

NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARING
SANTA FE, NEW MEXICO

Hearing Date AUGUST 7, 1997 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
Bruce Stubbs	Paloma Res.	Roswell, N.M.
Jim Toney	"	"
Larry Van Ryan	McElvain O & G	Santa Fe
James Bruce		SF
Frank Sweet	NMCO Operating Co.	Tulsa, OK
W. Kelly	Kelly Oil & Gas	Chino
Tom Miller	Yates Pet	Artesia, N.M.
Pinson McWhorter	Yates Pet	Artesia, NM
William F. Orr	Campbell, Carney & Jones	Santa Fe
Robert Orr	Quay & Kay	Midland, TX

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:)

CASE NO. 11,751

APPLICATION OF NM&O OPERATING COMPANY)
FOR COMPULSORY POOLING, RIO ARRIBA)
COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

August 7th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 7th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

August 7th, 1997
 Examiner Hearing
 CASE NO. 11,751

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<u>LARRY SWEET</u> (Engineer; President, NM&O)	
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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law
612 Old Santa Fe Trail, Suite B
Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 8:25 a.m.:

3 EXAMINER CATANACH: All right, at this time we'll
4 call Case 11,751.

5 MR. CARROLL: Application of NM&O Operating
6 Company for compulsory pooling, Rio Arriba County, New
7 Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. BRUCE: Mr. Examiner, Jim Bruce from Santa
11 Fe, representing the Applicant. I have one witness to be
12 sworn.

13 EXAMINER CATANACH: Call for additional
14 appearances.

15 Will the witness please stand to be sworn in?

16 (Thereupon, the witness was sworn.)

17 LARRY SWEET,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Would you please state your name and city of
23 residence?

24 A. My name is Larry Sweet, and I reside in Sand
25 Springs, Oklahoma.

1 Q. By whom are you employed and in what capacity?

2 A. I'm employed by NM&O Operating Company. I'm
3 president of the company.

4 Q. Have you previously testified before the
5 Division?

6 A. I have.

7 Q. And what capacity?

8 A. As a petroleum engineer.

9 Q. And were your qualifications as an expert
10 petroleum engineer accepted as a matter of record?

11 A. Yes.

12 Q. And are you familiar with the engineering matters
13 involved in this Application?

14 A. Yes.

15 MR. BRUCE: Mr. Examiner, I tender Mr. Sweet as
16 an expert petroleum engineer.

17 EXAMINER CATANACH: He is so qualified.

18 Q. (By Mr. Bruce) Mr. Sweet, are you also familiar
19 with the land matters involved in this case?

20 A. Yes, I am.

21 Q. What is it that NM&O seeks in this case?

22 A. NM&O seeks an order pooling the Mesaverde
23 formation underlying the south half of Section 26, Township
24 24 North, Range 2 West, as indicated by Exhibit 1, the
25 Application.

1 Q. And all of the exhibits are contained in one
2 booklet, are they not, Mr. Sweet?

3 A. Yes, they are.

4 Q. Turning a couple of pages past that to Exhibit 2,
5 could you identify that and tell the Examiner what it
6 shows?

7 A. Yes, Exhibit 2 is a land plat of the south half
8 of Section 26. Each lease is identified. There are four
9 federal leases and one fee lease. The working interest
10 owners in each lease, as to the Mesaverde formation, and
11 their percentage ownership is shown.

12 In addition, the Gavilan 2 well is marked in the
13 southeast quarter of Section 26. It is located at an
14 orthodox location 1827 feet from the south line and 1846
15 feet from the east line of the section.

16 Q. And what is the status of the Gavilan Well Number
17 2?

18 A. The Gavilan well was drilled and completed in the
19 Mancos and Dakota Pools in 1986, produced from those pools
20 through 1991. At that time, NM&O recompleted the well in
21 the Mesaverde formation. All working interest owners
22 elected to participate or go nonconsent under the terms of
23 the joint operating agreement governing the well's
24 operations, or agreed to farm out their interest.

25 Q. Well, you said all of them, but which interest

1 owners in the well have not voluntarily joined in the well?

2 A. Well, the -- There are two owners who have not
3 voluntarily joined: Hooper, Kimball and Williams, which
4 owns one-third of the record title and an overriding
5 royalty interest in Federal Lease SF-081296, which covers
6 the west half, the southeast quarter, and the southeast
7 quarter of the southeast quarter of Section 26; and Prime
8 Energy Company, which owns 50-percent record title interest
9 but no operating rights in Federal Lease SF-079332, which
10 covers the southwest quarter of the southwest quarter of
11 Section 26.

12 Q. Now, will Hooper, Kimball and Williams or Prime
13 Energy Company be responsible for any well costs?

14 A. No, they will not.

15 Q. They why do you seek to pool them?

16 A. The Bureau -- the BLM requires that all record
17 title owners need to sign a communitization agreement or be
18 pooled, even if they have no operating rights. So we are
19 asking to pool both companies, so we can show the BLM that
20 their interests are committed to the well.

21 Q. Now, what about Hooper, Kimball Williams'
22 override? Does that need to be committed to the well also?

23 A. Yes, it does.

24 Q. Now, let's discuss your contacts with these
25 parties. What have your contacts been? And I refer you to

1 Exhibit 3.

2 A. Exhibit 3 is a letter that we wrote Mr. Greg
3 Owens, who represents Hooper, Kimball and Williams in the
4 Tulsa Office, dated March 6th, 1996. We have been
5 attempting to get them to join in the well since that time.
6 Our final letter to them was page 2 of Exhibit 3, dated
7 June 24th, 1997.

8 Also during that time we made numerous telephone
9 calls to Mr. Owens and, to date, have no response.

10 Q. They've never returned your phone calls?

11 A. Right.

12 Q. And what about Prime Energy?

13 A. Prime Energy would be Exhibit 4. The first
14 letter to them was February 26th, 1997. That letter was
15 returned to us, which is page 2 of Exhibit 4. We called
16 the directory service in San Antonio to get the phone
17 number; they were not listed. We also checked with the
18 Texas Secretary of State; we could not locate them. And
19 the BLM records -- The address that the BLM had for Prime
20 Energy was the same one we had.

21 Q. In your opinion, has NM&O made a good-faith
22 effort to obtain the voluntary joinder of these interest
23 owners in the well?

24 A. Yes, we have.

25 Q. Now, looking at page 3 of Exhibit 4, I notice

1 that the letter was also sent to Mountain States Natural
2 Gas Corporation. What happened to them?

3 A. Mountain States, typically, it's been our
4 experience, never signs anything. But we did receive their
5 executed communitization agreement recently.

6 Q. Recently?

7 A. Yes.

8 Q. After months, years --

9 A. Yes.

10 Q. -- of contacts?

11 A. Yes.

12 Q. And does NM&O request that it be designated
13 operator of the well?

14 A. Yes, we do.

15 Q. Now, there's some additional exhibits, 5 through
16 8. What are they in there for?

17 A. They're general information of the well's
18 recompletion costs and geology of the area, and they're in
19 the exhibit book for informational purposes only.

20 Q. Were the interest owners notified of this
21 hearing?

22 A. Yes, they were.

23 Q. And is that part of my affidavit of notice,
24 Exhibit 9?

25 A. Yes.

1 Q. And in your opinion, is the granting of NM&O's
2 Application in the interests of conservation and the
3 prevention of waste?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, at this time I'd tender
6 the admission of NM&O Exhibits 1 through 9.

7 EXAMINER CATANACH: Exhibits 1 through 9 will be
8 admitted as evidence.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Sweet, has this well already been
12 recompleted?

13 A. Yes.

14 Q. When was that done?

15 A. It was recompleted in 1991, late 1991.

16 Q. And how did this situation come about with this
17 case, actually? How did it come about?

18 A. The BLM -- We file our communitization agreements
19 with the BLM, and Prime Energy showed up as record title
20 owner, as well as Hooper, Kimball and Williams, and they
21 said we needed to pool those interests to get that
22 approved.

23 Q. Well, when was that communitization agreement
24 filed?

25 A. I don't recall. It's been some time ago.

1 Q. Was it around the time when the well was
2 recompleted?

3 A. I believe so, maybe shortly thereafter.

4 Q. And you just now got a letter or communication
5 from BLM saying that you didn't have all the interests
6 consolidated?

7 A. It's been probably over a year ago, yes.

8 MR. CARROLL: And what is Prime Energy's
9 interest, again?

10 THE WITNESS: They have no -- They're record
11 title owner, but they have no operating rights in the
12 property.

13 MR. BRUCE: In the southwest of the southwest.

14 THE WITNESS: Right, I'm sorry. That's actually
15 Tract 2.

16 MR. CARROLL: Well, we show what? Neuman and
17 Noseco?

18 THE WITNESS: Right.

19 MR. CARROLL: So out of which interest -- Where
20 does Prime fit in?

21 THE WITNESS: They're record title owner. They
22 have zero interest in the well, but they're still shown as
23 record title owner with the BLM, and those interests were
24 acquired from Prime Energy years ago, but the forms that
25 were filed were transfer of operating rights with the BLM,

1 and they're the incorrect form. It should have been the
2 form of transfer of record title ownership.

3 Q. (By Examiner Catanach) So we're trying to
4 force -- we're trying to pool an interest that has no
5 interest in this unit?

6 A. Correct.

7 Q. An owner that has no interest in this unit?

8 A. The record ti- -- That's correct.

9 Q. And actually -- But Hooper, Kimball and Williams,
10 in fact, does have an interest?

11 A. They have an override. They farmed out their
12 interest to E. Alex Phillips. I don't recall the date.

13 MR. BRUCE: 1980s.

14 THE WITNESS: 1980s. And they have an override
15 in that lease, and -- But again, with the BLM they're shown
16 as record title owner, even though they have executed
17 farmout. And they do have an override in the Mesaverde.

18 MR. BRUCE: This is an odd case, Mr. Examiner,
19 but the BLM -- I mean, I have recently, within the last
20 year, had to get the signatures of a couple of record title
21 owners for a communitization agreement, even though they
22 own no working interest in the specific zone that was being
23 communitized. Fortunately, they signed voluntarily. It
24 was Amoco Production Company.

25 EXAMINER CATANACH: So the BLM won't approve the

1 Com agreement until everybody's accounted for?

2 MR. BRUCE: That's correct. Now, in this case it
3 wasn't that critical to do it, because these leases are
4 HBP. In other instances, you know, where you have an
5 expiring lease, it can be -- there can be trouble.

6 And the reason -- Well, I'll, if I could, ask a
7 question of Mr. Sweet, why this is coming to a head now.
8 Do you have plans for this well?

9 THE WITNESS: Yes, we're -- It's been shut in
10 several years because of -- I believe in early 1994, low
11 gas prices. And the well makes water, quite a bit of
12 water. So the disposal costs rendered the production of
13 the well uneconomic.

14 But we do plan to convert one of our wells to
15 disposal and have approval to do that, probably starting in
16 September. Once that work is complete, we would plan to
17 resume production operations from this well.

18 MR. CARROLL: So this acreage is held by
19 production by what wells?

20 MR. BRUCE: Mr. Sweet might be able to tell you.
21 I do know I've looked at a number, like looking at this
22 Tract 3, that lease covers hundreds of additional acres,
23 other than that. So does the Tract 2 and Tract 4. I'm not
24 sure of the other leases, but there are -- You know, this
25 is in the Lindrith area. There are numerous wells out

1 there, from -- completed in several different zones from
2 the Fruitland Coal on down to the Dakota.

3 EXAMINER CATANACH: Mr. Bruce, is this the only
4 possible solution to this dilemma? I mean, can't --

5 MR. BRUCE: I mean, I can write to the BLM one
6 last time, but I know it's in the -- I'll give you the
7 regulations and the federal regulations. I believe it's
8 stated that the -- I'll look those up, Mr. Examiner.

9 MR. CARROLL: Yeah, if you could send us a copy
10 of that letter, we might follow up with a letter of our own
11 to the BLM just, you know, asking them if --

12 MR. BRUCE: I'll send one to them this week, but
13 I'll also send you copies of the pertinent regulation,
14 which require everyone to sign.

15 EXAMINER CATANACH: Okay, is there anything else?

16 MR. BRUCE: No, sir.

17 EXAMINER CATANACH: There being nothing else in
18 this case, Case 11,751 will be taken under advisement.

19 (Thereupon, these proceedings were concluded at
20 8:42 a.m.)

21 * * *

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 11751,
25 heard by me on August 7 1982.

David Catanach, Examiner
Oil Conservation Division

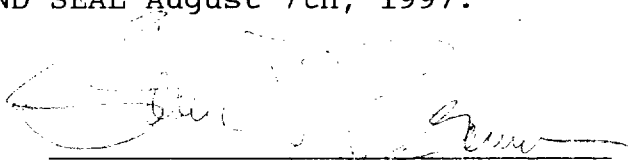
CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL August 7th, 1997.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

CASE 11751

APPLICATION

of

NM&O OPERATING COMPANY

for

COMPULSORY POOLING

S/2 Section 26-T25N-R2W

Rio Arriba County, New Mexico

August 7, 1997

EXHIBIT LIST

- Exhibit 1 - APPLICATION
- Exhibit 2 - Plat of Communitized Area
- Exhibit 3 - Correspondence to Hooper, Kimbal, & Williams
dated March 6 and June 24, 1997
- Exhibit 4 - Correspondence to Prime Energy Corporation
dated February 26 and March 14, 1997
- Exhibit 5 - Authority for Expenditure
- Exhibit 6 - Structure map on Top Menefee
- Exhibit 7 - Legend
- Exhibit 8 - Accounting Procedure Joint Operations

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF NM&O OPERATING
COMPANY FOR COMPULSORY POOLING,
RIO ARriba COUNTY, NEW MEXICO.

CASE NO. _____

APPLICATION

NM&O Operating Company hereby applies for an order pooling all mineral interests in the Mesaverde formation underlying the S¼ of Section 26, Township 25 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico, and in support thereof, states:

1. Applicant is a working interest owner in the S¼ of said Section 26, and has the right to drill and operate a well thereon.

2. Applicant has re-completed its Gavilan Well No. 2, located at an orthodox location 1827 feet from the South line and 1846 feet from the East line of the section, in the Mesaverde formation (Undesignated Blanco-Mesaverde Gas Pool), and seeks to dedicate the S¼ of Section 26 thereto.

3. Applicant has in good faith sought the voluntary joinder of all other mineral interest owners in the S¼ of Section 26 for the purposes set forth herein.

4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the recompletion of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests. Therefore, Applicant seeks an order pooling all mineral interest owners in the S¼ of Section 26, as to the Mesaverde formation, pursuant to N.M. Stat. Ann. § 70-2-17 (1995 Repl. Pam.).

5. The pooling of all interests in the Mesaverde formation underlying the S¼ of Section 26 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, Applicant requests that, after notice and hearing, the Division enter its order:

- (a) Pooling all mineral interests in the Mesaverde formation underlying the S¼ of Section 26;
- (b) Designating applicant as operator of the well;
- (c) Considering the cost of recompleting the well, and allocating the cost thereof among the well's working interest owners;
- (d) Approving actual operating charges and costs charged for supervision, together with a provision adjusting said rates per the COPAS accounting procedure;
- (e) Setting a penalty for the risk involved in recompleting the well in the event a working interest owner elects not to participate in the well; and
- (f) Granting such further relief as the Commission deems proper.

Respectfully submitted,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for NM&O Operating Company

EXHIBIT 2

Plat of Communitized Area covering the South Half (S/2)
of Section 26, Township 25 North, Range 2 West,
Rio Arriba Co., New Mexico

..

Tract #1	Tract #3	Tract #4	Tract #5
<p>NM's Operating Co. 33.51375%</p> <p>Dugan Production Corp. 16.40625%</p> <p>Lloyd J. Ingram, Jr. et al</p>	<p>Mesa Grande, Ucl. 71.25%</p> <p>Arriba Company, Ucl. 3.75%</p> <p>Dugan Production Corp. 25%</p>		<p>Mountain States Natural Gas - 50%</p> <p>Christopher Phillips. 12.5%</p> <p>Ramona Sweet Trust 12.5%</p> <p>Duer Wagner, Jr 23.28%</p> <p>Duer Wagner III 1.75%</p> <p>NM 03742</p>
<p>Tract #2</p> <p>Neuman Family Tr. 50%</p> <p>Asesco Corp. 50%</p> <p>SF 079332</p>	<p>NM 01385</p>	<p>Clark & Outman 2.11587%</p> <p>Dugan Production Corp. 33.33334%</p> <p>IBEX Partnership, Ucl. 15.60873%</p> <p>States, Inc. (P.C. Ucl.) 15.60873%</p> <p>Hooper, Kimball, Williams 33.33333%</p> <p>SF 081296</p>	

NM&O OPERATING COMPANY

6 EAST FIFTH, SUITE 200
TULSA, OKLAHOMA 74103
(918)584-3802

March 6, 1997

Mr. Greg Owens
Hooper, Kimball & Williams
P. O. Box 52147
Tulsa, OK 74152

RE: Gavilan #2
Rio Arriba County, NM

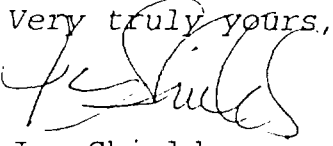
Dear Greg:

Currently the Bureau of Land Management's records reflect that Hooper, Kimball & Williams owns a 33.333% leasehold in the W/2 SE/4 and SE/4 SE/4 of Section 26-T25N-R2W. Our records reflect that this interest had been farmed out and the BLM has not received Transfer of Record Title Assignments.

Therefore, please execute the enclosed (4) copies of the Communitization Agreement on behalf of Hooper, Kimball & Williams. If additional transfers are required I will be happy to help prepare them.

If you should have any questions please give me a call.

Very truly yours,


Jan Shields
Land Manager

JS/pa

Enclosures

NM&O OPERATING COMPANY

6 EAST FIFTH, SUITE 200
TULSA, OKLAHOMA 74103
(918)584-3802

June 24, 1997

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Mr. Greg Owens
Hooper, Kimball & Williams
P.O. Box 52147
Tulsa, OK 74152


RE: Gavilan #2 Well
Rio Arriba County, New Mexico

Dear Greg:

NM&O Operating Company has filed an Application for Compulsory Pooling at the New Mexico Oil Conservation Division, requesting the Division to pool the Mesaverde formation (Blanco-Mesaverde Gas Pool) underlying the S/2 of Section 26, Township 25 North, Range 2 West, Rio Arriba County, New Mexico (Gavilan Well No. 2). This Application will be heard at 8:15 a.m. Thursday, July 24, 1997 at the Division's office at 2040 South Pacheco Street, Santa Fe, New Mexico 87505. As an interest owner in the well unit, you have the right to appear at the hearing and participate in the case. Failure to appear at the hearing will preclude you from contesting this matter at a later date.

Enclosed is a copy of the Application for your files and handling. Please call or write if you have any questions concerning this matter.

Very truly yours,


Larry D. Sweet
President

LDS/ht
enclosure

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.	
1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address. (Extra charge)	2. <input type="checkbox"/> Restricted Delivery (Extra charge)
3. Article Addressed to: MR. Greg Owens Hooper, Kimball & Williams P.O. Box 52147 Tulsa, OK 74152	
4. Article Number A-786-415-592	
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input checked="" type="checkbox"/> Return Receipt for Merchandise	
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent Tom Rowbottom	
7. Date of Delivery 7-1	

NM&O OPERATING COMPANY

6 EAST FIFTH, SUITE 200
TULSA, OKLAHOMA 74103
(918)584-3802

February 26, 1997

Prime Energy Corp.
P. O. Box 160206
San Antonio, TX 78280-2406

RE: Gavilan #2
S/2 Sec. 26-T25N-R2W
Rio Arriba County, NM

Dear Ladies/Gentlemen:

Enclosed is a Communitization Agreement covering the above captioned unit. Due to the fact that your Assignment was limited to operating rights the Bureau of Land Management's records reflect that you still are listed as the record title owner.

The rules for Communitization Agreements states that all record title owners must execute the agreement. Enclosed are four (4) signature pages to be executed before a Notary Public. Please return to the above address. Keep the Communitization Agreement for your files.

Should you have any questions please feel free to give me a call. Thank you for your time and consideration concerning this matter.

Very truly yours,




Jan Shields
Land Manager

JS/pa

Enclosures

PS Form 3800, June 1990

Prime Energy Corp.	
P.O. Box 160206	
San Antonio, TX 78280	
Postage	\$
Certified Fee	1.10
Special Delivery Fee	
Registered Delivery Fee	
Post Office Box No.	
City, State & Zip	
Return Receipt (Selling to Whom)	1.10
Date & Address of Delivery	
Total Postage	\$
Signature of Date	2/26/97

 Certified Mail Receipt
No Insurance Coverage Provided
Do not use for International Mail
(See Reverse)

P 785 425 575

M&B OPERATING COMPANY
6 EAST FIFTH, STE. 200
TULSA, OK 74103

1997

TULSA OK FIRST CLASS MAIL

26

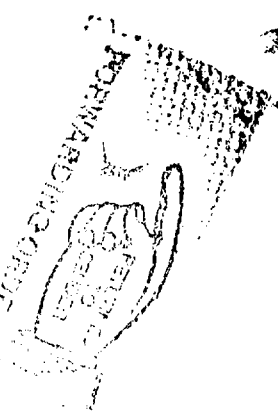
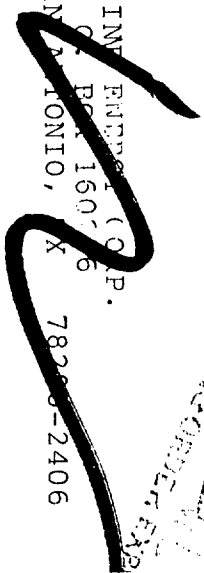
199

Unclaimed Return
Address Unknown
Forwarding Expired
Let's no forwarding
Postage Due



RETURN RECEIPT
REQUESTED

PRINTED AT THE POST OFFICE
P. O. BOX 16076
SAN ANTONIO, TX 78216-2406



Fold at line over top of envelope to
join to the return address

CERTIFIED

P 726 415 575

MAIL

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

SUITE B
612 OLD SANTA FE TRAIL
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

March 14, 1997

CERTIFIED MAIL
RETURN RECEIPT REQUESTED


Prime Energy Corp.
P.O. Box 160206
San Antonio, Texas 78280-2406

Robert Blair
Mountain States Natural Gas Corp.
P.O. Box 35426
Tulsa, Oklahoma 74153

Dear Sirs:

NM&O Operating Company has filed an application for compulsory pooling at the New Mexico Oil Conservation Division, requesting the Division to pool the Mesaverde formation (Blanco-Mesaverde Gas Pool) underlying the S $\frac{1}{4}$ of Section 26, Township 25 North, Range 2 West, Rio Arriba County, New Mexico (Gavilan Well No. 2). This application will be heard at 8:15 a.m. on Thursday, April 3, 1997 at the Division's office at 2040 South Pacheco Street, Santa Fe, New Mexico 87505. As an interest owner in the well unit, you have the right to appear at the hearing and participate in the case. Failure to appear at the hearing will preclude you from contesting this matter at a later date.

Very truly yours,



James Bruce
Attorney for NM&O
Operating Company

AUTHORITY FOR EXPENDITURE

EXHIBIT 5

Gavilan Federal #2

Section 26-T25N-R2W

Purpose: To Plug and abandon the Dakota, Graneros, Greenhorn interval.
To temporarily abandon the Gallup. To complete and test the
lower Mesa Verde in two phases.

This work is anticipated to begin between May 15, 1989 and June 1, 1989.

STAGE 1

1. Rig 5 days @ \$1,600	\$ 8,000.00
2. Rentals - 10 frac tanks, 7" bridge plug	5,750.00
3. Water for acid and/or frac (includes purchase)	6,000.00
4. Perforating and post frac gamma-ray	9,000.00
5. Frac job and acid job	48,000.00
6. Cement to P & A Dakota	1,000.00
7. Supervision 10 days @ \$400	4,000.00
8. Radioactive marker for frac	3,500.00
9. Overhead 1/2 month @ \$3,500	1,750.00
Sub total	<u>\$ 87,000.00</u>
10. Contingencies 5%	4,350.00

Total Stage 1

\$ 91,350.00

STAGE 2

1. Rig 6 days @ \$1,600	\$ 9,600.00
2. Rentals - 10 frac tanks, 7" bridge plug, csg. scraper, drill collars. Hydrostatic bailer, 6 1/4" bit.	8,400.00
3. Water for acid and or frac job (includes purchase)	4,000.00
4. Gamma-ray, perforating, post frac log, and sq. hole	10,200.00
5. Frac job and acid job	52,000.00
6. Cement for squeeze	1,500.00
7. Supervision 10 days @ \$400	4,000.00
8. Radioactive marker	3,500.00
9. Overhead 3/4 of month @ \$3,500	2,625.00
Sub total	<u>\$ 95,825.00</u>
10. Contingencies 7%	6,708.00

Total Stage 2

\$102,533.00

Total Stage 1

91,350.00

Total Stage 2

\$102,533.00

\$193,883.00

*CREDIT - Prod. Equipment

(20,000.00)

Net Total

\$173,883.00

*Providing that this interval doesn't require artificial lift the pumping unit, rods and pump will all be credited to the Joint Interest Owners.

Prepared and submitted by: Christopher L. Puller 4-7-89
Date

Owner NM&O Operating Company

Working Interest .39068 %

Approved by: [Signature]

Date 4-7-89

T
25
N

STRUCTURE ON TOP MENEFEE
Contour Interval = 20'

EXHIBIT 7 — EXPLANATION —

WELL STATUS

☼ - GAS WELL	T - TEMPORARILY ABANDONED
● - OIL WELL	A - PERMANENTLY ABANDONED
⊘ - TEST TEMPORARILY ABANDONED	D - DISCONNECTED
⊗ - INJECTION WELL	S - SHUT IN
⊙ - TEST DRY & ABANDONED	U - UNREPORTED
⊕ - PRODUCER NOW PLUGGED & ABANDONED	I - INPUT WELL
○ - WELL DRILLED WO INFO.	X - INTENT TO ABANDON
	NP - NO PRODUCTION SHOWN

PRODUCING INTERVAL

K _{fm} ☼	FARMINGTON	K _{fm}	
K _k ☼	KIRTLAND	K _k	
☼	FRUITLAND	K _f	
☼	PICTURED CLIFFS	K _{pc}	
☼	CHACRA	K _c	
☼	LA VENTANA	K _{lv}	
☼	MESAVERDE	K _{mv}	<div style="display: inline-block; vertical-align: middle;"> <div style="display: inline-block; vertical-align: middle;"> <div style="display: inline-block; vertical-align: middle;">K_{ch} CLIFFHOUSE</div> <div style="display: inline-block; vertical-align: middle;">K_m MENEFEE</div> <div style="display: inline-block; vertical-align: middle;">K_{pl} POINT LOOKOUT</div> </div> </div>
☼	GALLUP	K _{gl}	
☼	DAKOTA	K _d	
☼	ALL PRODUCTION BELOW CRETACEOUS		<div style="display: inline-block; vertical-align: middle;"> <div style="display: inline-block; vertical-align: middle;">K_t TOCITO</div> <div style="display: inline-block; vertical-align: middle;">K_{gh} GREENHORN</div> </div>
		J _e	- ENTRADA
		P _p	- PARADOX
		P _{bc}	- BARKER CREEK
		M _l	- LEADVILLE

WELL HISTORY

2	☼	- PICTURED CLIFFS COMPLETED IN 1981
NP-'81		NO PRODUCTION SHOWN
7	☼	- FRUITLAND & PICTURED CLIFFS PRODUCER
K _f		
K _{pc}		
1A	☼	- PICTURED CLIFFS DISCONNECTED & MESAVERDE PRODUCER
K _{pc-D}		
K _{mv}		
3	☼	- GALLUP & DAKOTA PRODUCER
K _{gl}		ENTRADA TEST DRILLED DRY & ABANDONED IN 1981
K _d		
J _e D.A.'81		
8	☼	- GALLUP PRODUCER - PLUGGED & ABANDONED IN 1979
PA.-'79		
1	☼	- DAKOTA TEST DRILLED DRY & ABANDONED IN 1984
K _d D.A.'84		

EXHIBIT 8

Attached to and made a part of Operating Agreement dated
November 9, 1983, by and between E. ALEX PHILLIPS, as Operator,
and WARREN CLARK TRUST, ET AL, as Non-Operator

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-Operators.

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%).

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 Parties, except as provided in Section I, Paragraph 3.

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:

- (XX) 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 (XX) 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 \$ 3,147.00
Producing Well Rate \$ 485.00

- (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 the rates currently in use, plus or minus the computed adjustment.

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 \$ 25,000.00 :

A. _____ 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00; plus

B. _____ 2 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus

C. _____ 1 % 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, if Material was originally charged to the Joint Account as new Material, or

- (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.

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF NM&O OPERATING
COMPANY FOR COMPULSORY POOLING,
RIO ARriba COUNTY, NEW MEXICO.

Case No. 11751

AFFIDAVIT REGARDING NOTICE

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

James Bruce, being duly sworn upon his oath, deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters set forth herein.

2. I am an attorney for Applicant.

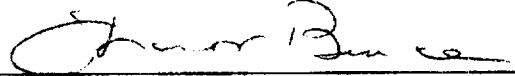
3. Applicant has conducted a good faith, diligent effort to find the names and correct addresses of the interest owners entitled to receive notice of the Application filed herein.

4. Notice of the Application was provided to the interest owners at their correct addresses by mailing each of them, by certified mail, a copy of the Application and notice of the hearing date. Copies of the notice letters and certified return receipts are attached hereto as Exhibit A.

5. Applicant has complied with the notice provisions of Division Rule 1207.


James Bruce

SUBSCRIBED AND SWORN TO before me this 6th day of August, 1997, by James Bruce.


Notary Public

My Commission Expires:

3/14/2001

NEW MEXICO
OIL CONSERVATION DIVISION

NM+O EXHIBIT 9

CASE NO. 11751

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1066
SANTA FE, NEW MEXICO 87504

SUITE B
612 OLD SANTA FE TRAIL
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

March 14, 1997

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Prime Energy Corp.
P.O. Box 160206
San Antonio, Texas 78280-2406

Robert Blair
Mountain States Natural Gas Corp.
P.O. Box 35426
Tulsa, Oklahoma 74153

Dear Sirs:

NM&O Operating Company has filed an application for compulsory pooling at the New Mexico Oil Conservation Division, requesting the Division to pool the Mesaverde formation (Blanco-Mesaverde Gas Pool) underlying the S $\frac{1}{4}$ of Section 26, Township 25 North, Range 2 West, Rio Arriba County, New Mexico (Gavilan Well No. 2). This application will be heard at 8:15 a.m. on Thursday, April 3, 1997 at the Division's office at 2040 South Pacheco Street, Santa Fe, New Mexico 87505. As an interest owner in the well unit, you have the right to appear at the hearing and participate in the case. Failure to appear at the hearing will preclude you from contesting this matter at a later date.

Very truly yours,


James Bruce

Attorney for NM&O
Operating Company



P 551 049 329

US Postal Service
Receipt for Certified Mail
 No Insurance Coverage Provided.
 Do not use for International Mail (See reverse)

Sent to Mountain States Nat. Gas	
Robert Blair	
Street & Number	
P. O. Box 35426	
Post Office, State, & ZIP Code	
Tulsa, OK 74153	
Postage	\$.32
Certified Fee	1.10
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	1.10
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$ 2.52
Postmark or Date	

PS Form 3800, April 1995



P 551 049 331

US Postal Service
Receipt for Certified Mail
 No Insurance Coverage Provided.
 Do not use for International Mail (See reverse)

Sent to Prime Energy Corp.	
Street & Number	
P. O. Box 160206	
Post Office, State, & ZIP Code	
San Antonio, TX 78280-2406	
Postage	\$.32
Certified Fee	1.10
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	1.10
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$ 2.52
Postmark or Date	

PS Form 3800, April 1995



Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/ or additional services.
- Complete items 3, 4a, b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Robert Blair
Mountain States Natural Gas Corp
P. O. Box 35426
Tulsa OK 74153

4a. Article Number

P 551 049 329

4b. Service Type

- | | |
|--|---|
| <input type="checkbox"/> Registered | <input checked="" type="checkbox"/> Certified |
| <input type="checkbox"/> Express Mail | <input type="checkbox"/> Insured |
| <input checked="" type="checkbox"/> Return Receipt for Merchandise | <input type="checkbox"/> COD |

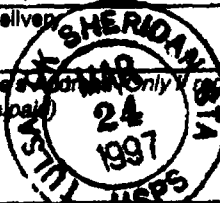
7. Date of Delivery

5. Received By: (Print Name)

8. Addressee's Address (Only if requested and fee is paid)

6. Signature: (Addressee or Agent)

X [Signature]



Thank you for using Return Receipt Service.

PS Form 3811, December 1994

Domestic Return Receipt

JAMES BRUCE
ATTORNEY AT LAW
POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

1ST NOTICE
2ND NOTICE
3RD NOTICE

MAR 26 1987

RETURNED TO SENDER
FORWARDING ORDER EXPIRED

RETURN RECEIPT
REQUESTED

Prime Energy Corp
P. O. Box 180206
San Antonio, Texas 78280-2406

CERTIFIED

9 551 049 331

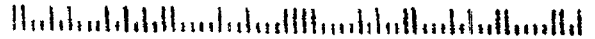
MAIL



1st Notice ... 3/17/87
2nd Notice
Final Notice



7504/1036 26



NM&O OPERATING COMPANY

6 EAST FIFTH, SUITE 200
TULSA, OKLAHOMA 74103
(918)584-3802

June 24, 1997

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Mr. Greg Owens
Hooper, Kimball & Williams
P.O. Box 52147
Tulsa, OK 74152

RE: Cavilan #2 Well
Rio Arriba County, New Mexico

Dear Greg:

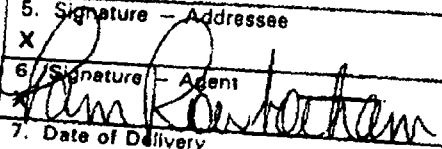
NM&O Operating Company has filed an Application for Compulsory Pooling at the New Mexico Oil Conservation Division, requesting the Division to pool the Mesaverde formation (Blanco-Mesaverde Gas Pool) underlying the S/2 of Section 26, Township 25 North, Range 2 West, Rio Arriba County, New Mexico (Gavilan Well No. 2). This Application will be heard at 8:15 a.m. Thursday, July 24, 1997 at the Division's office at 2040 South Pacheco Street, Santa Fe, New Mexico 87505. As an interest owner in the well unit, you have the right to appear at the hearing and participate in the case. Failure to appear at the hearing will preclude you from contesting this matter at a later date.

Enclosed is a copy of the Application for your files and handling. Please call or write if you have any questions concerning this matter.

Very truly yours,


Larry D. Sweet
President

LDS/ht
enclosure

SENDER: Complete items 1 and 2 when additional services are desired, and complete item 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to on the date of delivery. For additional fees the following services are available. Consult postmaster for fee and check box(es) for additional service(s) requested.	
1. <input type="checkbox"/> Show to whom delivered, date, and addressee's address. (Extra charge)	2. <input type="checkbox"/> Restricted Delivery (Extra charge)
3. Article Addressed to: MR. GREG OWENS Hooper, Kimball & Williams P.O. Box 52147 Tulsa, OK 74152	
4. Article Number P-786-415-592	
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input checked="" type="checkbox"/> Return Receipt for Merchandise	
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee X	6. Signature - Agent * 
7. Date of Delivery 7-1	
8. Addressee's Address (ONLY if requested and fee paid)	