

**STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION**

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

**APPLICATION OF READ & STEVENS, INC. FOR  
COMPULSORY POOLING, LEA COUNTY, NEW  
MEXICO.**

Case No. ~~13,152~~

14,152

**VERIFIED STATEMENT OF ROBERT H. WATSON**

Robert H. Watson, being duly sworn upon his oath, deposes and states:

1. I am a landman for Read & Stevens, Inc., and have personal knowledge of the matters stated herein.

2. Pursuant to Division Rule 1210.A(1)(b), the following information is submitted in support of the compulsory pooling application filed herein:

(a) No opposition is expected because the working interest owners being pooled have been contacted regarding the proposed well, but have simply not decided whether to join in the well, or assign or farm out their interests.

(b) A plat outlining the spacing unit being pooled is attached hereto as Exhibit A. Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying Lots 1-4 and the S $\frac{1}{2}$ N $\frac{1}{2}$  (the N $\frac{1}{2}$  equivalent) of Section 5, Township 20 South, Range 34 East, N.M.P.M., Lea County, New Mexico, and in the following manner:

(i) Lots 3, 4, and the S $\frac{1}{2}$ NW $\frac{1}{4}$  (the NW $\frac{1}{4}$  equivalent) to form a standard 160.05 acre gas spacing and proration unit for any formations and/or pools developed on 160 acre spacing within that vertical extent; and

(ii) The N $\frac{1}{2}$  to form a standard 320.20 acre gas spacing and proration unit for any formations and/or pools developed on 320 acre spacing within that vertical extent, including the Undesignated Quail Ridge-Morrow Gas Pool.

The unit is to be designated to the proposed Highway 5 Fed. Com. Well No. 1, to be drilled at an orthodox location in Lot 4 (the NW $\frac{1}{4}$ NW $\frac{1}{4}$ ) of Section 5.

Oil Conservation Division  
Case No. \_\_\_\_\_  
Exhibit No. 1

(c) The parties being pooled, their working interests in the 320 acre well unit, their addresses, and a summary of the status of each party, are as follows:

<u>Owner</u>	<u>Interest</u>	<u>Status</u>
Ard Oil, Ltd. PH 5 222 West 4 <sup>th</sup> Street Fort Worth, Texas 76102	3.574814%	No response
Francis H. Hudson, Trustee of Lindy's Living Trust Suite 1005A 6300 Ridglea Place Fort Worth, Texas 76116	7.149628%	May farm out to other interest owners
Moore & Shelton Co., Ltd. P.O. Box 3070 Galveston, Texas 77552	4.219453%	Verbal agreement to farm out

All of the above addresses are current.

(d) Copies of the proposal letters sent to the uncommitted working interest owners are attached hereto as Exhibit B. In addition, several phone calls have been made to the uncommitted owners.

(e) Pursuant to Division rules, applicant requests that a 200% risk charge be assessed against the non-consenting interest owner.

(f) A copy of the Authority for Expenditure for the proposed well is attached hereto as Exhibit C. The drilling and completion costs set forth therein are fair and reasonable, and are comparable to those of other wells of this depth drilled in this area of Lea County.

(g) Overhead charges of \$7,000 /month for a drilling well, and \$700. 'month for a producing well, are requested. These rates are fair and reasonable, and are in line with rates charged by other operators in this area for well of this depth. Applicant also requests that the order contain a provision adjusting the rates pursuant to the COPAS accounting procedure.

(h) Applicant requests that it be designated operator of the well.

VERIFICATION

STATE OF NEW MEXICO            )  
                                          ) ss.  
COUNTY OF CHAVES            )

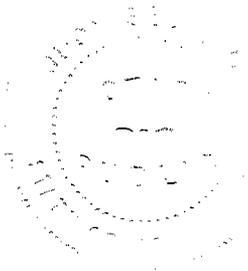
Robert H. Watson, being duly sworn upon his oath, deposes and states that: He is a landman for Read & Stevens, Inc.; he is authorized to make this verification on its behalf; he has read the foregoing statement, and knows the contents thereof; and the same is true and correct to the best of his knowledge, information, and belief.

Robert H. Watson  
Robert H. Watson

SUBSCRIBED AND SWORN TO before me this 18<sup>th</sup> day of July, 2008 by Robert H. Watson.

Judy Sedillo  
Notary Public

My Commission Expires: 6/13/2012





DISTRICT I  
1625 N. FRENCH DR., HOBBS, NM 88240

DISTRICT II  
1301 W. GRAND AVENUE, ARTESIA, NM 88210

DISTRICT III  
1000 RIO BRAZOS RD., AZTEC, NM 87410

DISTRICT IV  
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION  
1220 SOUTH ST. FRANCIS DR.  
Santa Fe, New Mexico 87505

Form C-102  
Revised October 12, 2005  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name HIGHWAY 5 FEDERAL COM	
OGRID No.	Operator Name READ & STEVENS, INC	Well Number 1
		Elevation 3627'

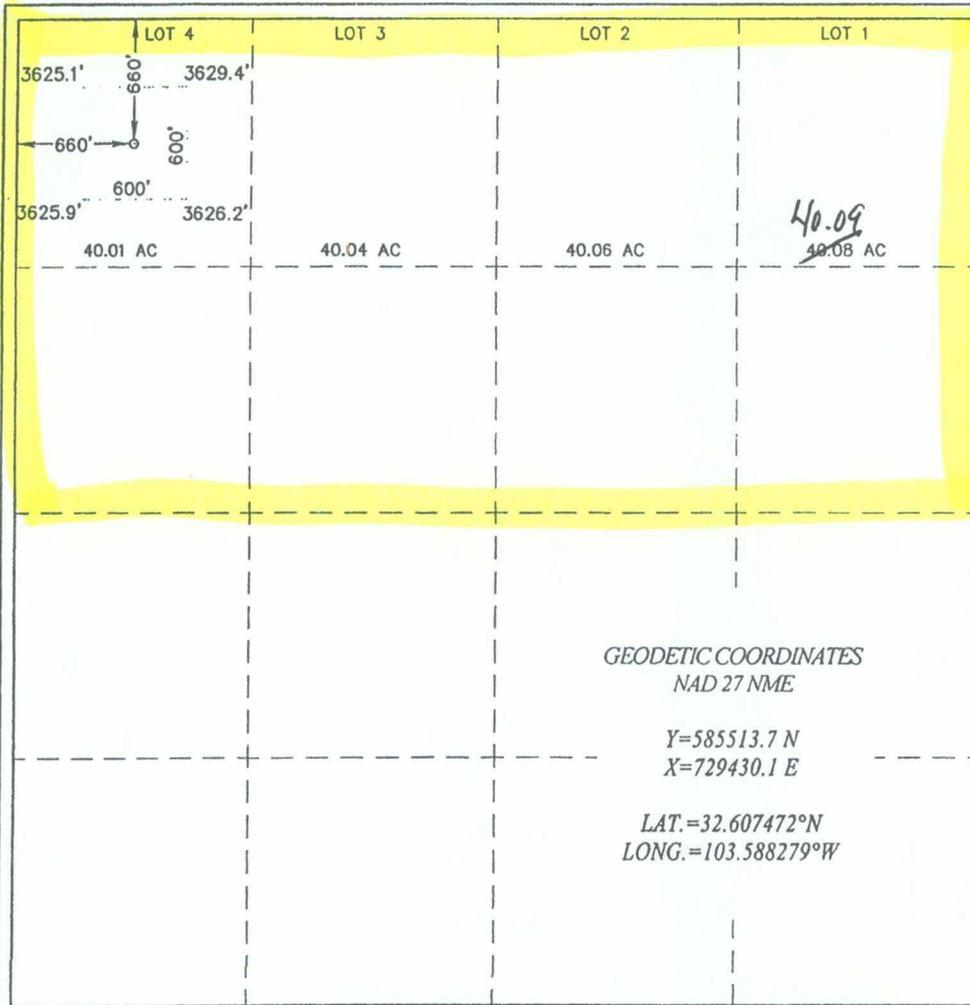
Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
4	5	20-S	34-E		660	NORTH	660	WEST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED  
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



OPERATOR CERTIFICATION

I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Printed Name \_\_\_\_\_

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Date Surveyed: APRIL 16, 2008 AR  
Signature & Seal of Professional Surveyor 3239

Certificate No. Gary G. Eidson 12641  
Ronald J. Eidson 3239

May 20, 2008

**ARD Oil, Ltd.**

RE: Highway 5 Federal Com. No. 1  
N/2 Section 5, T20S-R34E  
Lea County, New Mexico  
R&S #10,265W

Dear Owner:

Read & Stevens, Inc. (R&S) proposes to drill the subject 13,800' Morrow test at a location 660' FNL & WL of Section 5, T20S-R34E and dedicate the N/2 of Section 5 as the proration unit.

Enclosed please find the following items for your review and consideration:

- 1) Two(2) copies of our A.F.E.
- 2) One full copy of our proposed Operating Agreement and Recording Supplement to the Operating Agreement along with extra signatures pages for each.
- 3) Copy of drilling title opinion.
- 4) Communitization Agreement with two extra signature pages.

Please indicate your election in this proposed operation by signing and returning one copy of this letter along with the AFE and extra signature pages to the Operating Agreement, Recording Supplement and Communitization Agreement. Please acknowledge your signatures on the Recording Supplement and Communitization Agreement. Please furnish your election by June 20, 2008.

If you should elect not to participate, Read & Stevens hereby offers the following two options for your consideration:

- 1) Farmout your interest to R&S for a term of six months, delivering a 75% NRI leasehold.
- 2) R&S will offer to purchase all of your leasehold under the proration unit for \$500 per net acre.

The enclosed title opinion is for your files. Please review and furnish any required title curative to this office.

EXHIBIT

**B**

Page 2.  
AFE Proposal Letter – Highway 5 Federal Com. #1  
May 20, 2008

Should you have any questions, please contact this office.

Respectfully,



Robert H. Watson  
Land Manager

\_\_\_\_\_ Elect to participate. AFE and signature pages enclosed.

\_\_\_\_\_ Elect to sell or farmout in lieu of participation.

\_\_\_\_\_ Elect NOT to participate.

**ARD Oil, Ltd.**

By: \_\_\_\_\_

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

Contacts with Ard Oil, Ltd.

- (1) Proposal Letter with AFE & JOA mailed on 5/20/2008.
- (2) Made telephone contact with Ron Grappe a week later to go over our proposal and ask if he had any questions or concerns. I also stated that if Ard Oil did not wish to participate, R&S would make an offer to either purchase the interest out-right, or purchase a term assignment of Ard Oil's interest. Mr. Grappe was non-committal about their plans.
- (3) By conversation with Randall Hudson (who represents other Hudson interests) I learned of title problems involving the Hudson Trusts 1-4. The Hudson Trusts 1, 2, & 3 hired David Vandiver (Artesia attorney) to draft assignments between the four trusts to update and cure the title defects. I left telephone messages and e-mail messages with the Ard office in an effort to keep them in the loop. Apparently there is no communication between Ard Oil and the other Hudson Trusts. I never received any response from Ard Oil.
- (4) Left telephone messages with Ard Oil office on 6/26/2008, 7/7/2008, and 7/17/2008. Mr. Grappe's secretary stated that he was busy on other matters. I never received any response to my telephone calls or e-mail messages.

May 20, 2008

**Francis H. Hudson, Trustee of Lindy's Living Trust**

RE: Highway 5 Federal Com. No. 1  
N/2 Section 5, T20S-R34E  
Lea County, New Mexico  
R&S #10,265W

Dear Owner:

Read & Stevens, Inc. (R&S) proposes to drill the subject 13,800' Morrow test at a location 660' FNL & WL of Section 5, T20S-R34E and dedicate the N/2 of Section 5 as the proration unit.

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Page 2.  
AFE Proposal Letter – Highway 5 Federal Com. #1  
May 20, 2008

Should you have any questions, please contact this office.

Respectfully,



Robert H. Watson  
Land Manager

Elect to participate. AFE and signature pages enclosed.

Elect to sell or farmout in lieu of participation.

Elect NOT to participate.

**Francis H. Hudson, Trustee of Lindy's Living Trust**

By: \_\_\_\_\_

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

May 20, 2008

**Moore & Shelton Company, Ltd.**

RE: Highway 5 Federal Com. No. 1  
N/2 Section 5, T20S-R34E  
Lea County, New Mexico  
R&S #10,265W

Dear Owner:

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Enclosed please find the following items for your review and consideration:

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Please indicate your election in this proposed operation by signing and returning one copy of this letter along with the AFE and extra signature pages to the Operating Agreement, Recording Supplement and Communitization Agreement. Please acknowledge your signatures on the Recording Supplement and Communitization Agreement. Please furnish your election by June 20, 2008.

If you should elect not to participate, Read & Stevens hereby offers the following two options for your consideration:

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- 2) R&S will offer to purchase all of your leasehold under the proration unit for \$500 per net acre.

The enclosed title opinion is for your files. Please review and furnish any required title curative to this office.

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Page 2.  
AFE Proposal Letter – Highway 5 Federal Com. #1  
May 20, 2008

Should you have any questions, please contact this office.

Respectfully,



Robert H. Watson  
Land Manager

Elect to participate. AFE and signature pages enclosed.

Elect to sell or farmout in lieu of participation.

Elect NOT to participate.

**Moore & Shelton Company, Ltd.**

By: \_\_\_\_\_

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

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**EXHIBIT "A"**

**ATTACHED TO AND MADE A PART OF THAT CERTAIN MODEL FORM  
RECORDING SUPPLEMENT TO OPERATING AGREEMENT DATED JUNE 1, 2008, BY  
AND BETWEEN READ & STEVENS, INC., AS OPERATOR, AND  
MAGNUM HUNTER PRODUCTION, INC., ET AL, AS NON-OPERATOR(S)**

**I CONTRACT AREA:**

Township 20 South, Range 34 East, NMPM  
Section 5: Lots 1,2,3 & 4; S/2N/2 (N/2)  
Limited to depths below 5000' subsurface  
Containing 320.2 acres, more or less, in Lea County, New Mexico

**II ADDRESSES AND INTERESTS OF PARTIES TO THIS AGREEMENT:**

<u>Owner Name</u>	<u>Working Interest</u>	
	<u>Before Tanks</u>	<u>After Tanks</u>
Read & Stevens, Inc.	.24987508	.21487508
Magnum Hunter Production, Inc.	.32817965	.32817965
Edward R. Hudson, Jr.	.03574814	.03574814
Zorro Partners, Ltd.	.03574814	.03574814
HOG Partnership L.P.	.09376562	.09376562
E.R. Hudson, and William A. Hudson II, Domiciliary, Foreign Personal Representatives of the Estate of Josephine T. Hudson, deceased	.03574814	.03574814
Francis H. Hudson, Trustee of Lindy's Living Trust utta dated 7-8-94, as amended	.07149628	.07149628
US Trust/Bank of America, Trustee of the Delmar Hudson Lewis Living Trust dated 9-9-02, as amended	.07149628	.07149628
Moore & Shelton Company, Ltd.	.04219453	.04219453
Ard Oil, Ltd.	.03574814	.03574814
Diamond Star Production Co., LLC	-0-	.00500000
Carolyn R. Beall	-0-	.00500000
Betty R. Young	-0-	.00500000
CLM Production Company	-0-	.00500000
Lincoln Oil & Gas, LLC	-0-	.00500000
William H. Palmer, LLC	-0-	.00500000
Robert H. Watson	-0-	.00500000
	<u>1.00000000</u>	<u>1.00000000</u>

Magnum Hunter Production, Inc.  
600 N. Marienfeld - Suite 600  
Midland, Texas 79701  
Attn: Mr. Don McClung

Read & Stevens, Inc.  
P.O. Box 1518  
Roswell, NM 88202

E.R. Hudson Jr. and William A. Hudson II, Domiciliary  
Foreign Personal Representatives of the Estate of  
Josephine T. Hudson, deceased  
616 Texas Street  
Fort Worth, Texas 76102-4612  
Attn: Mr. Randall Hudson

Diamond Star Production Co., LLC  
P.O. Box 638  
Ardmore, OK 73402-0638

Zorro Partners, Ltd.  
616 Texas Street  
Fort Worth, TX 76102-4612

HOG Partnership, L.P.  
5950 Cedar Springs Road - Ste. 200  
Dallas, Texas 75235  
Attn: Ms. Sue Raby

Betty R. Young  
P.O. Box 1518  
Roswell, NM 88202

Francis H. Hudson, Trustee of Lindy's Living Trust  
6300 Ridglea Place - Suite 1005A  
Fort Worth, Texas 76116

Carolyn R. Beall  
P.O. Box 3098  
Midland, TX 79702-3098

U.S. Trust/Bank of America Private Wealth Management  
500 W. 7<sup>th</sup> Street - 4<sup>th</sup> Floor  
Fort Worth, Texas 76102  
Attn: Mr. Larry W. Farris

CLM Production Company  
P.O. Box 881  
Roswell, NM 88202

Moore & Shelton Company, Ltd.  
P.O. Box 3070  
Galveston, Texas 77552

Lincoln Oil & Gas, LLC  
701 Three Cross  
Roswell, NM 88201

Ard Oil, Ltd.  
222 W. 4<sup>th</sup> Street, PH-5  
Fort Worth, Texas 76102  
Attn: Mr. Ron Grappe

William V. Palmer, LLC  
3226 Anderson Drive  
Lovington, NM 88260

Robert H. Watson  
3905 Futura  
Roswell, NM 88201

### III. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

- 1) Lessor: USA NMNM-101115  
Lessee: Read & Stevens, Inc.  
Date: September 1, 1998  
Description: T20S-R34E, NMPM  
Section 5: Lot 4 & SW/4NW/4  
Containing 80.01 acres in Lea County, NM
  
- 2) Lessor: USA LC-065607  
Lessee: Bruce K. Matlock  
Date: September 1, 1948  
Description: T20S-R-34-E, NMPM  
Section 5: Lots 1, 2 & 3; S/2NE/4; SE/4NW/4  
Containing 240.19 acres in Lea County, NM

**AUTHORITY FOR EXPENDITURE**  
**READ & STEVENS, INC.**  
05/27/2008

AFE: 201 DRILL & COMPLETE MISS/MORROW  
Property: 010265 HIGHWAY 5 FEDERAL COM #1  
Location: SEC. 5: NW/4-T20S-R34E  
Operator: READ & STEVENS, INC.  
Begin Date: 06/01/2008

Field:  
ST/County: NM/LEA  
Well Type: Gas  
Obj Zones: D&C MISS/MORROW

CATEGORY	DESCRIPTION	DRY HOLE/			TOTAL
		DRILLING	COMPLETION	RECOMPLETION	
<b>INTANGIBLE COSTS</b>					
FUEL:		96,000.00	0.00	0.00	96,000.00
LOCATION PREP & DAMAGE:		65,000.00	0.00	0.00	65,000.00
MOB/DEMOB:		125,000.00	0.00	0.00	125,000.00
DRILL RATE DAYWORK:		970,000.00	0.00	0.00	970,000.00
BITS & REAMERS:		100,000.00	0.00	0.00	100,000.00
MUD & CHEMICALS:		120,000.00	5,000.00	0.00	125,000.00
WATER:	INCL. TRANSPORTATION	50,000.00	5,000.00	0.00	55,000.00
EQUIPMENT RENTALS:	SURFACE & DOWNHOLE	80,000.00	45,000.00	0.00	125,000.00
ELECTRIC LOGS:	WIRELINE	75,000.00	25,000.00	0.00	100,000.00
CORING & TESTING:		13,000.00	0.00	0.00	13,000.00
MUD LOGGING:		35,000.00	0.00	0.00	35,000.00
HAULING & FREIGHT:		10,000.00	2,000.00	0.00	12,000.00
SUPERVISION:		55,000.00	10,000.00	0.00	65,000.00
CEMENT & SERVICES:	INCL. CENT, DV, ECP, ETC.	78,000.00	85,000.00	0.00	163,000.00
CONTRACT SERVICE:	INSPECTION, BATTERY INSTALL, ETC	35,000.00	55,000.00	0.00	90,000.00
DRILLING OVERHEAD:		10,000.00	5,000.00	0.00	15,000.00
LOCATION PREPARATION & DAMAGE		0.00	45,000.00	0.00	45,000.00
PERFORATION:		0.00	12,000.00	0.00	12,000.00
ACIDIZING:		0.00	15,000.00	0.00	15,000.00
COMPLETION UNIT:		0.00	30,000.00	0.00	30,000.00
FRACTURING SERVICE:		0.00	140,000.00	0.00	140,000.00
<b>TOTAL INTANGIBLE COSTS</b>		<b>1,917,000.00</b>	<b>479,000.00</b>	<b>0.00</b>	<b>2,396,000.00</b>
<b>TANGIBLE COSTS</b>					
SURFACE CASING:		20,000.00	0.00	0.00	20,000.00
PROTECTIVE CASING:		175,000.00	0.00	0.00	175,000.00
WELLHEAD:		12,000.00	13,000.00	0.00	25,000.00
SURFACE EQUIPMENT:		10,000.00	0.00	0.00	10,000.00
OTHER TANGIBLES:		3,000.00	0.00	0.00	3,000.00
PRODUCTION CASING:		0.00	345,000.00	0.00	345,000.00
TUBING:		0.00	73,000.00	0.00	73,000.00
SUB-SURFACE EQUIPMENT:		0.00	15,000.00	0.00	15,000.00
SURFACE WELL EQUIPMENT:		0.00	15,000.00	0.00	15,000.00
FLOWLINE:		0.00	10,000.00	0.00	10,000.00
TANKAGE:		0.00	75,000.00	0.00	75,000.00
SEPARATOR:		0.00	45,000.00	0.00	45,000.00
<b>TOTAL TANGIBLE COSTS</b>		<b>220,000.00</b>	<b>591,000.00</b>	<b>0.00</b>	<b>811,000.00</b>
<b>TOTAL DEVELOPMENT COSTS</b>		<b>2,137,000.00</b>	<b>1,070,000.00</b>	<b>0.00</b>	<b>3,207,000.00</b>

EXHIBIT **C**

Initial: \_\_\_\_\_

AUTHORITY FOR EXPENDITURE  
READ & STEVENS, INC.  
05/27/2008

PAGE 2

AFE: 201 DRILL & COMPLETE MISS/MORROW  
Property: 010265 HIGHWAY 5 FEDERAL COM #1  
Location: SEC. 5: NW/4-T20S-R34E  
Operator: READ & STEVENS, INC.  
Begin Date: 06/01/2008

Field:  
ST/County: NM/LEA  
Well Type: Gas  
Obj Zones: D&C MISS/MORROW

Owner: ARD3032 Owner Name: ARD OIL, LTD.

	AFE Estimate		Your Share
DRILLING	2,137,000.00	0.03574814	76,393.78
COMPLETION	1,070,000.00	0.00000000	0.00
<b>TOTAL</b>	<b>\$3,207,000.00</b>		<b>\$76,393.78</b>

Joint Interest Approval - It is recognized that amounts provided for herein are estimates only, and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than herein set out, including cost of Operator's Well Control & Extra Expense Insurance.

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_

Tax Id:

ARD OIL, LTD.  
222 W. 4TH STREET, PH-5  
FORT WORTH TX 76102

AUTHORITY FOR EXPENDITURE  
READ & STEVENS, INC.  
05/18/2008

PAGE 2

AFE: 201 DRILL & COMPLETE MISS/MORROW  
Property: 010265 HIGHWAY 5 FEDERAL COM #1  
Location: SEC. 5: NW/4-T20S-R34E  
Operator: READ & STEVENS, INC.  
Begin Date: 06/01/2008

Field:  
ST/County: NM/LEA  
Well Type: Gas  
Obj Zones: D&C MISS/MORROW

---

Owner: HUD2321	Owner Name: FRANCIS H. HUDSON, TRUSTEE OF
AFE Estimate	Your Share
DRILLING 2,137,000.00	0.07149628 152,787.55
COMPLETION 1,070,000.00	0.00000000 0.00
<b>TOTAL \$3,207,000.00</b>	<b>\$152,787.55</b>

Joint Interest Approval - It is recognized that amounts provided for herein are estimates only, and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than herein set out, including cost of Operator's Well Control & Extra Expense Insurance.

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_

---

Tax Id: 452-80-8190

FRANCIS H. HUDSON, TRUSTEE OF  
LINDY'S LIVING TRUST  
6300 RIDGLEA PLACE, STE 1005A  
FORT WORTH TX 76116

AUTHORITY FOR EXPENDITURE  
READ & STEVENS, INC.  
05/16/2008

PAGE 2

AFE: 201 DRILL & COMPLETE MISS/MORROW  
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Location: SEC. 5: NW/4-T20S-R34E  
Operator: READ & STEVENS, INC.  
Begin Date: 06/01/2008

Field:  
ST/County: NM/LEA  
Well Type: Gas  
Obj Zones: D&C MISS/MORROW

---

Owner: MOO1934	Owner Name: MOORE & SHELTON COMPANY, L
<hr/>	
AFE Estimate	Your Share
DRILLING 2,137,000.00	0.04219453 90,169.71
COMPLETION 1,070,000.00	0.00000000 0.00
<hr/> TOTAL \$3,207,000.00	<hr/> \$90,169.71

Joint Interest Approval - It is recognized that amounts provided for herein are estimates only, and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than herein set out, including cost of Operator's Well Control & Extra Expense Insurance.

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_

---

Tax id: 76-0185037

MOORE & SHELTON COMPANY, L  
P.O. BOX 3070  
GALVESTON TX 77552