERATOR	3
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	3
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	DRILLING AND DEVELOPMENT	4
	A. INITIAL WELL	4
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6
	C. RIGHT TO TAKE PRODUCTION IN KIND	6-7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	7
	E. ABANDONMENT OF WELLS	7
	1. Abandonment of Dry Holes	7
	2. Abandonment of Wells that have Produced	7-8
VII.	EXPENDITURES AND LIABILITY OF PARTIES	8
	A. LIABILITY OF PARTIES	8
	B. LIENS AND PAYMENT DEFAULTS	8
	C. PAYMENTS AND ACCOUNTING	8
	D. LIMITATION OF EXPENDITURES	9
	1. Drill or Deepen	9
	2. Rework or Plug Back	9
	3. Other Operations	9
	E. ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	9
	F. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	9-10
	G. TAXES	10
	H. INSURANCE	10
VIII.	ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST	10
	A. SURRENDER OF LEASES	10-11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. ACREAGE OR CASH CONTRIBUTION	11
	D. SUBSEQUENTLY CREATED INTEREST	11-12
	E. MAINTENANCE OF UNIFORM INTEREST	12
	F. WAIVER OF RIGHT TO PARTITION	12
	G. PREFERENTIAL RIGHT TO PURCHASE	12
IX.	INTERNAL REVENUE CODE ELECTION	12-13
X.	CLAIMS AND LAWSUITS	13
XI.	FORCE MAJEURE	13
XII.	NOTICES	13
XIII.	TERM OF AGREEMENT	13-14
XIV.	COMPLIANCE WITH LAWS AND REGULATIONS	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
XV.	OTHER PROVISIONS	14

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between ANADARKO PRODUCTION COMPANY _____, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III: Interests of Parties

3. Unleased Oil and Gas Interests:
If it develops that any interest owned and contributed by a party hereto is an unleased interest in the oil and gas rights, then such unleased interest shall be treated for all purposes of this agreement as if it were a term (for the term of this Operating Agreement) oil and gas lease covering such unleased interest on a form providing for a three-sixteenths (3/16ths) royalty and containing the usual and customary "lesser interest clause". This agreement shall in no way affect the right of the owner of any such unleased interest to receive an amount or share of production equivalent to the royalty which would be payable if such unleased interest were subject to an oil and gas lease as provided in the preceding sentence. Where any provision of this agreement shall operate to require an assignment from any party contributing an unleased mineral interest, such provision shall be construed (insofar as such unleased mineral interest is concerned) as requiring instead the execution and delivery by such party of an oil and gas lease, for a primary term of one year from the date of its delivery and so long thereafter or as oil or gas is produced, which lease shall reserve unto the Lessor a 3/16ths royalty and contain the usual "lesser interest clause".

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Account~~, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined ~~by attorneys on its staff~~ or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

[ ] Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

[x] Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions), shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) ~~the title has been approved by the examining attorney or~~ title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests and

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost; and

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded; and

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, ~~shall not be considered failure of title but~~ shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

ANADARKO PRODUCTION CO. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 15th day of December, 1980, Operator shall commence the drilling of a well for oil and gas at the following location:

1980' FNL & 1980' FWL of Sec. 12, T19S, R25E, Eddy County, New Mexico.

and shall thereafter continue the drilling of the well with due diligence to an approximate depth of 9500' or depth sufficient to test the Morrow formation, whichever is the lesser depth.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 150% ~~100%~~ of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 150% ~~100%~~ of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

300 % of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had ~~it~~* participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in de-

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first ~~giving such other party thirty (30) days notice of such intended sale~~. obtaining the prior written consent of such other party.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with the ~~any~~ Gas Balancing Agreement between the parties hereto, ~~whether such Agreement is~~ attached as Exhibit "E", ~~or is a separate Agreement.~~

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the

vals of the formation or formations covered thereby, ~~such lease to be on the form attached as Exhibit "D"~~. The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. ~~Upon request~~ At its' election, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its

D. **Limitation of Expenditures:**

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand Dollars ($ 15,000.00).

E. **Royalties, Overriding Royalties and Other Payments:**

Each party shall pay or deliver, or cause to be paid or delivered, all royalties ~~to the extent of~~ 12.50% OR 3/16 due on ~~its share of production~~ and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

F. **Rentals, Shut-in Well Payments and Minimum Royalties:**

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plug-

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment without warranty of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~**G. Preferential Right to Purchase:**~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and~~ interests in the Contract Area, it shall promptly give written notice to the other parties, ~~with full~~ information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent ~~company, or to any company in which any one party owns a majority of the stock.~~

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regula-

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand Dollars ($ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.

Except pursuant to Article VIII.B.,

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or other-

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

(a.) Non-operators agree to release operator from any and all losses, damages injuries, claims and causes of action arising out of incident to or resulting directly or indirectly from operator's interpretation or application of rules, rulings, regulations or orders of any local, state, or federal agency, or any other regulatory agency having jurisdiction, along with any predecessors or successors to any agency, to the extent operators interpretation or application of such rules, rulings, regulations or orders was made in good faith. Non-Operators further agree to reimburse operator for their proportionate share of any amounts operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with the non-Operators proportionate part of interest and penalties owing by operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1 day of September, 1980.

OPERATOR

Anadarko Production Company

A. D. Fleming NE

by: A. D. Fleming
Agent & Attorney-in-Fact

NON-OPERATORS

Yates Petroleum Corporation

Attest:

Estate of Helen H. Bristol,
Frederick P. Wheeler, Co-Trustee

Steve Helbing

Marshall & Winston, Inc.
by: William S. Marshall, President

Michael Moore

Marianne B. Jost

Richard Moore

Joe Bohannon

Stephen Moore

Donna Kay McMahan

John Edward McMahan

EXHIBIT "A"

Attached to and made a part of Operating Agreement dated September 1, 1980 between ANADARKO PRODUCTION COMPANY, as Operator, and Yates Petroleum Corp. et al, as Non-Operators.

1. LANDS SUBJECT TO AGREEMENT:

The Contract Area subject to this Operating Agreement shall consist of the oil and gas rights from the surface of the earth down to the base of the geological formation known as the "Morrow" formation, in and under the following described land in Eddy County, New Mexico:

N/2 Section 12, T19S, R25E.

The leases contributed to the contract area by the parties hereto are listed on Exhibit "A-1" attached hereto and made a part hereof, each party hereto contributing to the Contract Area the leases described in said Exhibit "A-1" under said party's name, insofar (and only insofar) as said leases cover the Contract Area. This Operating Agreement covers all interests owned by the parties in the contract area, whether said interests are unleased mineral interests or leasehold interests, including such interests which may be acquired during the term of this Operating Agreement.

2. NAMES ADDRESSES AND INTERESTS OF THE PARTIES:

The names, addresses and interests in the Contract Area of each party to this agreement are set out herein below:

Anadarko Production Company
P.O. Box 2497
Midland, Texas 79702

Marshall & Winston
P.O. Box 874
Midland, Texas 79702

Yates Petroleum
207 South 4th Street
Artesia, New Mexico 88210

Michael Moore
404 Blanks Building
Midland, Texas 79701

Richard Moore
404 Blanks Building
Midland, Texas 79701

Stephen Moore
404 Blanks Building
Midland, Texas 79701

Steve Helbing
4090 Colorado State Bank Building
Denver, Colorado 80202

Joe Bohannon
5950 East 55th Street
Tulsa, Oklahoma 24135

Marianne B. Jost
1100 Bedford Drive
Oklahoma City, Ok. 73116

John Edward McMahan
709 Slaton
Las Vegas, Nevada 89107

Donna Kay McMahan
Att: Jane Wade
Route 2, Box 370-B
Heber Springs, Arkansas

Estate of Helen H. Bristol
% Frederick P. Wheeler, Co-Trustee
627 Pebble Hill Road
Doylestown, Pennsylvania 18901

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Joe Bob [illegible]

Marianne B. [illegible]

John Edward McMahan

Donna Kay McMahan

Estate of Helen H. [illegible]

Interest not [illegible]

* [illegible]

EXHIBIT "A-1"

PAGE 1 of 5 STATE OF New Mexico COUNTY OF Eddy

	LESSOR	ORIGINAL LESSEE	DATE	Township 19 South, Range 25 East DESCRIPTION	RECORDED BOOK	RECORDED PAGE
ibuted by	Anadarko Production Company					
51-01	Raymond McCollum & wife Flora G. McCollum	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	113
6-01 1-02	Floyd A. Evans & Lael A. Evans, Husband & wife individually & as Trustee of the Floyd A. Evans 1972 Revocable Trust	Anadarko Production Company	7-16-80	Section 12:E/2 NE/4	168 187	1026 569
1-03	W.E. Secrest, Jr. & wife Doris Ann Secrest	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	119
1-04	Francis Bernard Heer, Bernard Darvin Heer, John Edmond Heer & Rose Marie Snell	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	117
-05	Marinus W. Warne Trustee for Dora J. Warne, Trust	Anadarko Production Company	10-13-77	Section 12:E/2 NE/4	153	115
-06	Don Bohannon	Anadarko Production Company	10-02-77	Section 12:E/2 NE/4	153	132
-07	Gordon E. Rose	Anadarko Production Company	5-24-78	Section 12:E/2 NE/4	160	278
-09	Agnes Bohannon Scott, Jerry Reese Bohannon & Judith Marie Thompson	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	918

EXHIBIT "A-1"

PAGE 2 of 5 STATE OF New Mexico COUNTY OF Eddy

Township 19 South, Range 25 East

	LESSOR	ORIGINAL LESSEE	DATE	DESCRIPTION	RECORDED BOOK	RECORDED PAGE
51-10	Orville Bohannon	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	920
51-11	The First National Bank & Trust Company of Oklahoma City, Trustee U/W of George Sohlberg & The First National Bank & Trust Company of Oklahoma City, Virginia E. Weinmann & John G. Weinmann, Co-Trustees of the Virginia Eason Weinmann Living Trust	Anadarko Production Company	6-29-78	Section 12: E/2 NE/4	162	911
51-12	Robert K. Williams & W. Gayle Williams	Anadarko Production Company	6-29-78	Section 12:E/2 NE/4	162	922
51-13	Violet Bohannon	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	927
51-14	Robert A. Bohannon	Anadarko Production Company	7-10-79	Section 12:E/2 NE/4	162	929
51-15	Fred Bohannon	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	931
51-16	Edna J. Bohannon	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	933
51-17	Roberta M. Green	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	162	935
51-18	Ruby Ann Bohannon	Anadarko Production Company	7-10-78	Section 12: E/2 NE/4	164	183
51-19	Lynn Bohannon	Anadarko Production Company	7-10-78	Section 12: E/2 NE/4	163	944
51-20	Jane Wade	Anadarko Production Company	7-10-78	Section 12: E/2 NE/4	164	426

EXHIBIT "A-1"

PAGE 3 of 5 STATE OF New Mexico COUNTY OF Eddy

Township 19 South, Range 25 East

	LESSOR	ORIGINAL LESSEE	DATE	DESCRIPTION	RECORDED BOOK	RECORDED PAGE
1-21	Marvin J. Bohannon	Anadarko Production Company	7-10-78	Section 12:E/2 NE/4	164	882
1-22	Gail McClease	Anadarko Production Company	7-10-78	Section 12: E/2 NE/4	165	153
1-23	Don McMahan	Anadarko Production Company	11-20-78	Section 12:E/2 NE/4	165	944
1-25	Lynett W. Layton, a married woman, individually, as ancillary executrix of the Estate of Lynette Wall, deceased, and as Conservator of the Estates of Kellie M. Layton, Patrick J. Layton & Kerry M. Layton, protected persons; Colleen L. Layton, a single woman; Patsy Lucille Madden, a married woman, individually and as Conservator of the Estates of Timothy Earl Madden, Mary Jo Madden, Nancy Christine Madden & Janette Patsy Madden, protected persons; & Deborah Lynn Madden, a single woman.	Anadarko Production Company	1-18-79	Section 12: E/2 NE/4	169	32

EXHIBIT "A-1"

PAGE 4 of 5 STATE OF New Mexico COUNTY OF Eddy

Township 19 South, Range 25 East

	LESSOR	ORINIAL LESSEE	DATE	DESCRIPTION	RECORDED BOOK	RECORDED PAGE
-07	First National Bank of Roswell, Roswell, New Mexico, Trustee of R.R. Hinkle Trust	Anadarko Production Company	12-08-77	Section 12: E/2 NW/4	153	127
-06	C.A. (Bar) Land & Cattle Company	Anadarko Production Company	12-08-77	Section 12: E/2 NW/4	153	125
-04	Clarence E. Hinkle & wife Lillian T. Hinkle	Anadarko Production Company	12-08-77	Section 12: E/2 NW/4	153	711
-05	I.J. Marshall & wife Claribel Marshall	Anadarko Production Company	12-08-77	Section 12: E/2 NW/4	153	713
-08	Margaret W. Childress, a widow, The First National Bank of Roswell and T.T. Sanders, Jr., Trustees under the last will and testament of Floyd Childress, deceased	Anadarko Production Company	12-08-77	Section 12: E/2 NW/4	154	820
06	R.E. Glass & wife Mary Milner Glass	Anadarko Production Company	02-14-77	Section 12: E/2 NW/4	143	120
07	Cordella M. Kincaid	Anadarko Production Company	02-12-80	Section 12: E/2 NW/4	182	796
6	Hugh M. Kincaid Trustee for Ella La Voda Swope	Anadarko Production Company	02-15-80	Section 12: E/2 NW/4	182	798
3	Thelma Mae Schafer	Anadarko Production Company	02-15-80	Section 12: E/2 NW/4	182	457

PAGE 5 of 5 STATE OF New Mexico COUNTY OF Eddy

Township 19 South, Range 25 East

	LESSOR	ORIGINAL LESSEE	DATE	DESCRIPTION	RECORDED BOOK	RECORDED PAGE
80-05	Madlyn Cauhape Daboll	Anadarko Production Company	02-15-80	Section 12: E/2 NW/4	182	800
80-04	Sterling Mark Carter, Kenna Carter Scott & Michael T. Carter	Anadarko Production Company	02-15-80	Section 12: E/2 NW/4	182	900
75-01	A.M. Routh, Jack B. Wilkinson, Jr. & Don L. Bradshaw	R.F. Fort	12-20-79	Section 12: W/2 NE/4	180	836
75-02	J. C. Barnes, Jr. Jane B. Ramsland & Shirley B. Wynn, Trustee of Barnes Adelante Trust and Barnes Adelante Trust #2; Claude Wynn; W.F. Wynn, Trustee of Shirley B. Cummings Trust #1 & Claudia R. Burch	R.F. Fort	12-20-79	Section 12: W/2 NE/4	182	411
tributed by Yates Petroleum						
	Nancy P. Tonkin, a widow; Linley Tonkin Solari, a married woman, Also known as Linley Tonkin; Nancy Tonkin Cutter, a married woman, also known as Nancy Cecil Tonkin	Yates Petroleum Corporation	8-18-77	Section 12: W/2 NW/4	148	457
	First Nat'l Bank of Roswell & R. R. Hinkle Estate	Petro Service & T.J. Sivley	8-23-80	Section 12: W/2 NW/4	104	486

EXHIBIT "B"

Attached to and made a part of Operating Agreement dated September 1, 1980 between ANADARKO PRODUCTION COMPANY, as Operator, and YATES PETROLEUM CORP. et al, as Non-Operators.

(THERE IS NO EXHIBIT B)

Kraftbilt 601. BOX 600 TULSA OK 74101

COPAS — 1974
Recommended by the Council of Petroleum Accountants Societies of North America
COPAS

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated September 1, 980, between Anadarko Production Company as Operators, and Yates Petroleum Corporation et al as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators 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 a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

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 Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. 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. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Opera-

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

2. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

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

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs 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 chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed ~~twenty per cent (20%).~~ twenty-three percent (23%) or the percent most recently recommended by the Council of Petroleum Accountants Societies of North America.

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property 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, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

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 to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ 3,000.00
Producing Well Rate $ 330.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the successor index. Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:
For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $_____:

A. _____% of total costs if such costs are more than $_____ but less than $_____; plus

B. _____% of total costs in excess of $_____ but less than $1,000,000; plus

C. _____% of total costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV,

(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices 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 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. 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-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated September 1, 1980, between Anadarko Production Company as Operator, and Yates Petroleum Corporation et al, as Non-Operator.

INSURANCE:

Operator will require drilling contractors or subcontractors to carry insurance to cover drilling operations on the unit area as follows:

TYPE OF COVERAGE	LIABILITY LIMITS	
Workmen's Compensation	Statutory	
Employer's Liability	$100,000 per accident	
Comprehensive General Public Liability	Bodily Injury:	$100,000 per person 300,000 per occurrence
	Property Damage:	$100,000 per accident 300,000 annual aggregate
Comprehensive Automobile Liability	Bodily Injury:	$100,000 per person 300,000 per occurrence
	Property Damage:	$ 50,000 per accident
*Contractor's Contingent Liability	Bodily Injury:	$100,000 per person 300,000 per occurrence
(If sub-contracting authorized)	Property Damage:	$100,000 per accident

*Contractor's Contingent Liability insurance requirement may be waived if the contractor follows a regular practice of requiring Certificate of Insurance from subcontractors evidencing their financial responsibility for their own negligent acts.

With respect to producing operations conducted hereunder on the unit area by Operator for the joint account of the parties hereto, Operator shall carry Workmen's Compensation insurance as required by the laws of the State of New Mexico and it is agreed that no other insurance will be carried by the parties hereto for the benefit of the joint account.

It is further understood and agreed that Operator is not a warrantor of the financial responsibility of the insurer with whom such insurance is carried, and that except for willful negligence Operator shall not be liable to Non-Operator for any loss suffered on account of the insufficiency of the insurance carried, or of insurer with whom carried. Operator shall not be liable to Non-Operator for any loss accruing by reason of Operator's inability to procure or maintain the insurance above mentioned. Operator agrees that if at any time during the life of this agreement it is unable to obtain or maintain such insurance, it shall immediately notify in writing Non-Operators of such fact.

EXHIBIT "E"

GAS BALANCING AND STORAGE AGREEMENT

Attached to and made a part of Operating Agreement dated September 1, 1980, between Anadarko Production Company, as Operator, and Yates Petroleum Corporation et al, as Non-Operator.

Subject to and under the terms of that certain Operating Agreement dated September 1, 1980, the parties hereto own and are entitled to share in the oil and gas production from the Unit Area in accordance with their respective interests as set forth in said Operating Agreement. Each party has made or will make arrangements to sell or utilize its share of the gas production; however it is recognized that one or more of the parties may be unable from time to time to take in kind or otherwise dispose of its interest in the gas production. In order to permit each party to produce and utilize or dispose of its interest in the gas production with as much flexibility as possible, the parties hereto agree as follows:

1. From and after the date of initial delivery of gas from the Unit Area, during any period when a party is taking less than its full share of the gas production, any other party may produce from the Unit Area and take or deliver to a purchaser, each month, all or a part of that portion of the allowable gas production which is not produced by a party taking less than its full share. The parties hereto shall share in and own the liquid hydrocarbons recovered from such gas in accordance with their respective interests in the Unit Area as set forth in said Operating Agreement. Disposition of such liquid hydrocarbons is covered by Article VI. C. of said Operating Agreement.

2. On a cumulative basis, a party taking or disposing of less than its full share of the gas produced shall be credited with gas in storage equal to its full share of the total gas produced, less such party's share of the gas used in operations on the Unit Area or vented or lost, and less that portion of the gas such party took or delivered to its purchaser. Operator will maintain an account of the gas balance as between the parties hereto and will furnish each party monthly statements showing the total quantity of gas produced, the portion thereof used in operations on the Unit Area, vented or lost, the total quantity of gas taken by each party or delivered to its purchaser, and the monthly and cumulative over and under delivery of each party.

3. After written notice to the Operator, any party may at any time begin taking or delivering to a purchaser its full share of the gas produced (less such party's share of gas used in operations in the Unit Area, vented or lost). To allow the recovery of gas in storage and to balance the gas account of the parties in accordance with their respective interests, as set forth hereinabove, a party with gas in storage shall be entitled to take or deliver to a purchaser its current share of the gas produced (less such party's share of gas used in operations in the Unit Area, vented or lost), plus a share of gas not to exceed its gas in storage determined by multiplying (1) thirty-seven and one-half percent (37-1/2%), by (2) the volume of gas attributable to the interest in current production of the party or parties having taken more than their share of cumulative gas production from the Unit Area, by (3) a fraction, the numerator of which is the interest in the Unit Area of such party with gas in storage and the denominator of which is the total percentage interest in the Unit Area of all parties currently recovering gas from storage.

4. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser. Each party shall, at all times, use its best efforts to regulate its takes and deliveries from the Unit Area so that the wells will not be shut-in for overproducing the allowable, if any, assigned thereto by the regulatory body having jurisdiction.

5. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of gas production, and shall hold the other parties free from any liability therefor.

6. Should production of gas from the Unit Area be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. Underproduced and overproduced parties are those parties who have received credit for a lesser and a greater quantity, respectively, than their share of the cumulative unit gas production (less such parties' share of gas used in operations on the Unit Area, vented or lost) at such time as production is permanently discontinued. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party or parties received at the price, subject to the further provisions of this paragraph 6, received by the overproduced party or parties at the time and from time to time when the overproduced party or parties delivered and sold that portion of gas production from the Unit Area that was attributable to the interest of the underproduced party or parties. In the event the overproduced party or parties took such gas in kind, the price basis shall be the market value of the gas utilized by the overproduced party or parties at the time and from time to time when gas was utilized attributable to the share of the underproduced party or parties. For gas sold in a sale where the price is not regulated by a governmental authority, the price basis shall be the price received from time to time. For gas sold in a sale where the price is regulated by a governmental authority, the price shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority pursuant to final order or settlement applicable to the gas produced from the Unit Area and sold by the overproduced party, plus any additional collected amount which is not ultimately required to be refunded by order of said Commission or any successor governmental authority having jurisdiction in the premises, such additional collected amount to be accounted for at such time as final determination is made with respect thereto. Notwithstanding the foregoing, should the underproduced party elect to receive such additional collected amount which is subject to possible refund pending the issuance of said final order, such underproduced party shall be entitled to the payment thereof from the overproduced party upon the underproduced party executing and delivering to said overproduced party or parties a letter in which the underproduced party agrees to repay the overproduced party or parties that amount so paid that is required by said final order to be refunded, plus the interest thereon as specified in the pertinent order of the Federal Energy Regulatory Commission or other governmental authority.

7. This agreement shall be and remain in full force and effect for a term concurrent with the term of the Operating Agreement between the parties to which it comprises Exhibit "E".

8. Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred in operations on the Unit Area, as its share thereof is set forth in the above-described Operating Agreement.

9. Any party transferring its interest, or any part thereof, which is covered by the Operating Agreement shall give notice of this Gas Balancing Agreement to any transferee and such transfer shall not be binding upon the parties until such transferee has agreed in writing to be bound by the Operating Agreement, including this Gas Balancing Agreement.

10. All costs and expenses of administering this Gas Balancing Agreement shall be an item of unit expense chargeable to the Joint Account in accordance with the provisions of the Operating Agreement.

EXHIBIT "F"

Attached to and made a part of Operating Agreement dated September 1, 1980, between Anadarko Production Company, as Operator, and Yates Petroleum Corporation et al as Non-Operator.

Definition: The word "Contractor" wherever used below shall mean "Operator" when this exhibit form is attached to an Operating Agreement and shall mean "Farmee" when attached to a Farmout Agreement.

A. During the performance of this contract, the Contractor agrees as follows:

1. The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Contractor will take afirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer, setting forth the provisions of this nondiscrimination clause.

2. The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

3. The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representatives of the Contractor's commitments under Section 202 of Executive Order No. 11246 of September 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. The Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

5. The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

6. In the event of Contractor's non-compliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rules, regulation or order of the Secretary of Labor, or as otherwise provided by law.

7. The Contractor will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance; provided, however, that in the event the Contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interest of the United States.

B. EQUAL EMPLOYMENT OPPORTUNITY REPORTING

The Contractor, unless exempt, agrees to file with the appropriate federal agency a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after the signing of this agreement or the award of any such purchase order, as the case may be, (unless such a report has been filed in the last 12 months), and agrees to continue to file such reports annually on or before March 31st. (41 CFR 60-1.7(a))

C. AFFIRMATIVE ACTION COMPLIANCE PROGRAM

The Contractor agrees to develop and maintain a current written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order 11246, as amended. (41 CFR 60-1.40)

D. VETERAN'S EMPLOYMENT

In the event the agreement to which this exhibit is attached is for the purpose of carrying out a contract with any department or agency of the United States for the procurement of personal property and non-personal services (including construction) for the United States as provided by Section 2012 of Title 38 USC, Contractor agrees to give special emphasis to the employment of qualified disabled veterans and veterans of the Veitnam era and to list immediately with the appropriate local employment service office all of its suitable employment openings.

E. EQUAL OPPORTUNITY IN EMPLOYMENT CERTIFICATION OF NONSEGREGATED FACILITIES

Contractor, by entering into the contract to which this Exhibit "F" is attached, certifies that he does not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. He certifies further that he will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained, Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, sex or national origin, because of habit, local custom, or otherwise. He further agrees that (except where he has obtained identical certifications from proper subcontractors for specific time periods) he will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity clause; that he will retain such certifications in his files; and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certification of Nonsegregated Facilities, as required by the May 9, 1967, Order (32 F.R. 7439, May 19, 1967) on Elimination of Segregated Facilities, by the Secretary of Labor, must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually, or annually).

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF ANADARKO PRODUCTION COMPANY
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

A P P L I C A T I O N

COMES NOW , ANADARKO PRODUCTION COMPANY, and applies to the New Mexico Oil Conservation Division for a Compulsory Pooling order, pooling all of the oil and gas mineral interest from the top of the Wolfcamp formation to the base of the Morrow formation in the N/2 of Section 12, T19S, R25E, NMPM, Eddy County New Mexico and in support there of would show:

1. Applicant seeks to force pool all of the oil and gas mineral interest from the top of the Wolfcamp formation to the base of the Morrow formation in the N/2 of Section 12, T19S, R25E, NMPM for the drilling of a well at a standard location.

2. The application will dedicate the N/2 of said section to the well and desires to be designated as the operator.

3. The applicant has obtained the consent of the working interest and royalty owners in the subject unit except for the following:

NAME	INTEREST
Yates Petroleum 207 S. 4th Street Artesia, New Mexico 88210	15.781200% = 28.28125%
Don Phillips and Associates (See attached list "A" for division of this interest)	2.343700%
Quetico Superior Foundation 1730 Plymouth Road Ridgedale State Bank Minnetonka, Minnesota 55343	0.781200%
Michael Moore 404 Blanks Building Midland, Texas 79701	0.410200%

(continued)

Richard Moore 404 Blanks Building Midland, Texas 79701	0.410200%
Stephen Moore 404 Blanks Building Midland, Texas 79701	0.410200%
John Edward McMahan 709 Slaton Las Vegas, Nevada 89107	0.018600%
Donna Kay McMahan Attn: Jane Wade Rt. #2 Box 370-B Heber Springs, Arkansas 72542	0.018600%
	100.000000%

4. To avoid the drilling of unncessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense its just and fair share of the oil in said unit. The subject mineral interest in the N/2 of said Section 12, should be pooled.

5. That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, applicant prays that:

A. This application be set for hearing before an examiner and that notice of said hearing to be given as required by law.

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the top of the Wolfcamp to the base of the Morrow underlying the N/2 of said Section 12, Township 19S, Range 25E,

(continued)

N.M.P.M., Eddy County, New Mexico to form a 320 acre spacing unit dedicated to applicant's well.

C. And for such other relief as may be just in the premises.

KELLAHIN & KELLAHIN

By: _____

W. Thomas Kellahin
P.O. Box 1769
Santa Fe, New Mexico 87501

Attorneys for applicant

OWNERSHIP OF DON PHILLIPS AND ASSOCIATES
Undivided 3/32 Mineral Interest In: The
E/2, NW/4, Section 12, T-19-S, Range 25E
N.M.P.M., Eddy County, New Mexico

ADDRESS	INTEREST
H. Cedric Alward, M.D. 4224 Francis Avenue Los Angeles, California 90005	.00312500
The Minneapolis Foundation, Estate of Frances E. Andrews % First National Bank of Minneapolis, Trust Department P.O. Box A700 Minneapolis, Minnesota 55440	.00312500
Estate of James G. Bennett % Mr. John P. Somers, Executor 2016 East Broadway Tucson, Arizona 85719	.00625000
Sally P. Ellis Attorney-inFact for Hayward & Marguerite B. Ayres 1204 Pine Street South Pasadena, California 91030	.00312500
Estate of Lester R. Badger, deceased % Stephen S. Badger Route 1, Box 528B 27920 Smithtown Road Excelsior, Minnesota 55331	.00312500
Estate of Helen H. Bristol, % Frederick P. Wheeler, Co-Trustee 627 Pebble Hill Road Doylestown, Pa. 18901	.00625000
Eloise W. Carleton & First National Bank of Minnesota As Trustee U/W of Frank H. Carleton, deceased Box A700, Minneapolis, Minnesota 55480 Att: D. R. Cadwallader	.00312500
Paul Dickerson, deceased % Erle L. Dickerson, wife 3145 Cahuenga Blvd. Los Angeles, California 90068	.00156250
Josephine Hildrith 1811 La Custa Drive Santa Ana, California 92705	.00312500
Joyce A. Holliday 1034 Princeton Street Santa Monica, California 90403	.00625000

ADDRESS	INTEREST
F. B. Hubachek Suite 3220, Prudential Plaza Chicago, Illinois 60601	.00312500
Charles S. Kelly Suite 3220 Prudential Plaza Chicago, Illinois 60601	.00312500
Estate of E.E. MacGibbon, deceased % MacGibbon & Danforth Attorneys 321 Lowell Elk River, Minnesota 55330	.00312500
Mrs. Jan M. Fox 8505 Winnequah Road Madison, Wisconsin 53716	.00104166
J. Laird Marshall 1411 Bible Camp Road McFarland, Wisconsin 53558	.00104167
Owen Marshall 2470 Rivermont Avenue Lynchburg, Virginia 24504	.00104167
Richard H. Marshall, Jr. 29 Austin Crescent Toronto M5R-3E3 Ontario, Canada	.00312500
Douglas B. MacKinnon, M.D. 4240 Dundee Road Los Angeles, California 90027	.00312500
Robert Ray Newton Trust % Donald W. Newton, Trustee Route 22, Meeting House Lane Knoxville, Tennessee 37921	.00625000
Mrs. James J. Norton (deceased) margaret 2880 Lorain Road San Marino, California 91108	.00312500
Mary A. Phillips 9025 National Blvd. Los Angeles, California 90034 / or 2244 Q. Via Puerta LaGuna Hills, California 92653	.00781250
Rufus R. Ran Estate % Palmer First National Bank & Trust Box 2018 Sarasota, Florida 33578/ or 8446 Sanderling Road Sarasota, Florida 33578	.00312500

ADDRESS	INTEREST
L. Raymond Scherer, M.D. 1930 Irving Avenue South Minneapolis, Minnesota 55403	.00312500
Kathryan Knops 3044 - 12th Avenue South Minneapolis, Minnesota 55416	.00312500
Robert Westman 257 North 117th Avenue Omaha, Nebraska 68154	.00312500
Marian M. Whitney Trust San Diego Trust & Savings Bank Trust Dept., Box X-1013 San Diego, California 92112 Att: Gerald C. Jessop	.00312500
Elizabeth Melone Winston 2706 W. Lake of the Isles Blvd. Minneapolis, Minnesota 55416	.00312500

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
20 August 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico.

CASE 7004

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

MR. STAMETS: Call next Case 7004.

MR. PADILLA: Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico.

MR. STAMETS: The applicant in this case has requested that it be continued to the September 17th Examiner Hearing and it shall be.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7004, heard by me on 8-20, 1980.

Richard L. Stamets, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
20 August 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico.

CASE 7004

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

MR. STAMETS: Call next Case 7004.

MR. PADILLA: Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico.

MR. STAMETS: The applicant in this case has requested that it be continued to the September 17th Examiner Hearing and it shall be.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

_____

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. _____, heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

Docket No. 29-80

Dockets Nos. 30-80 and 31-80 are tentatively set for October 1 and 15, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - SEPTEMBER 17, 1980

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

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

ALLOWABLE: (1) Consideration of the allowable production of gas for October, 1980, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for October, 1980, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7021: Application of Gulf Oil Corporation for simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the simultaneous dedication of a previously approved 477-acre non-standard gas proration unit comprising the N/2 and SE/4 of Section 19, Township 19 South, Range 37 East, Eumont Gas Pool, to its B. V. Culp (NCT-A) Wells Nos. 3 and 9 located in Units F and J, respectively, of said Section 19.

CASE 6961: (Continued from August 20, 1980, Examiner Hearing)

Application of Conoco Inc. for a dual completion and unorthodox well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Meyer A-29 Well No. 11 to be drilled at an unorthodox location 990 feet from the North line and 660 feet from the East line of Section 29, Township 22 South, Range 36 East, to produce gas from the Langley-Devonian and -Ellenburger Pools thru parallel strings of tubing, the E/2 of said Section 29 to be dedicated to the well.

CASE 7022: Application of Texas Pacific Oil Company, Inc. for a non-standard proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the simultaneous dedication of a 320-acre non-standard proration unit comprising the N/2 of Section 9, Township 22 South, Range 36 East, Jalmat Gas Pool, to its Wells Nos. 40 and 63 located in Units A and C, respectively, of said Section 9. Applicant further seeks approval to simultaneously dedicate its Wells Nos. 14, 36, 42, and 62 located in Units B, M, E, and K, respectively, of Section 11, Township 22 South, Range 36 East, to a standard proration unit to be comprised of all of said Section 11.

CASE 7008: (Continued from August 20, 1980, Examiner Hearing)

Application of Coronado Exploration Corp. for eight compulsory poolings, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying eight 40-acre proration units, being the NE/4 NE/4 of Section 4 and the NW/4 NE/4 of Section 5, both in Township 12 South, Range 28 East, and the NW/4 SE/4 of Section 6, the NE/4 NW/4 of Section 23, the NE/4 SE/4 of Section 28, the SE/4 SE/4 of Section 29, the NE/4 NW/4 of Section 32, and the SE/4 NW/4 of Section 33, all in Township 11 South, Range 28 East, each to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells, and a charge for risk involved in drilling said wells.

CASE 7004: (Continued from August 20, 1980, Examiner Hearing)

Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp-Morrow formations underlying the N/2 of Section 12, Township 19 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7023: Application of Shell Oil Company for pool creation and temporary special pool rules, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Pennsylvanian oil pool for its Askew Well No. 1 located in Unit L of Section 2, Township 5 South, Range 33 East, and the promulgation of special pool rules therefor, including a provision for 80-acre spacing.

CASE 7011: (Continued from August 20, 1980, Examiner Hearing)

Application of Amoco Production Company for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Fruitland and Blanco-Pictured Cliffs production in the wellbores of the following six wells: Elliott "C" No. 1, SE/4 of Section 9, Township 30 North, Range 9 West; Elliott "B" No. 8, NE/4 of Section 10; "A" Nos. 3 and 2, NE/4 and NW/4, Section 11; "D" No. 7, SW/4 of Section 11; and "E" No. 1, NW/4 of Section 14, all in Township 29 North, Range 9 West.

CASE 7019: (Continued from September 3, 1980, Examiner Hearing)

Application of Amoco Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the W/2 of Section 30, Township 23 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6991: (Continued from September 3, 1980, Examiner Hearing)

Application of Amoco Production Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the San Andres formation in a 100 foot perforated interval between 4400 feet and 4800 feet in its South Hobbs Unit Well No. 103 in Unit B of Section 15, Township 19 South, Range 38 East, Hobbs Grayburg-San Andres Pool.

CASE 7024: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 35, Township 18 South, Range 29 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7025: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the W/2 of Section 35, Township 18 South, Range 29 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7005: (Continued from August 20, 1980, Examiner Hearing)

Application of Sol West III for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for his Turkey Track-Morrow Sand Well No. 1 in Unit I of Section 26, Township 18 South, Range 28 East.

CASE 6822: (Continued from September 3, 1980, Examiner Hearing)

In the matter of Case 6822 being reopened pursuant to the provisions of Order No. R-6293 which order created the West Double X-Wolfcamp Gas Pool as a retrograde gas condensate pool and set special production limitations therein. Operator(s) may appear and present evidence to establish the true nature of the reservoir and proper rates of withdrawal therefrom.

CASE 7026: Application of Bass Enterprises Production Company for pool creation, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Bone Spring oil pool for its Big Eddy Unit Well No. 60 located in Unit J of Section 20, Township 21 South, Range 28 East, and the promulgation of special rules therefor including a gas-oil ratio limitation of 10,000 to one.

CASE 7027: Application of W. A. Moncrief, Jr. for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for his Marathon State Com. Well No. 1 in Unit J of Section 11, Township 24 South, Range 24 East.

CASE 7028: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, deleting, and extending certain pools in Chaves, Eddy, and Lea Counties, New Mexico:

(a) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Wolfcamp production and designated as the North Bell Lake-Wolfcamp Pool. The discovery well is Amoco Production Company State HL Well No. 1 located in Unit L of Section 2, Township 23 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 23 SOUTH, RANGE 33 EAST, NMPM
Section 2: W/2

(b) CREATE a new pool in Eddy County, New Mexico, classified as an oil pool for Delaware production and designated as the Golden Lane-Delaware Pool. The discovery well is Meadco Properties, Ltd. Hudson Federal Well No. 1 located in Unit C of Section 4, Township 21 South, Range 29 East, NMPM. Said pool would comprise:

TOWNSHIP 21 SOUTH, RANGE 29 EAST, NMPM
Section 4: Lots 3, 4, 5, 6, 11, and 12

(c) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Atoka production and designated as the McDonald-Atoka Gas Pool. The discovery well is Harvey E. Yates Company Heyco Betenbough Well No. 1 located in Unit C of Section 32, Township 13 South, Range 36 East, NMPM. Said pool would comprise:

TOWNSHIP 13 SOUTH, RANGE 36 EAST, NMPM
Section 32: N/2

(d) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Seven Rivers production and designated as the Pearsall-Seven Rivers Pool. The discovery well is Arrowhead Oil Corporation Hover Well No. 3 located in Unit D of Section 32, Township 17 South, Range 32 East, NMPM. Said pool would comprise:

TOWNSHIP 17 SOUTH, RANGE 32 EAST, NMPM
Section 32: NW/4

(e) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Wolfcamp production and designated as the West Tonto-Wolfcamp Pool. The discovery well is Inexco Oil Company Federal Com 7 Well No. 2 located in Unit E of Section 7, Township 19 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 19 SOUTH, RANGE 33 EAST, NMPM
Section 7: NW/4

(f) CREATE a new pool in Eddy County, New Mexico, classified as an oil pool for Bone Spring production and designated as the Winchester-Bone Spring Pool. Further to assign approximately 38,955 barrels of discovery allowable to the discovery well, Marathon Oil Company Martinez "31" Federal Well No. 1 located in Unit F of Section 31, Township 19 South, Range 29 East, NMPM. Said pool would comprise:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM
Section 31: NW/4

(g) CONTRACT the horizontal limits of the Mid Bell Lake-Devonian Gas Pool in Lea County, New Mexico, by the deletion of the following described area:

TOWNSHIP 23 SOUTH, RANGE 34 EAST, NMPM
Section 18: N/2 and SW/4

(h) CONTRACT the horizontal limits of the La Rica-Morrow Gas Pool in Lea County, New Mexico, by the deletion of the following described area:

TOWNSHIP 19 SOUTH, RANGE 34 EAST, NMPM
Section 2: All

(i) EXTEND the Airstrip-Upper Bone Spring Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 35: NE/4
Section 36: NE/4

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 31: NW/4

(j) EXTEND the Airstrip-Lower Bone Spring Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 23: SW/4
Section 26: NE/4

(k) EXTEND the Artesia Queen-Grayburg-San Andres Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 27 EAST, NMPM
Section 22: E/2 NE/4

TOWNSHIP 18 SOUTH, RANGE 28 EAST, NMPM
Section 35: W/2 NW/4

TOWNSHIP 19 SOUTH, RANGE 27 EAST, NMPM
Section 2: NW/4 and N/2 SW/4

(l) EXTEND the Bough-San Andres Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 9 SOUTH, RANGE 35 EAST, NMPM
Section 14: NE/4

(m) EXTEND the Buffalo-Pennsylvanian Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 33 EAST, NMPM
Section 8: E/2

(n) EXTEND the North Burton Flat-Wolfcamp Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM
Section 29: N/2

(o) EXTEND the South Carlsbad-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM
Section 16: W/2

(p) EXTEND the Chaveroo-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 32 EAST, NMPM
Section 4: E/2 E/2

(q) EXTEND the South Culebra Bluff-Bone Spring Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM
Section 24: S/2 NW/4 and N/2 S/2

(r) EXTEND the Eagle Creek Permo-Pennsylvanian Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 25 EAST, NMPM
Section 31: All

(s) EXTEND the South Empire-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 28 EAST, NMPM
Section 12: All

(t) EXTEND the East Empire Yates-Seven Rivers Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM
Section 28: N/2 N/2

(u) EXTEND the East Grama Ridge-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 3: E/2

(v) EXTEND the West Indian Basin-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 22 EAST, NMPM
Section 24: N/2

(w) EXTEND the Langley-Devonian Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 36 EAST, NMPM
Section 28: S/2

(x) EXTEND the Langley-Ellenburger Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 36 EAST, NMPM
Section 28: S/2

(y) EXTEND the Los Medanos-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 30 EAST, NMPM
Section 1: S/2

(z) EXTEND the North Loving-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM
Section 17: S/2
Section 19: E/2
Section 20: W/2

(aa) EXTEND the Lusk-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM
Section 13: All

(bb) EXTEND the West Malaga-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 28 EAST, NMPM
Section 8: E/2
Section 9: S/2

(cc) EXTEND the Mesa-Queen Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 31 EAST, NMPM
Section 1: SW/4

(dd) EXTEND the Midway-Devonian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 37 EAST, NMPM
Section 8: SE/4

(ee) EXTEND the Nash Draw-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 30 EAST, NMPM
Section 7: S/2

(ff) EXTEND the North Osudo-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 36 EAST, NMPM
Section 29: S/2

(gg) EXTEND the East Red Lake Queen-Grayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM
Section 25: NW/4 and N/2 SW/4

(hh) EXTEND the Sand Point-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 28 EAST, NMPM
Section 3: Lots 1, 2, 7, 8, 9, 10, 15 and 16

(ii) EXTEND the Shoebar-Atoka Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM
Section 28: N/2 and SW/4

(jj) EXTEND the Shugart-Pennsylvanian Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM
Section 1: W/2
Section 2: N/2

(kk) EXTEND the Sioux Tansill-Yates-Seven Rivers Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 26 SOUTH, RANGE 36 EAST, NMPM
Section 9: SE/4

(ll) EXTEND the Teas Yates-Seven Rivers Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 34 EAST, NMPM
Section 19: SE/4

(mm) EXTEND the Tom-Tom San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 7 SOUTH, RANGE 31 EAST, NMPM
Section 24: SW/4
Section 35: NW/4

(nn) EXTEND the Turkey Track-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM
Section 1: S/2
Section 2: S/2
Section 11: N/2
Section 14: All

(oo) EXTEND the Turkey Track-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM
Section 7: S/2
Section 18: All

(pp) EXTEND the Winchester-Wolfcamp Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 34: SE/4

(qq) EXTEND the Yarrow-Delaware Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 26 EAST, NMPM
Section 22: NE/4

(rr) EXTEND the Young-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 32 EAST, NMPM
Section 4: S/2
Section 9: E/2

Dockets Nos. 27-80 and 28-80 are tentatively set for September 3 and 17, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 20, 1980

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

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

ALLOWABLE: (1) Consideration of the allowable production of gas for September, 1980, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for September, 1980, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 6998: Application of Monsanto Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Back Basin Unit Area, comprising 1,920 acres, more or less, of State and Federal lands in Township 23 South, Range 34 East.

CASE 6999: Application of Gulf Oil Corporation for an unorthodox location and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the simultaneous dedication of a previously approved 320-acre non-standard proration unit comprising the N/2 of Section 36, Township 21 South, Range 36 East, Eumont Gas Pool, to its Harry Leonard NCT-C Well No. 9 located in Unit B, and its No. 8, at an unorthodox location 1980 feet from the North line and 660 feet from the East line of Section 36.

CASE 7000: Application of Cavalcade Oil Corporation for an unorthodox oil well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its McClay Well No. 11 2385 feet from the South line and 1834 feet from the West line of Section 33, Township 18 South, Range 30 East, the NE/4 SW/4 of said Section 33 to be dedicated to the well.

CASE 7001: Application of McClellan Oil Corporation for three unorthodox oil well locations, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for three following unorthodox locations for wells to be drilled in Section 24, Township 14 South, Range 29 East, Double L Queen Associated Pool: 1155 feet from the North line and 2145 feet from the East line; 1155 feet from the North and East lines; and 1650 feet from the North line and 1155 feet from the East line; the respective 40-acre tract would be dedicated to each well.

CASE 7002: Application of Orville Slaughter for the amendment of Order No. R-5947, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-5947 to provide for the commingling of Oswell-Farmington production from his Sangre de Cristo Well No. 1 with undesignated Fruitland production from Wells Nos. 2 and 2S, all in Section 34, Township 30 North, Range 11 West.

CASE 7003: Application of El Paso Natural Gas Company for directional drilling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks authority to directionally drill a well, the surface location of which is 590 feet from the South line and 2400 feet from the East line of Section 1, Township 29 North, Range 13 West, in such a manner as to bottom it within 175 feet of a point 990 feet from the South line and 1650 feet from the West line of said Section 1.

CASE 7004: Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp-Morrow formations underlying the N/2 of Section 12, Township 19 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6938: (Continued from June 25, 1980, Examiner Hearing)

Application of Anadarko Production Company for an unorthodox gas well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Dalport Federal Well No. 1 660 feet from the South and West lines of Section 20, Township 13 South, Range 31 East, Southeast Chaves Queen Gas Area, the W/2 of said Section 20 to be dedicated to the well.

CASE 6939: (Continued from June 25, 1980, Examiner Hearing)

Application of Anadarko Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests at a depth from 2400 feet to 5000 feet below the surface, Turkey Track Field, underlying the NE/4 SE/4 of Section 10, Township 19 South, Range 29 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

KELLAHIN and KELLAHIN
Attorneys at Law
500 Don Gaspar Avenue
Post Office Box 1769
Santa Fe, New Mexico 87501

Telephone 982-4285
Area Code 505

July 28, 1980

Mr. Joe Ramey
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501

Case 7004

RECEIVED
JUL 29 1980
OIL CONSERVATION DIVISION
SANTA FE

Re: Anadarko Production Company

Dear Joe:

Please set the enclosed application for compulsory pooling for hearing on August 20, 1980.

Very truly yours,

W. Thomas Kellahin

WTK:jm
Encl.
cc: Mr. Dan Kernaghan

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF ANADARKO PRODUCTION COMPANY
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

RECEIVED
JUL 29 1980
OIL CONSERVATION DIVISION
SANTA FE

Case 7004

A P P L I C A T I O N

COMES NOW , ANADARKO PRODUCTION COMPANY, and applies to the New Mexico Oil Conservation Division for a Compulsory Pooling order, pooling all of the oil and gas mineral interest from the top of the Wolfcamp formation to the base of the Morrow formation in the N/2 of Section 12, T19S, R25E, NMPM, Eddy County New Mexico and in support there of would show:

1. Applicant seeks to force pool all of the oil and gas mineral interest from the top of the Wolfcamp formation to the base of the Morrow formation in the N/2 of Section 12, T19S, R25E, NMPM for the drilling of a well at a standard location.

2. The application will dedicate the N/2 of said section to the well and desires to be designated as the operator.

3. The applicant has obtained the consent of the working interest and royalty owners in the subject unit except for the following:

NAME	INTEREST
Yates Petroleum 207 S. 4th Street Artesia, New Mexico 88210	15.781200%
Don Phillips and Associates (See attached list "A" for division of this interest)	2.343700%
Quetico Superior Foundation 1730 Plymouth Road Ridgedale State Bank Minnetonka, Minnesota 55343	0.781200%
Michael Moore 404 Blanks Building Midland, Texas 79701	0.410200%

(continued)

Richard Moore 404 Blanks Building Midland, Texas 79701	0.410200%
Stephen Moore 404 Blanks Building Midland, Texas 79701	0.410200%
John Edward McMahan 709 Slaton Las Vegas, Nevada 89107	0.018600%
Donna Kay McMahan Attn: Jane Wade Rt. #2 Box 370-B Heber Springs, Arkansas 72542	0.018600%
	~~100.000000%~~

4. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense its just and fair share of the oil in said unit. The subject mineral interest in the N/2 of said Section 12, should be pooled.

5. That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, applicant prays that:

A. This application be set for hearing before an examiner and that notice of said hearing to be given as required by law.

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the top of the Wolfcamp to the base of the Morrow underlying the N/2 of said Section 12, Township 19S, Range 25E,

(continued)

N.M.P.M., Eddy County, New Mexico to form a 320 acre spacing unit dedicated to applicant's well.

C. And for such other relief as may be just in the premises.

KELLAHIN & KELLAHIN

By: W. Thomas Kellahin

W. Thomas Kellahin
P.O. Box 1769
Santa Fe, New Mexico 87501

Attorneys for applicant

OWNERSHIP OF DON PHILLIPS AND ASSOCIATES
Undivided 3/32 Mineral Interest In: The
E/2, NW/4, Section 12, T-19-S, Range 25E
N.M.P.M., Eddy County, New Mexico

ADDRESS	INTEREST
H. Cedric Alward, M.D. 4224 Francis Avenue Los Angeles, California 90005	.00312500
The Minneapolis Foundation, Estate of Frances E. Andrews % First National Bank of Minneapolis, Trust Department P.O. Box A700 Minneapolis, Minnesota 55440	.00312500
Estate of James G. Bennett % Mr. John P. Somers, Executor 2016 East Broadway Tucson, Arizona 85719	.00625000
Sally P. Ellis Attorney-inFact for Hayward & Marguerite B. Ayres 1204 Pine Street South Pasadena, California 91030	.00312500
Estate of Lester R. Badger, deceased % Stephen S. Badger Route 1, Box 528B 27920 Smithtown Road Excelsior, Minnesota 55331	.00312500
Estate of Helen H. Bristol, % Frederick P. Wheeler, Co-Trustee 627 Pebble Hill Road Doylestown, Pa. 18901	.00625000
Eloise W. Carleton & First National Bank of Minnesota As Trustee U/W of Frank H. Carleton, deceased Box A700, Minneapolis, Minnesota 55480 Att: D. R. Cadwallader	.00312500
Paul Dickerson, deceased % Erle L. Dickerson, wife 3145 Cahuenga Blvd. Los Angeles, California 90068	.00156250
Josephine Hildrith 1811 La Custa Drive Santa Ana, California 92705	.00312500
Joyce A. Holliday 1034 Princeton Street Santa Monica, California 90403	.00625000

ADDRESS	INTEREST
F. B. Hubachek Suite 3220, Prudential Plaza Chicago, Illinois 60601	.00312500
Charles S. Kelly Suite 3220 Prudential Plaza Chicago, Illinois 60601	.00312500
Estate of E.E. MacGibbon, deceased % MacGibbon & Danforth Attorneys 321 Lowell Elk River, Minnesota 55330	.00312500
Mrs. Jan M. Fox 8505 Winnequah Road Madison, Wisconsin 53716	.00104166
J. Laird Marshall 1411 Bible Camp Road McFarland, Wisconsin 53558	.00104167
Owen Marshall 2470 Rivermont Avenue Lynchburg, Virginia 24504	.00104167
Richard H. Marshall, Jr. 29 Austin Crescent Toronto M5R-3E3 Ontario, Canada	.00312500
Douglas B. MacKinnon, M.D. 4240 Dundee Road Los Angeles, California 90027	.00312500
Robert Ray Newton Trust % Donald W. Newton, Trustee Route 22, Meeting House Lane Knoxville, Tennessee 37921	.00625000
Mrs. James J. Norton 2880 Lorain Road San Marino, California 91108	.00312500
Mary A. Phillips 9025 National Blvd. Los Angeles, California 90034 / or 2244 Q. Via Puerta LaGuna Hills, California 92653	.00781250
Rufus R. Ran Estate % Palmer First National Bank & Trust Box 2018 Sarasota, Florida 33578/ or 8446 Sanderling Road Sarasota, Florida 33578	.00312500

ADDRESS	INTEREST
L. Raymond Scherer, M.D. 1930 Irving Avenue South Minneapolis, Minnesota 55403	.00312500
Kathryan Knops 3044 - 12th Avenue South Minneapolis, Minnesota 55416	.00312500
Robert Westman 257 North 117th Avenue Omaha, Nebraska 68154	.00312500
Marian M. Whitney Trust San Diego Trust & Savings Bank Trust Dept., Box X-1013 San Diego, California 92112 Att: Gerald C. Jessop	.00312500
Elizabeth Melone Winston 2706 W. Lake of the Isles Blvd. Minneapolis, Minnesota 55416	.00312500

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF ANADARKO PRODUCTION COMPANY
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

RECEIVED
JUL 29 1980
OIL CONSERVATION DIVISION
SANTA FE

Case 7004

APPLICATION

COMES NOW , ANADARKO PRODUCTION COMPANY, and applies to the New Mexico Oil Conservation Division for a Compulsory Pooling order, pooling all of the oil and gas mineral interest from the top of the Wolfcamp formation to the base of the Morrow formation in the N/2 of Section 12, T19S, R25E, NMPM, Eddy County New Mexico and in support there of would show:

1. Applicant seeks to force pool all of the oil and gas mineral interest from the top of the Wolfcamp formation to the base of the Morrow formation in the N/2 of Section 12, T19S, R25E, NMPM for the drilling of a well at a standard location.

2. The application will dedicate the N/2 of said section to the well and desires to be designated as the operator.

3. The applicant has obtained the consent of the working interest and royalty owners in the subject unit except for the following:

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Donna Kay McMahan Attn: Jane Wade Rt. #2 Box 370-B Heber Springs, Arkansas 72542	0.018600%
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4. To avoid the drilling of unncessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense its just and fair share of the oil in said unit. The subject mineral interest in the N/2 of said Section 12, should be pooled.

5. That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, applicant prays that:

A. This application be set for hearing before an examiner and that notice of said hearing to be given as required by law.

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the top of the Wolfcamp to the base of the Morrow underlying the N/2 of said Section 12, Township 19S, Range 25E,

(continued)

N.M.P.M., Eddy County, New Mexico to form a 320 acre spacing unit dedicated to applicant's well.

C. And for such other relief as may be just in the premises.

KELLAHIN & KELLAHIN

By: W. Thomas Kellahin

W. Thomas Kellahin
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Santa Fe, New Mexico 87501

Attorneys for applicant

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Undivided 3/32 Mineral Interest In: The
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Elizabeth Melone Winston 2706 W. Lake of the Isles Blvd. Minneapolis, Minnesota 55416	.00312500

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

RECEIVED
JUL 29 1980
OIL CONSERVATION DIVISION
SANTA FE

IN THE MATTER OF THE APPLICATION
OF ANADARKO PRODUCTION COMPANY
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

Case 7004

A P P L I C A T I O N

COMES NOW , ANADARKO PRODUCTION COMPANY, and applies to the New Mexico Oil Conservation Division for a Compulsory Pooling order, pooling all of the oil and gas mineral interest from the top of the Wolfcamp formation to the base of the Morrow formation in the N/2 of Section 12, T19S, R25E, NMPM, Eddy County New Mexico and in support there of would show:

1. Applicant seeks to force pool all of the oil and gas mineral interest from the top of the Wolfcamp formation to the base of the Morrow formation in the N/2 of Section 12, T19S, R25E, NMPM for the drilling of a well at a standard location.

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WHEREFORE, applicant prays that:

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B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the top of the Wolfcamp to the base of the Morrow underlying the N/2 of said Section 12, Township 19S, Range 25E,

(continued)

N.M.P.M., Eddy County, New Mexico to form a 320 acre spacing unit dedicated to applicant's well.

C. And for such other relief as may be just in the premises.

KELLAHIN & KELLAHIN

By: W. Thomas Kellahin

W. Thomas Kellahin
P.O. Box 1769
Santa Fe, New Mexico 87501

Attorneys for applicant

OWNERSHIP OF DON PHILLIPS AND ASSOCIATES
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E/2, NW/4, Section 12, T-19-S, Range 25E
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Estate of Helen H. Bristol, % Frederick P. Wheeler, Co-Trustee 627 Pebble Hill Road Doylestown, Pa. 18901	.00625000
Eloise W. Carleton & First National Bank of Minnesota As Trustee U/W of Frank H. Carleton, deceased Box A700, Minneapolis, Minnesota 55480 Att: D. R. Cadwallader	.00312500
Paul Dickerson, deceased % Erle L. Dickerson, wife 3145 Cahuenga Blvd. Los Angeles, California 90068	.00156250
Josephine Hildrith 1811 La Custa Drive Santa Ana, California 92705	.00312500
Joyce A. Holliday 1034 Princeton Street Santa Monica, California 90403	.00625000

ADDRESS	INTEREST
F. B. Hubachek Suite 3220, Prudential Plaza Chicago, Illinois 60601	.00312500
Charles S. Kelly Suite 3220 Prudential Plaza Chicago, Illinois 60601	.00312500
Estate of E.E. MacGibbon, deceased % MacGibbon & Danforth Attorneys 321 Lowell Elk River, Minnesota 55330	.00312500
Mrs. Jan M. Fox 8505 Winnequah Road Madison, Wisconsin 53716	.00104166
J. Laird Marshall 1411 Bible Camp Road McFarland, Wisconsin 53558	.00104167
Owen Marshall 2470 Rivermont Avenue Lynchburg, Virginia 24504	.00104167
Richard H. Marshall, Jr. 29 Austin Crescent Toronto M5R-3E3 Ontario, Canada	.00312500
Douglas B. MacKinnon, M.D. 4240 Dundee Road Los Angeles, California 90027	.00312500
Robert Ray Newton Trust % Donald W. Newton, Trustee Route 22, Meeting House Lane Knoxville, Tennessee 37921	.00625000
Mrs. James J. Norton 2880 Lorain Road San Marino, California 91108	.00312500
Mary A. Phillips 9025 National Blvd. Los Angeles, California 90034 / or 2244 Q. Via Puerta LaGuna Hills, California 92653	.00781250
Rufus R. Ran Estate % Palmer First National Bank & Trust Box 2018 Sarasota, Florida 33578/ or 8446 Sanderling Road Sarasota, Florida 33578	.00312500

ADDRESS	INTEREST
L. Raymond Scherer, M.D. 1930 Irving Avenue South Minneapolis, Minnesota 55403	.00312500
Kathryan Knops 3044 - 12th Avenue South Minneapolis, Minnesota 55416	.00312500
Robert Westman 257 North 117th Avenue Omaha, Nebraska 68154	.00312500
Marian M. Whitney Trust San Diego Trust & Savings Bank Trust Dept., Box X-1013 San Diego, California 92112 Att: Gerald C. Jessop	.00312500
Elizabeth Melone Winston 2706 W. Lake of the Isles Blvd. Minneapolis, Minnesota 55416	.00312500

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF ANADARKO PRODUCTION COMPANY
FOR COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO

A P P L I C A T I O N

COMES NOW , ANADARKO PRODUCTION COMPANY, and applies to the New Mexico Oil Conservation Division for a Compulsory Pooling order, pooling all of the oil and gas mineral interest from the top of the Wolfcamp formation to the base of the Morrow formation in the N/2 of Section 12, T19S, R25E, NMPM, Eddy County New Mexico and in support there of would show:

1. Applicant seeks to force pool all of the oil and gas mineral interest from the top of the Wolfcamp formation to the base of the Morrow formation in the N/2 of Section 12, T19S, R25E, NMPM for the drilling of a well at a standard location.

2. The application will dedicate the N/2 of said section to the well and desires to be designated as the operator.

3. The applicant has obtained the consent of the working interest and royalty owners in the subject unit except for the following:

NAME	INTEREST
Yates Petroleum 207 S. 4th Street Artesia, New Mexico 88210	15.781200% = 28.28125%
Don Phillips and Associates (See attached list "A" for division of this interest)	2.343700%
Quetico Superior Foundation 1730 Plymouth Road Ridgedale State Bank Minnetonka, Minnesota 55343	0.781200%
Michael Moore 404 Blanks Building Midland, Texas 79701	0.410200%

(continued)

Richard Moore 404 Blanks Building Midland, Texas 79701	0.410200%
Stephen Moore 404 Blanks Building Midland, Texas 79701	0.410200%
John Edward McMahan 709 Slaton Las Vegas, Nevada 89107	0.018600%
Donna Kay McMahan Attn: Jane Wade Rt. #2 Box 370-B Heber Springs, Arkansas 72542	0.018600%
	100.000000%

4. To avoid the drilling of unncessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense its just and fair share of the oil in said unit. The subject mineral interest in the N/2 of said Section 12, should be pooled.

5. That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, applicant prays that:

A. This application be set for hearing before an examiner and that notice of said hearing to be given as required by law.

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the top of the Wolfcamp to the base of the Morrow underlying the N/2 of said Section 12, Township 19S, Range 25E,

(continued)

OWNERSHIP OF DON PHILLIPS AND ASSOCIATES
Undivided 3/32 Mineral Interest In: The
E/2, NW/4, Section 12, T-19-S, Range 25E
N.M.P.M., Eddy County, New Mexico

ADDRESS	INTEREST
H. Cedric Alward, M.D. 4224 Francis Avenue Los Angeles, California 90005	.00312500
The Minneapolis Foundation, Estate of Frances E. Andrews % First National Bank of Minneapolis, Trust Department P.O. Box A700 Minneapolis, Minnesota 55440	.00312500
Estate of James G. Bennett % Mr. John P. Somers, Executor 2016 East Broadway Tucson, Arizona 85719	.00625000
Sally P. Ellis Attorney-inFact for Hayward & Marguerite B. Ayres 1204 Pine Street South Pasadena, California 91030	.00312500
Estate of Lester R. Badger, deceased % Stephen S. Badger Route 1, Box 528B 27920 Smithtown Road Excelsior, Minnesota 55331	.00312500
Estate of Helen H. Bristol, % Frederick P. Wheeler, Co-Trustee 627 Pebble Hill Road Doylestown, Pa. 18901	.00625000
Eloise W. Carleton & First National Bank of Minnesota As Trustee U/W of Frank H. Carleton, deceased Box A700, Minneapolis, Minnesota 55480 Att: D. R. Cadwallader	.00312500
Paul Dickerson, deceased % Erle L. Dickerson, wife 3145 Cahuenga Blvd. Los Angeles, California 90068	.00156250
Josephine Hildrith 1811 La Custa Drive Santa Ana, California 92705	.00312500
Joyce A. Holliday 1034 Princeton Street Santa Monica, California 90403	.00625000

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Mrs. Jan M. Fox 8505 Winnequah Road Madison, Wisconsin 53716	.00104166
J. Laird Marshall 1411 Bible Camp Road McFarland, Wisconsin 53558	.00104167
Owen Marshall 2470 Rivermont Avenue Lynchburg, Virginia 24504	.00104167
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Robert Ray Newton Trust % Donald W. Newton, Trustee Route 22, Meeting House Lane Knoxville, Tennessee 37921	.00625000
Mrs. James J. Norton (deceased) margaret 2880 Lorain Road San Marino, California 91108	.00312500
Mary A. Phillips 9025 National Blvd. Los Angeles, California 90034 / or 2244 Q. Via Puerta LaGuna Hills, California 92653	.00781250
Rufus R. Ran Estate % Palmer First National Bank & Trust Box 2018 Sarasota, Florida 33578/ or 8446 Sanderling Road Sarasota, Florida 33578	.00312500

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Kathryan Knops 3044 - 12th Avenue South Minneapolis, Minnesota 55416	.00312500
Robert Westman 257 North 117th Avenue Omaha, Nebraska 68154	.00312500
Marian M. Whitney Trust San Diego Trust & Savings Bank Trust Dept., Box X-1013 San Diego, California 92112 Att: Gerald C. Jessop	.00312500
Elizabeth Melone Winston 2706 W. Lake of the Isles Blvd. Minneapolis, Minnesota 55416	.00312500

DRAFT

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7004

Order No. R- 1079

APPLICATION OF ANADARKO PRODUCTION
COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on September 17, 1980, at Santa Fe, New Mexico, before Examiner Richard L. Stamets

NOW, on this _____ day of September, 1980, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Anadarko Production Company, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 12, Township 19 South, Range 25 East, NMPM, _____, Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $ 3000.00 per month while drilling and $ 330.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before January 1, 1981, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp ~~Devonian~~ and Pennsylvanian formations underlying the N/2 of Section 12, Township 19 South, Range 25 East, NMPM, _____, Eddy County, New Mexico, are hereby pooled to form a standard 320- acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of January, 1981, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp and Pennsylvanian formations.

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of January, 1981, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Anadarko Production Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided

above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $ 3000 ac per month while drilling and $ 330 ac per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year herein-above designated.