

New Mexico
OIL CONSERVATION COMMISSION



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P. O. BOX 671
SANTA FE, NEW MEXICO

September 7, 1953

Memo to Commission

Case No. 562 - The Application of John Kelly
for approval of a Unit Agreement, being the
SE/4 of Section 8, Township 19 South, Range
37 East.

RECOMMENDATION:

It is recommended that an Order be written approving this
Unit Agreement to be known as the Kelly Hughes Unit Agreement con-
taining 160 acres, more or less. The Unit Area being the SE/4 of
Section 8, Township 19 South, Range 37 East. The reason for the
unit being formed is in order to comply with Rule 104, Sections (a),
(b) and (i).

W. B. Macey

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UNIT AGREEMENT

THIS AGREEMENT made and entered into this 1st day of *June* 1953, by and between John M. Kelly of Roswell, New Mexico, hereinafter referred to as "Kelly", R. H. Huston of Hobbs, New Mexico, and A. N. Etz and M. W. Coll of Roswell, New Mexico

WITNESSETH:

WHEREAS, Kelly is the owner and holder of the oil and gas leasehold estate covering the E $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 8, Township 19 South, Range 37 East, N. M. P. M. Lea County, New Mexico, down to and including the depth of 3935 feet, which leasehold estate arises by virtue of the following described oil and gas leases:

1. Lease dated June 16, 1943 executed by H. P. Saunders, Jr., et al in favor of Cities Service Oil Company, recorded in Book 50, O&GL, Page 250.
2. Lease dated June 16, 1943, executed by H. S. Record in favor of Roy G. Barton, recorded in Book 48, O&GL, Page 403,

which leases were assigned to Kelly by an assignment executed by Cities Service Oil Company dated December 24, 1952, recorded in Book 107, Page 135 and confirmed by a correction assignment dated June 29, 1953, recorded in Book , Page , and,

WHEREAS, A. N. Etz and M. W. Coll are the owners of an undivided 1/3 interest and R. H. Huston is the owner of an undivided 2/3 interest in and to all of the oil, gas and other minerals in and under and that may be produced from the following described lands in Lea County, New Mexico, to-wit:

W $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 8, Township 19 South, Range 37 East,
N. M. P. M.,

said interest being unleased, and,

WHEREAS, in order to properly conserve the gas resources in and under the above described land, prevent waste and to secure the other benefits obtainable through unitization and cooperative operations, the parties hereto desire to unitize the above described oil and gas leases and mineral interests insofar as the same cover the land hereinafter described as the "unit area", and,

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by statute to approve this agreement and the conservation provisions hereof.

NOW THEREFORE, in consideration of the premises and the covenants herein contained, the parties hereto commit to this agreement their respective interests in the unit area and severally agree among themselves as follows:

1. UNIT AREA: The following described land is designated as the unit area:

SE $\frac{1}{4}$ of Section 8, Township 19 South, Range 37 East, N. M. P. M. Lea County, New Mexico, containing 160 acres, more or less, down to and including the depth of 3835 feet below the surface.

The unit is to be designated for identification purposes as "Kelly-Huston Unit".

2. UNITIZED SUBSTANCES: All gas and/or condensate produced from the formations down to and including the depth of 3835 feet from the surface, which includes all of the Queen formation, underlying the unit area is unitized under this agreement and called "unitized substances".

3. UNIT OPERATOR: John M. Kelly of Roswell, New Mexico is hereby designated as unit operator and shall have exclusive charge of the development and operation of the unit area. Nothing herein contained shall be construed to transfer title to any oil and gas lease or mineral interest, it being understood that the unit operator in such capacity shall exercise the right of the possession of the lessees and mineral interest owners of the unit area for the purposes herein specified only to a depth of 3835 feet, and that the unit

operator shall have no control over the gas produced from any zone below said depth.

4. WELL: Unit operator has heretofore drilled a gas well to a total depth of 3835 feet, which well is located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 8 and which was completed on May 8, 1953.

5. ALLOCATION OF PRODUCTION AND PAYMENT OF ROYALTY:

For the purpose of determining the payment of royalty due the lessors under the terms of the leases committed to this agreement all production of unitized substances from any part of the unit area shall be allocated to the respective leases covering said unit area in the proportion that the acreage interest of each lease within the unit area bears to the entire acreage interest of the unit area with the same effect as if that portion of the unitized substances so allocated to each lease was obtained from the wells drilled thereon. The royalties payable for said production allocated to each oil and gas lease comprising the unit area shall be computed and paid on the basis of the proportionate amount of the unitized substances allocated to the respective leases and in the manner provided for the payment of royalty described in each of the leases and all production of unitized substances obtained from any part of the unit area not covered by an existing lease shall be computed and paid upon the same basis; that is, the owners of such interest shall have allocated to them such percentage of the production based upon the percentage of their proportionate share in the unleased tract in proportion to the total number of acres in the unit area.

6. EFFECT OF DRILLING AND PRODUCTION: It is agreed that the drilling and completion of the well described above in the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 8, shall, for all purposes, be considered as the completion of a well on each tract included within the unit area and that the production of gas

and/or condensate from any part of the unit area shall be deemed to be production of such substances under the terms of each and all of the leases comprising the unit area.

7. LEASES AMENDED TO CONFORM: The terms and provisions of all oil and gas leases covering the unit area shall be, and the same hereby are, expressly modified and amended to the extent necessary to make the same conform to the provisions hereof but otherwise remain in full force and effect.

8. TERM: This agreement shall become effective as of the first day of June, 1953 and shall remain in force and effect during the life of the above mentioned leases and so long as gas is produced from the above described well, or from any other gas well in the unit area, producing from a depth down to and including 3835 feet below the surface.

9. EXECUTION AND COUNTERPARTS: Esther L. Kelly, wife of John M. Kelly; Leona Huston, wife of R. H. Huston; Lillian Hinkle Coll, wife of M. W. Coll and Bonnie Etz, wife of A. N. Etz join in the execution of this agreement to bind their community interest, if any, in the land covered under the provisions of this agreement.

This agreement may be executed in any number of counterparts, no one of which needs to be executed by all of the parties, or it may be ratified or consented to by separate instruments in writing specifically referring hereto, and shall be binding upon all those parties who have executed a counterpart, ratification or consent hereto, with the same force and effect as if all of such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

