

NOTICE OF PUBLICATION
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION
SANTA FE - NEW MEXICO

The State of New Mexico by its Oil Conservation Commission hereby gives notice pursuant to law and the Rules and Regulations of said Commission promulgated thereunder of the following public hearings to be held at 9 o'clock a. m. on October 15, 1953, at Mabry Hall, State Capitol, Santa Fe, New Mexico.

STATE OF NEW MEXICO TO:

All named parties and persons
having any right, title, interest
or claim in the following cases,
and notice to the public.

(Note: All land descriptions herein refer to the New Mexico Principal Meridian, whether or not so stated.)

CASE 595:

In the matter of the application of El Paso Natural Gas Company for compulsory unitization of the E/2 of Section 32, Township 31 North, Rge. 10 West, San Juan County, New Mexico; or, in the alternative, for approval of an unorthodox drilling unit of 240 acres, more or less, in the E/2 of said Section 32, Township 31 North, Range 10 West.

CASE 596:

In the matter of the application of El Paso Natural Gas Company for compulsory unitization of the E/2 of Section 32, Township 30 North, Range 8 West, San Juan County, New Mexico; or, in the alternative, for approval of an unorthodox drilling unit of 280 acres, more or less, in the E/2 of said Section 32, Township 30 North, Range 8 West.

GIVEN under the seal of the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, this 28th day of September, 1953.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

R. R. Spurrier,
Secretary

S E A L

Mr. A. S. Hopkins
P. O. Box 257
Cambridge 39, Mass.

*Sent registered
9-28-53*

The above notice represents proper legal advertisement as made in New Mexico publications in counties concerned as required by Rules and Regulations.

January 16, 1957

In reply refer to:
Unit Division

El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas

Re: Sunray State No. 1 Well
Communitization,
SE/4 NE/4 of Sec. 32-31N-10W
Ratification and Joinder

Attention: Mr. Joe W. Cherry
Area Landman
Lease Department

Gentlemen:

We are returning to you two approved copies of the above designated instrument and are forwarding one approved copy to the New Mexico Oil Conservation Commission for their files.

Very truly yours,

MURRAY E. MORGAN
Commissioner of Public Lands

MEM:MMR/m
enc: 2

cc: OCC-Santa Fe

RATIFICATION AND JOINDER OF COMMUNITIZATION AGREEMENT

Sunray State #1

WHEREAS under date of September 1, 1953, El Paso Natural Gas Company et al, entered into a Communitization Agreement and Operating Agreement covering the development of the Mesaverde formation for dry gas and associated liquid hydrocarbons in and under the following described tract of land in San Juan County, New Mexico, to-wit:

Township 31 North, Range 10 West, N.M.P.M.
Section 32: E/2
Containing 320.00 acres, more or less; and

WHEREAS the above mentioned Communitization Agreement was approved by the Commissioner of Public Lands of the State of New Mexico on October 16, 1953; and

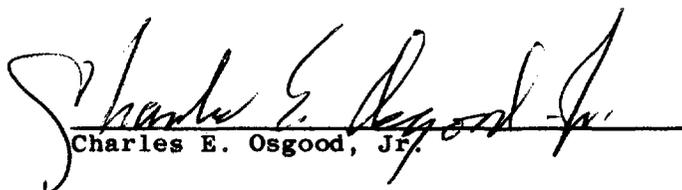
WHEREAS Charles E. Osgood, Jr., is the owner and holder of State of New Mexico Oil and Gas Lease Number OG-171 issued under date of September 18, 1956, to Claud E. Aikman as Lessee, described as follows, to-wit:

Township 31 North, Range 10 West, N.M.P.M.
Section 32: SE/4 NE/4
Containing 40.00 acres, more or less; and

WHEREAS the said Charles E. Osgood, Jr., desires to ratify, confirm, adopt and join said Communitization Agreement and Operating Agreement and subject his leasehold rights to the terms thereof;

NOW THEREFORE, Charles E. Osgood, Jr., does hereby ratify, adopt, confirm and join in said Communitization Agreement and Operating Agreement and does hereby subject his leasehold interest in State Oil and Gas Lease OG-171 to all the terms and conditions of said Communitization Agreement and Operating Agreement, in the same manner and with the same results as if he had originally executed said Agreements.

EXECUTED this 14th day of December, 1956.


Charles E. Osgood, Jr.

Office of Commissioner of Public Lands
Santa Fe, New Mexico

I hereby certify that the foregoing Ratification and Joinder was filed in my office on the 16th day of January, 1957, and consented to and approved by me on this 16th day of January, 1957.

W. Morgan
Commissioner of Public Lands

STATE OF TEXAS
COUNTY OF POTTER

On this 14th day of December, 1956, before me appeared Charles E. Osgood, Jr., to me known to be the person described in and who executed the foregoing instrument, and acknowledged to me he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My Commission expires:
6-1-57

Bonnie Isaacs
Notary Public, County of _____
Potter
State of Texas

OIL CONSERVATION COMMISSION
P. O. BOX 871
SANTA FE, NEW MEXICO

December 21, 1953

El Paso Natural Gas Company
Attention: Mr. Ben Howell, Attorney
Bassett Tower
EL PASO TEXAS

Gentlemen:

RE: OCC Case 595

We enclose signed copy of Order R-396 entered by the Commission on December 17, 1953, in the above case.

Very truly yours,

W. B. Macey
Chief Engineer

WBM:nr

cc: Mr. A. S. Hopkins
P. O. Box 257
Cambridge, Mass.

Mr. Chas. W. Shaffer
410 West Palmer Street
Glendale, California

C
O
P
Y

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

January 21, 1955

Greenbrier Oil Company
327 South Adams
FORT WORTH, TEXAS

Gentlemen:

As you requested, we are sending you basic information and material in three fairly representative cases brought before this Commission on the issue of compulsory communitization. The material includes the following:

Case 566: Application;
transcript of August 20, 1953, hearing;
copy of Order R-357.

Case 595: Application;
transcript of October 15, 1953, hearing;
copy of Order R-396.

Case 596: Application;
transcript of October 15, 1953, hearing;
copy of Order R-398.

I will greatly appreciate your returning this when you have completed your study, as these documents are from our permanent files.

Very truly yours,

W. B. MACEY
Secretary-Director

WBM:nr

Encl.

C
O
P
Y

El Paso Natural Gas Company
El Paso, Texas

Case # 571
10/10/55
10/10/55
10/10/55

May 4, 1955

Mr. W. B. Macy
Oil Conservation Commission
of the State of New Mexico
Capitol Annex Building
Santa Fe, New Mexico

Re: Sunray State #1
Case #595
Order # R-396

Dear Mr. Macy:

In accordance with Order # R-396 entered in the above captioned case, please find enclosed a copy of the Operating Agreement covering the above captioned well. This Agreement has been executed by all parties except A. S. Hopkins, whose interest was forcibly pooled as a result of the order above referred to.

Very truly yours,

T. W. Bittick

T. W. Bittick
Area Landman
Lease Department

TWB:pb
Encl.
NM 1128
NM 4029

OPERATING AGREEMENT
Sunray State #1

THIS AGREEMENT, made and entered into this 1st day of September, 1953, by and between EL PASO NATURAL GAS COMPANY, a Delaware corporation, whose address is P. O. Box 1492, El Paso, Texas, hereinafter sometimes referred to as "Operator"; BROOKHAVEN OIL COMPANY, a corporation, whose address is First National Bank Building, Albuquerque, New Mexico; EDWARD EVENSEN and wife, HARRIET EVENSEN, whose address is 739 Haight Street, San Francisco 17, California; A. S. HOPKINS, whose address is P. O. Box 257, Cambridge 29, Massachusetts; and CHARLES W. SHAFFER, whose address is 410 West Palmer Street, Glendale, California, hereinafter sometimes referred to as "Non-Operators":

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of certain Oil and Gas Leases, which leases cover, among other lands, the following described land in San Juan County, New Mexico, to wit:

Township 31 North, Range 10 West, N.M.P.M.
Section 32: E/2
containing 320.00 acres, more or less; and

WHEREAS, it is the desire of the parties hereto to enter into an Operating Agreement covering the development and operation of the above described tract as hereinafter set out:

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter contained to be kept and performed by the parties hereto, said parties do hereby agree as follows:

1. FORMATION OF THE UNIT

For the purposes hereof, it is agreed that the aforementioned leases, insofar as they apply to the above described lands, are hereby pooled and communitized to form a unit covering only the Mesaverde Formation in and under the land described above. It being the intention of the parties hereto in forming said unit to pool and communitize all leases which they may now own or which they may hereafter acquire covering any interest in the communitized unit. Such unit is created by the Communitization Agreement bearing the same date as this Operating Agreement, executed by the owners of mineral interests in the land above described, with the exception of A. S. Hopkins, whose interest was pooled by order of the Oil Conservation Commission of the State of New Mexico.

2. OPERATOR

El Paso Natural Gas Company is hereby designated and shall act as Operator of such unit in accordance with the terms and provisions of this Agreement. Operator shall

have full and complete management of the development and operation of the said unit for dry gas and associated liquid hydrocarbons producible from the Mesaverde Formation as an entirety, but Operator agrees that no well shall be commenced upon the said unit, except the well hereinafter provided for, without the consent of Non-Operators.

El Paso Natural Gas Company may resign as Operator at any time by giving notice to each Non-Operator in writing sixty (60) days in advance of the effective date of such resignation and, in such event, the working interest owners of said unit shall immediately select a successor. In the event El Paso Natural Gas Company shall sell or otherwise dispose of all its interest in said unit, the right of operation herein conferred shall not run with the transfer or assignment of such interest or inure to the benefit of El Paso Natural Gas Company's Assignee, but Non-Operators and El Paso Natural Gas Company's Assignee shall immediately select a new Operator.

3. WELL

Operator shall commence or cause to be commenced drilling operations for the joint account of the parties hereto and shall thereafter drill said well to a depth sufficient to test the Mesaverde Formation, unless salt. caprock, cavities, heaving shale, abnormal water flow, or impenetrable substances are encountered in said well at a lesser depth. The parties hereto may also mutually agree to discontinue drilling operations at a lesser depth. Upon completion of said well, if it is a commercial well, Operator shall notify Non-Operators of the date said well is tied-in to a gas gathering system.

In the event a well capable of producing gas in paying quantities is shut-in, Operator shall immediately notify Non-Operators thereof; except that Operator shall not be required to notify the Non-Operators if the well should be shut-down for limited periods of time in order to balance production during peak load periods or for reasons of making mechanical repairs. All production obtained from the unit area and all material and equipment acquired hereunder for the joint account of the parties hereto shall be owned by the parties hereto in the proportions hereinafter specified in Article 4 of this Agreement.

4. COSTS AND EXPENSES

The entire costs and expenses involved in drilling, completing and operating said well, if said well is a commercial well, or in plugging and abandoning if said well is a dry hole or non-commercial well, shall be borne by the parties hereto, as follows:

El Paso Natural Gas Company-	-56.25%
Edward Evensen and wife-	-12.50%
A. S. Hopkins-	-12.50%
Charles W. Shaffer -	-12.50%
*Brookhaven Oil Company -	6.25%

*As between El Paso Natural Gas Company and Brookhaven Oil Company it is expressly agreed and understood that Brookhaven's share of the costs shall be advanced by El Paso and reimbursed by Brookhaven Oil Company in accordance with the terms and provisions of that certain Farmout Agreement dated November 27, 1951, as supplemented, between El Paso Natural Gas Company and Brookhaven Oil Company. In the event of a conflict between the terms of said Agreement and this Agreement then the terms of said Farmout Agreement shall govern.

Unless Operator elects to require any Non-Operator to advance its share of the costs and expenses, as hereinafter provided, Operator shall initially advance and pay all costs and expenses for the drilling of the well provided for in Article 3 hereof, as well as operation expenses of said unit, and shall charge each Non-Operator with its pro rata part thereof on the basis of its proportionate interest in the unit as set out above.

All such costs, expenses, credits and related matter, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A" and made a part hereof for all purposes; provided, however, that the Operator shall not apportion any part of the salaries and expenses of its District Superintendent, or other general district employees or of the district office expenses to the joint account as provided in paragraph 11 of Section II of said Exhibit "A", as attached hereto; and the monthly per well overhead rates set forth under paragraph 12 of Section II of said Exhibit "A", as attached hereto, shall be in lieu of any charges for any part of the compensation or salaries paid to Operator's District Superintendent and to other general district employees and shall be in lieu of any charges for district office expenses as well as Operator's division office and principal business office expenses and of any charge for field office and camp expenses, but shall not be in lieu of any charge for any part of the compensation, salaries, and related expenses of any of Operator's field crew and direct supervision of such crew directly engaged in the operation of Operator's wells in the area.

In the event of any conflict between the provisions contained in the body of this Agreement, and those contained in said Exhibit "A", the provisions of this Agreement shall govern to the extent of such conflict.

In the event that Operator elects to require any Non-Operator to advance its proportionate share of the above mentioned costs and expenses, Operator shall submit an

itemized estimate of such costs and expenses for the succeeding calendar month to such Non-Operator, showing therein the proportionate part of the estimated costs and expenses chargeable to such Non-Operator. Within fifteen (15) days after receipt of such estimate, such Non-Operator shall pay to the Operator its proportionate share of the estimated costs and expenses. If payment of the estimated costs and expenses is not made when due, the unpaid balance thereof shall bear interest at the rate of six per cent (6%) per annum from the due date until paid. Adjustments between estimated and actual costs and expenses shall be made by Operator at the close of each calendar month and the account of the respective parties adjusted accordingly.

The well to be drilled on the communitized unit shall be drilled on a competitive contract basis at the usual rates prevailing in the field. However, Operator, if it so desires, may employ its own tools and equipment; in such event the cost of drilling shall include, but shall not be limited to, the following charges: (a) all direct material and labor costs (b) a proportionate amount of applicable departmental overheads and undistributed field costs (c) rental charge on company equipment employed; all such charges to be determined in accordance with Operator's accounting practice, provided that, in no event shall the total of such charges exceed the prevailing rate in the field, and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

Operator shall make no single expenditure in excess of One Thousand Dollars (\$1,000.00) without first obtaining the consent thereto of Non-Operator. The approval of the drilling of the well provided for hereinabove, however, shall include all expenditures for the drilling, completing, testing and equipping such well.

5. RENTALS

Each party hereto agrees to pay all rentals and/or shut-in royalty which may become due under the lease or leases which such party is contributing to such unit hereunder, and Operator shall not have any obligation to pay any such rentals and/or shut-in royalty except as to the lease contributed by Operator. Each party further agrees to use its best efforts to keep and maintain in full force and effect the oil and gas lease(s) contributed by such party to said unit.

6. INSURANCE

Operator shall at all times while conducting operations hereunder, carry and require its contractors and their sub-contractors to carry insurance to protect and

save the parties hereto harmless, as follows:

- A. Workmen's Compensation and Employer's Liability Insurance sufficient to comply with the Workmen's Compensation Law for the State of New Mexico.
- B. Comprehensive General Public Liability Insurance with limits of not less than \$50,000 per person and \$100,000 per accident, and General Public Liability Property Damage with limits of not less than \$50,000 per accident.
- C. Automobile Public Liability Insurance including non-owned and hired automobile endorsement with limits of not less than \$50,000 per person and \$100,000 per accident, and Automobile Property Damage Insurance with a limit of not less than \$50,000 per accident.

All costs and actual expenditures incurred and paid by Operator in settlement of any or all losses, claims, damages and judgments which are not covered by such insurance and other expenses, including legal services connected therewith, shall be charged to the joint account. Provided that prior to settlement of any claims, damages, occurrences and/or judgments which are not covered by the above insurance and which are to be charged to the joint account, Operator shall have the concurrence of Non-Operators before any settlement is made.

7. DISPOSAL OF PRODUCTION

Each of the parties hereto shall own and have the right, at its own expense to take in kind or separately dispose of its proportionate part of all gas and associated liquid hydrocarbons produced and saved from the acreage covered hereby, exclusive of the production which may be used by Operator in developing and continuing operations on the said tract under the Communitization Agreement referred to in paragraph 1 above, and of production unavoidably lost, provided that each of the parties hereto shall pay or secure the payment of the royalty interests, overriding royalty interests, payments out of production and other similar interests, if any, from its proportionate part of said production. If at any time or times Non-Operator shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, Operator shall have the right, revocable by Non-Operator at will, to sell such part of such production at the same price which Operator received for its own portion of the production, or to take such gas for its own use for resale; should gas be delivered by either party during any period that such other party or parties have failed or refused to take or sell its or their gas, then the party receiving or taking delivery of the gas agrees to account to the other party or parties for its or their proportionate part of the gas so delivered, (1) if sold by the receiving party, at the market price at the wellhead for said gas, or at the price received at wellhead by such party, whichever is greater or, (2) if taken for its own use or transported for resale by the receiving party, at the highest price

it is paying others in the area at the wellhead for gas of similar quality and pressure or, (3) if no such purchases are being made by the receiving party, then at the market price at the wellhead. Any sales by Operator of Non-Operator's production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such sale be for a period in excess of one (1) year.

8. DURATION OF AGREEMENT

This Agreement shall become effective as of the date hereof upon execution by the parties hereto, notwithstanding the date of execution, and shall remain in full force and effect for a period of two (2) years and so long thereafter as dry gas and associated liquid hydrocarbons are produced from any part of said communitized unit in paying quantities, provided that prior to production in paying quantities from said communitized unit and upon fulfillment of all the requirements of the Oil Conservation Commission of the State of New Mexico, with respect to any dry hole or abandoned well, this Agreement may be terminated at any time by the mutual agreement of all the parties hereto.

9. ROYALTY INTERESTS

It is agreed and understood that the burden of any royalty, overriding royalties, payments out of production, carried working interests, net profit obligations or other similar payments, shall be borne and paid by the party owning the lease to which such interests apply.

10. TAXES

The Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this Agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws of the State of New Mexico, or which may be made subject to taxation under future laws, and shall pay for the benefit of the joint account all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill each Non-Operator for its proportionate share of such tax payments provided by the Accounting Procedure attached hereto as Exhibit "A".

11. RELATION OF PARTIES

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, it being the express purpose and intention of

the parties hereto that their ownership in said unit shall be as tenants in common; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or trust or as imposing upon any one or more of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for his or its obligations, as set out in this Agreement.

12. ACCESS TO PREMISES, LOGS AND REPORTS

Operator shall keep accurate logs of the well drilled on said unit, which logs shall be available at all reasonable times for inspection by any Non-Operator. Upon request by any Non-Operator, Operator shall furnish to such Non-Operator, a copy of said logs, samples of cores and cutting of formations encountered, and electrical surveys relative to the development and operation of said unit, together with any other information which may be reasonably requested pertaining to such well. Each Non-Operator shall have access to said unit and to all books and records pertaining to operations hereunder for the purpose of inspection at all reasonable times.

13. SURRENDER, EXPIRATION, ABANDONMENT OR RELEASE OF LEASE

No lease or leases subject to this Agreement shall be surrendered, let to expire, abandoned or released, in whole or in part, unless the parties mutually consent thereto in writing. In the event that less than all parties hereto should elect to surrender, let expire, abandon or release all or any part of a lease or leases subject to this Agreement and the other party or parties do not consent or agree, the party so electing shall notify the other party or parties not less than sixty (60) days in advance of such surrender, expiration, abandonment or release, and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party all of its rights, title and interest in and to said lease or leases, the well or wells located thereon, and the casing and other physical equipment in or on said well or wells. If the party or parties not so electing fail(s) to request assignment within such sixty (60) day period, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases, or any part thereof. In the event such assignment is so requested, the party or parties to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the salvable casing and other physical equipment in or on the unit. After the delivery of any such assignment, the party making the assignment shall be released from and discharged of all the duties and obligations thereafter accruing or arising hereunder,

in connection with the operation and development of the unit, with respect to the assigned lease or leases.

14. LOSS OR FAILURE OF TITLE

In the event of the loss or failure of the title, in whole or in part, of any party hereto, to any lease, the interest of such party in and to the production obtained from the unit shall be reduced in proportion to such loss or failure of title as of the date such loss or failure of title is finally determined; provided that such revision of ownership interest shall not be retroactive as to operating costs and expenses incurred or as to revenues or production obtained prior to such date; and provided further, that each party hereto whose title has been lost or has failed, as aforesaid, shall indemnify and hold the other parties hereto harmless from and against any and all loss, cost, damage and expense which may result from, or arise because of, the delivery to such party of production obtained hereunder or the payment of proceeds derived from the sale of any production, prior to the date loss or failure of title is finally determined.

15. ABANDONMENT OF WELL

No well on the unit which is capable of producing dry gas and associated liquid hydrocarbons from the formation covered by this Agreement shall be abandoned without the mutual consent of the parties hereto. If any of the parties desire to abandon such well, such party or parties shall so notify the other party or parties in writing and the latter shall have ten (10) days after receipt of such notice in which to elect whether to agree to such abandonment. If all parties hereto agree to such abandonment, such well shall be abandoned and plugged by the Operator at the expense of the joint account, and as much as possible of the casing and other physical equipment in and on said well shall be salvaged for the benefit of the joint account. If any party or parties do not agree to said abandonment, such party or parties shall purchase the interest(s) of the party or parties desiring to abandon said well in the physical equipment therein and thereon; and, within twenty-five (25) days after receipt of notice by the party or parties not electing to abandon, the party or parties desiring to abandon, shall execute and deliver to the other party or parties an assignment, without warranty of title, of all of its or their interest in said well and physical equipment, and in the working interest and gas leasehold estate, insofar as it covers the formation covered by this Agreement in said unit. In exchange for said assignment, the purchasing party or parties shall pay to the assigning party or parties the salvage value of the latter's interest in the salvable casing and other physical equipment in and on said well, such value to be determined

in accordance with the provisions of the Accounting Procedure attached hereto as Exhibit "A".

16. LAWS AND REGULATIONS

This Agreement shall be subject to all valid and applicable State and Federal laws, rules, regulations, and orders, and the operations conducted hereunder shall be performed in accordance with said laws, rules, regulations and orders. In the event this Agreement or any provisions hereof, is, or the operations contemplated hereby are found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this Agreement shall be regarded as modified accordingly, and as so modified, shall continue in full force and effect.

17. FORCE MAJEURE

No party to this Agreement shall be liable to any other party for any delay or default in performance under this Agreement due to any cause beyond its control and without its fault or negligence, including but not restricted to acts of God or the public enemy, acts or requests of the Federal or State Government or of any Federal or State officer purporting to act under duly constituted authority, floods, fires, wars, storms, strikes, interruption of transportation, freight embargoes or failures, exhaustion or unavailability or delays in delivery of any material, equipment or service necessary to the performance of any provisions hereof, or the loss of holes, blow-outs or happening of any unforeseen accident, misfortune or casualty whereby performance hereunder is delayed or prevented.

18. OPERATOR'S LIEN

Operator shall have an express contract lien, which is hereby granted, upon the interest of each Non-Operator in said unit, in the gas or other minerals produced from such unit and in the materials and equipment located thereon, to secure the payment by said Non-Operator of its proportionate part of the costs and expenses incurred or paid by Operator hereunder, and interest, if any, accrued on such part. Such lien may be enforced and foreclosed as any other contract lien. Moreover, Operator may to the full extent of any indebtedness owed by it to any Non-Operator, offset such debt against sums owing to Operator hereunder by such Non-Operator.

19. NOTICES

All notices, reports and other correspondence required or made necessary by the terms of this Agreement shall be deemed to have been properly served and addressed if sent by mail or telegram, as follows:

El Paso Natural Gas Company
Post Office Box 1492
El Paso, Texas

Mr. and Mrs. Edward Evensen
739 Haight Street
San Francisco 17, California

A. S. Hopkins
Post Office Box 257
Cambridge 29, Massachusetts

Mr. Charles W. Shaffer
410 West Palmer Street
Glendale, California

Brookhaven Oil Company
First National Bank Building
Albuquerque, New Mexico

20. HEIRS, SUCCESSORS AND ASSIGNS

All of the provisions of this Agreement shall extend to and be binding upon the parties hereto, their heirs, successors and assigns, and such provisions shall be deemed to be covenants running with the land covered hereby.

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

ATTEST:

A. C. Martell
Assistant Secretary

EL PASO NATURAL GAS COMPANY

By: A. F. Jew
Vice President

ATTEST:

Margaret H. Self
Assistant Secretary

BROOKHAVEN OIL COMPANY

By: Thos B Scott
President

Edward Evensen
Edward Evensen

Harriet Evensen
Harriet Evensen

A. S. Hopkins

Charles W. Shaffer
Charles W. Shaffer

STATE OF TEXAS)
)
COUNTY OF EL PASO)

On this 3rd day of May, 1955, before me appeared H. F. Steen, to me personally known, who, being by me duly sworn, did say that he is the Vice President of EL PASO NATURAL GAS COMPANY, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said H. F. Steen acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

MARTHA B. IVEY,
Notary Public, in and for El Paso County, Texas
My commission expires June 1, 1955

Martha B. Ivey
Notary Public, County of El Paso, State of Texas

STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO)

On this 25th day of April, 1955, before me appeared Chas. B. Scott, Jr., to me personally known, who, being by me duly sworn, did say that he is the President of BROOKHAVEN OIL COMPANY, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said Chas. B. Scott, Jr. acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

June 13, 1957

Evelyn L. Walking
Notary Public, County of Bernalillo, State of New Mexico

STATE OF CALIFORNIA)
)
COUNTY OF San Francisco)

On this 13th day of April, 1955, before me appeared Edward Evensen and wife, Harriet Evensen, to me known to be the persons described in and who executed the foregoing instrument, and acknowledged to me they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

12/25/56

Maxwell M. Bender
Notary Public, County of San Francisco
State of California

STATE OF MASSACHUSETTS)
)
COUNTY OF)

On this _____ day of _____, 1955, before me appeared A. S. Hopkins, to me known to be the person described in and who executed the foregoing instrument, and acknowledged to me he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

Notary Public, County of
State of Massachusetts

STATE OF CALIFORNIA)
)
COUNTY OF)

On this 26th day of March, 1955, before me appeared Charles W. Shaffer, a single man, to me known to be the person described in and who executed the foregoing instrument, and acknowledged to me he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

My Commission Expires Oct. 28, 1957

Charles J. Lechner
Notary Public, County of San Bernardino
State of California

1. Material Purchased by Operator

Material purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the material is removed from the joint property.

2. Material Purchased by Non-Operator

Material purchased by Non-Operator shall be invoiced by Operator and paid for by Non-Operator to Operator immediately following receipt of invoice. The Operator shall pass credit to the joint account and include the same in the monthly statement of operations.

3. Division in Kind

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

4. Sales to Outsiders

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

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

New material (Condition "A"), being new material procured for the joint account but never used thereon, at 100% of current new price.

3. Good Used Material

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

A. At 75% of current new price if material was charged to joint account as new, or

B. At 75% of current new price less depreciation consistent with their usage on and service to the joint property, if material was originally charged to the joint property as secondhand at 75% of new price.

4. Other Used Material

Used Material (Condition "C"), being used material which

A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

B. Is serviceable for original function but substantially not suitable for reconditioning, at 50% of current new price.

5. Bad-Order Material

Used material (Condition "D"), being material which cannot be classified as Condition "B" or Condition "C", shall be priced at a value commensurate with its use.

6. Junk

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

7. Temporarily Used Material

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

VI. INVENTORIES

1. Periodic Inventories

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

2. Notice

Notice of intention to take inventory shall be given by Operator at least ten days before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.

3. Failure to be Represented

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

4. Reconciliation of Inventory

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

5. Adjustment of Inventory

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

6. Special Inventories

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

Attached to and made a part of Operating Agreement dated September 1, 1953, covering the E/2 Section 32, Township 31 North, Range 10 West, N.M.P.M., San Juan County, New Mexico

**ACCOUNTING PROCEDURE
(UNIT AND JOINT LEASE OPERATIONS)**

I. GENERAL PROVISIONS

1. Definitions

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

The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account.

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

2. Statements and Billings

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

A. Statement in detail of all charges and credits to the joint account.

B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.

C. Statements, as follows:

- (1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;
- (2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
- (3) Statement of any other receipts and credits.

3. Payments by Non-Operator

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

4. Audits

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. DEVELOPMENT AND OPERATING CHARGES

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

1. Rentals and Royalties

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

2. Labor, Transportation, and Services

Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under Part (B) of this paragraph shall not exceed ~~five per cent (5%)~~ of the total of such labor charged to the joint account.

ten and one-half per cent (10 1/2%)

3. Material

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

4. Moving Material to Joint Property

Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other properties of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

Legal Notice OCC Hearing

Publication:

Date: OCT 15 1953

SF
Farmington

CASE 595 :

In the matter of the application of El Paso Natural Gas Company for compulsory unitization of E/2 Section 32, Township 31 North, Range 10 West, NMPM, San Juan County, New Mexico; or, in the alternative, for approval of an unorthodox drilling unit of 240 ^{more or less} acres, in the E/2 of said Section 32, Township 31 North, Range 10 West.

ILLEGIBLE

EL PASO NATURAL GAS COMPANY

REQUEST FOR MAIL REGISTRATION

From

To: *To* Mail Desk

From:

Lease Dept.

Date: *5-22-*, 1953

Re: *State of New Mexico*
Lease B-10567, E/2 Sec 32,
31-10

Please register the attached letter addressed to:

Mr. Charles W. Shaffer
410 West Palmer
Glendale, California

and return this memorandum after indicating the registration number.

REGISTER MAIL NO. *1706*

Deliver to Addressee Only
Show Address where Delivered 5/23/53

El Paso Natural Gas Company

I

REQUEST FOR MAIL REGISTRATION

YMN
To: Mail Desk
From: Lease Dept

Date: 6-9-1953

Re: State of New Mexico Lease
No. B-10567, 6/2 of Sec 32, T-31-N.
R-10-W

Please register the attached letter addressed to:

Mr. Charles W. Shaffer
410 Palmer
Glendale, California

Specimen

and return this memorandum after indicating the registration number.

REGISTER MAIL NO. 1902

Deliver to Addressee Only
Show Address Where Delivered

6/9/53

June 9, 1953

Mr. A. S. Hopkins
Post Office Box 257
Cambridge 39, Massachusetts

In Re: State of New Mexico Lease No. B-10735-5
E/2 of Section 32, Township 31 North
Range 10 West, N.M.P.M.

Dear Mr. Hopkins:

On May 25th we wrote you in regard to the above acreage. In view of the fact that we have not heard from you we thought perhaps such letter may have gone astray and we are now enclosing a copy of such letter.

We would appreciate hearing from you in regard to this matter.

Very truly yours,

Samuel Smith
Lease Department

SS:ha
Encl.

Air Mail - Special Delivery
Registered - Return Receipt
Requested - Deliver to Addressee
Only - Show Address where
Delivered

6

May 25, 1953

Mr. A. S. Hopkins
Post Office Box 257
Cambridge 39, Massachusetts

In Re: State of New Mexico Lease No. B-10735-5
E/2 of Section 32, Township 31 North,
Range 10 West, N.M.P.M.

Dear Mr. Hopkins:

Our records reflect that you are the owner of the SE/4 NE/4 of the above Section under State of New Mexico Lease No. B-10735-5. El Paso Natural Gas Company would like to drill a Mesa Verde gas well which would have dedicated to it the E/2 of said Section 32. In order to comply with the spacing requirement of the State of New Mexico, it is necessary that three hundred and twenty acres be dedicated to each Mesa Verde gas well.

We are anxious to commence the drilling of this well and would like to know if you would be willing to join with us in the drilling of this well and pay your proportionate part of the cost. The total cost would be approximately \$80,000, and your proportionate part would be \$10,000. The wells located in this area are estimated to have a long life productivity. However, the well would have to be in production several years before enough revenue from production would be had to pay the initial cost of the well.

If you would prefer not to join with us in the drilling of this well, we would like to purchase your lease from you. We make you an offer of \$40.00 per acre, such offer being subject to you furnishing us both State and County abstracts showing good title vested in you.

We trust that we may receive an early reply from you in regard to this matter.

Very truly yours,

Samuel Smith
Lease Department

SS:ha
Air Mail - Special Delivery

June 9, 1953

Mr. Charles W. Shaffer
410 West Palmer
Glendale, California

In Re: State of New Mexico Lease No. B-10567
E/2 of Section 32, Township 31 North,
Range 10 West, N.M.P.M.

Dear Mr. Shaffer:

On May 7th we wrote you in regard to the above acreage. In view of the fact that we have not heard from you we thought perhaps such letter may have gone astray, and we are now enclosing a copy of such letter.

We would appreciate hearing from you in regard to this matter.

Very truly yours,

Sam Smith
Samuel Smith
Lease Department

SS:ha
Encl.

Air Mail - Special Delivery
Registered - Return Receipt
Requested - Deliver to Addressee
Only - Show Address where Delivered.

May 22, 1953

Mr. Charles W. Shaffer
410 West Palmer
Glendale, California

In Re: State of New Mexico Lease No. B-10567
E/2 of Section 32, Township 31 North
Range 10 West, N.M.P.M.

Dear Mr. Shaffer:

On May 7th we wrote you in regard to the above acreage. We are enclosing a copy of our letter of May 7th, which, perhaps inadvertently, never was delivered to you.

We would appreciate hearing from you in regard to this matter.

Very truly yours,

Sam Smith
Samuel Smith
Lease Department

SS:ha
Encl.

Registered - Deliver to
Addressee Only - Show
Address Where Delivered

Air Mail - Special Delivery

2

May 7, 1953

Mr. Charles W. Shaffer
410 West Palmer
Glendale, California

In Re: State of New Mexico Lease No. B-10567
E/2 of Section 32, Township 31 North,
Range 10 West, N.M.P.M.

Dear Mr. Shaffer:

Our records reflect that you are the owner of the NW/4 SE/4 of the above Section under State of New Mexico Lease No. B-10567. El Paso Natural Gas Company would like to drill a Mesa Verde gas well which would have dedicated to it the E/2 of said Section 32. In order to comply with the spacing requirement of the State of New Mexico, it is necessary that three hundred and twenty acres be dedicated to each Mesa Verde gas well.

We are anxious to commence the drilling of this well and would like to know if you would be willing to join with us in the drilling of this well and pay your proportionate part of the cost. The total cost would be approximately \$80,000 and your proportionate part would be \$10,000. The wells located in this area are estimated to have a long life productivity. However, the well would have to be in production several years before enough revenue from production would be had to pay the initial cost of the well.

If you would prefer not to join with us in the drilling of this well we would like to purchase your lease from you. We make you an offer of \$40.00 per acre, such offer being subject to you furnishing us both State and County abstracts showing good title vested in you.

We trust that we may receive an early reply from you in regard to this matter.

Very truly yours,

Samuel Smith
Samuel Smith
Lease Department

SS:ha
Air Mail

Special Delivery

El Paso Natural Gas Company
P. O. Box 1492
El Paso, Texas
July 3, 1953

Mr. A. S. Hopkins
Post Office Box 257
Cambridge 39, Massachusetts

Re: State of New Mexico Lease B-10735-5
SE/4NE/4 Sec. 32-31N10W

Dear Mr. Hopkins:

We do not believe that you have been offered \$500,000 for the above 40 acre lease.

I came all the way to Cambridge to see you concerning this matter and to make you a fair offer. You are not listed in the telephone directory, nor do you let people know where you live. However, I found your unlisted apartment at 89 Rice Street but you were either not home or else would not answer repeated ringing and knocking.

We have the balance of the acreage in the E/2 of Section 32. As you are no doubt well aware the State of New Mexico will permit you to drill only one gas well to the Mesaverde formation. The area is proven for Mesaverde gas by offset wells and we would like to get you to cooperate in any manner to the end that we may drill a gas well in the E/2 of Section 32 and thereby both benefit from production on both of our leases. In order to be entirely fair in this matter we will give you the choice of the following offers:

1. Sell us your lease at \$50.00 an acre and retain for yourself a 5% overriding royalty.
2. Agree with us in writing to pool your 40 acre tract with our 280 acre tract (being the balance of the E/2 of said Section 32). We will even agree to carry you or in other words to pay all of the well drilling costs and to recover our drilling costs from gas when and if produced from the well. We estimate the well to cost \$80,000 and the well to pay out in approximately 3 years. Thereafter you would receive 1/8th of the value of the gas produced from this well.

As our lease is expiring we must drill a well in the NE/4 of this Section whether you join with us or not. If you do not join we

Mr. A. S. Hopkins

-2-

July 3, 1933

will have to go to the State of New Mexico to request a 280 acre spacing for our well instead of the normal 320 acre spacing. In that event you will probably never be able to have a well drilled for gas on your lease as you do not have sufficient acreage.

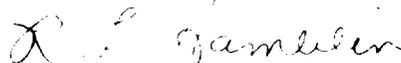
Please advise us within 30 days of your desires in this matter as we plan to go ahead without you and get a 280 acre spacing if we do not hear from you in this matter.

I will stay at the Hotel Commander the balance of the day in the hopes you will have the courtesy to call so that we can discuss the matter.

Yours very truly,

El Paso Natural Gas Company

By:



R. L. Hamblin
Lease Department

Registered, Return Receipt Requested

May 7, 1953

Mr. Charles W. Shaffer
410 West Palmer
Glendale, California

In Re: State of New Mexico Lease No. B-10567
E/2 of Section 32, Township 31 North,
Range 10 West, N.M.P.M.

Dear Mr. Shaffer:

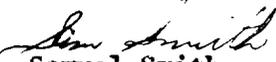
Our records reflect that you are the owner of the NW/4 SE/4 of the above Section under State of New Mexico Lease No. B-10567. El Paso Natural Gas Company would like to drill a Mesa Verde gas well which would have dedicated to it the E/2 of said Section 32. In order to comply with the spacing requirement of the State of New Mexico, it is necessary that three hundred and twenty acres be dedicated to each Mesa Verde gas well.

We are anxious to commence the drilling of this well and would like to know if you would be willing to join with us in the drilling of this well and pay your proportionate part of the cost. The total cost would be approximately \$80,000 and your proportionate part would be \$10,000. The wells located in this area are estimated to have a long life productivity. However, the well would have to be in production several years before enough revenue from production would be had to pay the initial cost of the well.

If you would prefer not to join with us in the drilling of this well we would like to purchase your lease from you. We make you an offer of \$40.00 per acre, such offer being subject to you furnishing us both State and County abstracts showing good title vested in you.

We trust that we may receive an early reply from you in regard to this matter.

Very truly yours,


Samuel Smith
Lease Department

SS:ha
Air Mail

[Handwritten initials]

Balboa, Calif.
Aug. 3, 1953

El Paso Natural Gas Co.
Mr. Samuel Smith
Lease Dep't.
10th Floor Bassett Tower
El Paso, Texas

Dear Mr. Smith:

Confirming our telephone conversation this morning accepting your offer of fifty dollars per acre on my forty acre lease with a five percent royalty.

Enclosed find oil and gas leases and receipts of payments and letters. When I receive the necessary papers from you, I will sign them and return them to you by registered air mail.

Please excuse the delay in answering your letters for I have been out of the state for some time.

Thanking you,

Yours truly,

Chas. W. Shaffer

*Interviewer's Exhibit #1
Case 5-95-*

El Paso Natural Gas Company

TENTH FLOOR BASSETT TOWER

El Paso, Texas

August 11, 1953

Mr. Harum Dow
Hervey, Dow & Hinkle
Attorneys at Law
Roswell, New Mexico

In Re: Lease B-10567

Dear Mr. Dow:

In accordance with a request of Mr. Roy Gronsky, who was representing Mr. Charles W. Shaffer, please find enclosed herewith the following papers:

1. Rental Receipt on Lease B-10567
2. Acknowledgment and Official Receipt No. A 37333 from State Land Office, Santa Fe, New Mexico
3. Letter from H. R. Rodgers, Commissioner of Public Lands, dated September 13, 1943.
4. Oil and Gas Lease dated August 20, 1943, by and between the State of New Mexico, and Charles W. Shaffer, 410 W. Palmer Avenue, Glendale, California.

You will notice that the enclosed papers reflect that the captioned lease is due to expire August 20th. We know of no way in which this lease can be extended although Mr. Shaffer and Mr. Gronsky feel that due to the fact that they have kept this lease in good standing they should be entitled to an extension. They would like for you to advise them as to their rights under the present lease.

If we can be of any help in this matter, please do not hesitate to contact us.

Very truly yours,

Samuel Smith
Samuel Smith
Lease Department

SS:ha
Encls.

cc-Mr. Charles W. Shaffer
410 West Palmer
Glendale, California
(Air Mail-Special Delivery)

P.S. We understand that you and Mr. Gronsky are alumni of the New Mexico Military Institute.

State Lease, bearing Serial Number E-2724-2, formerly a part of New Mexico State Lease E-2724, insofar as the same covers the gas operating rights down to and including the base of the Mesa Verde formation, executed in favor of Manuel A. Sanchez, as Lessee, under date of June 10, 1949, by the State of New Mexico, as Lessor, embracing among other lands, the following described land in San Juan County, New Mexico:

Township 31 North, Range 10 West, N.M.P.M.
Section 32: NE/4 SE/4
containing 40.00 acres, more or less; and

WHEREAS, El Paso is the present owner and holder of that certain New Mexico State Lease, bearing Serial Number B-10735-29, formerly a part of New Mexico State Lease B-10735, insofar as the same covers the gas operating rights down to and including the base of the Mesa Verde formation, executed in favor of Harry S. Wright, as Lessee, under date of October 20, 1943, by the State of New Mexico, as Lessor, embracing among other lands, the following described land in San Juan County, New Mexico:

Township 31 North, Range 10 West, N.M.P.M.
Section 32: SE/4 SE/4
containing 40.00 acres, more or less; and

WHEREAS, by a Contract with El Paso dated January 18, 1952, Delhi Oil Corporation retained and reserved all of the oil operating rights, the gas operating rights below the base of the Mesa Verde formation, and certain gas overriding royalties in the last two above described tracts; and

WHEREAS, Brookhaven Oil Company as to an undivided one-half ($\frac{1}{2}$) interest, and El Paso as to an undivided one-half ($\frac{1}{2}$) interest, are the present owners and holders of that certain New Mexico State Lease, bearing Serial Number B-11124-32, formerly a part of New Mexico State Lease B-11124, executed in favor of Harry S. Wright, as Lessee, under date of March 21, 1944, by the State of New Mexico, as Lessor, embracing among other lands, the following described land in San Juan County, New Mexico:

Township 31 North, Range 10 West, N.M.P.M.
Section 32: SW/4 SE/4
containing 40.00 acres, more or less; and

WHEREAS, by an Operating Agreement dated November 27, 1951, as supplemented by that certain Operating Agreement dated January 2, 1952, which agreements have been filed with the Commissioner of Public Lands of the State of New Mexico, Brookhaven Oil Company assigned an undivided one-half ($\frac{1}{2}$) interest, transferred the operating rights and designated El Paso as Operator of the above described tract; and

WHEREAS, Edward Evensen is the present owner and holder of that certain New Mexico State Lease, bearing Serial Number E-499-5, formerly a part of New Mexico State Lease E-499, executed in favor of Harry S. Wright, as Lessee, under date of August 13, 1945, by the State of New Mexico, as Lessor, embracing among other lands the following described land in San Juan County, New Mexico:

Township 31 North, Range 10 West, N.M.P.M.
Section 32: SW/4 NE/4
containing 40.00 acres, more or less; and

WHEREAS, A. S. Hopkins is the present owner and holder of that certain New Mexico State Lease bearing Serial Number B-10735-5 executed by the State of New Mexico as Lessor under date of October 20, 1943, and embracing among other lands the following described land in San Juan County, New Mexico:

Township 31 North, Range 10 West, N.M.P.M.
Section 32: SE/4 NE/4
containing 40.00 acres, more or less; and

WHEREAS, the State of New Mexico is the present owner and holder of the mineral estate in and under the following described land in San Juan County, New Mexico:

Township 31 North, Range 10 West, N.M.P.M.
Section 32: NW/4 SE/4
containing 40.00 acres, more or less; and

WHEREAS, the last above described tract is not subject to any outstanding Oil and Gas Lease; and

WHEREAS, in order to expedite the execution of this Agreement, all of the overriding royalty owners on each of the above described tracts are ratifying this Agreement; and

WHEREAS, under the applicable rules and regulations of the Oil Conservation Commission of the State of New Mexico, it is necessary to form a tract or drilling unit consisting of three hundred and twenty (320) acres for the drilling of a Mesa Verde well; and

WHEREAS, Article 8-1138 of the New Mexico Statutes (Laws 1943, ch. 88, sec. 1, page 146) provides that for the purpose of more properly conserving the oil and gas resources of the State of New Mexico, the Commissioner of Public Lands may consent to and approve the development or operation of State Lands under Agreements made by Lessees of State Lands, jointly or severally, with other Lessees of State Lands; and

WHEREAS, the parties hereto desire to communitize and pool all the above described oil and gas leases, insofar as the above leases cover the above land, in order

to form one tract or drilling unit for the production of dry gas and liquid hydrocarbons extracted therefrom, from the Mesa Verde formation, as follows:

Township 31 North, Range 10 West, N.M.P.M.
Section 32: E/2
containing 320.00 acres, more or less; and

WHEREAS, in order to be consistent with existing rules and regulations covering well spacing and production allowables, the parties hereto desire to operate the entire communitized tract for the purpose and intention of developing dry gas and liquid hydrocarbons extracted therefrom, from the Mesa Verde formation, as an entirety in accordance with the terms and provisions of this Agreement;

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

1. The lands subject to this Agreement shall be developed and operated for dry gas and liquid hydrocarbons extracted therefrom producible from the Mesa Verde formation as an entirety with the understanding and agreement that the dry gas and liquid hydrocarbons extracted therefrom so produced from the above-described communitized tract of three hundred and twenty (320) acres, shall be allocated among the leaseholds comprising said acreage in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed hereto. The royalties payable for dry gas and liquid hydrocarbons extracted therefrom so allocated to the lands comprising the leaseholds and the rentals provided for therein shall be determined and paid on the basis respectively prescribed in the individual leases.

2. El Paso shall be the unit operator of said communitized tract and all matters of operation, adjustments between the working interest owners, and payments of royalties, overriding royalties and rentals shall be governed by the provisions of the Unit Operating Agreement executed by the working interest owners contemporaneously with the execution of this Agreement. There shall be no obligation on El Paso to offset any dry gas well or wells on separate component tracts, into which said communitized unit is now or may hereafter be divided, nor shall El Paso be required to separately measure said dry gas and liquid hydrocarbons extracted therefrom by reason of the diverse interests in the dry gas in and under said tract, but El Paso shall not be released from its obligation to protect said communitized unit from drainage by a dry gas well or wells which may be drilled offsetting said tract.

3. Except as herein modified and changed, said oil and gas leases hereinabove described shall remain in full force and effect as originally made and issued. It is further agreed that the commencement, completion, continued operation or production of a well or wells for dry gas and liquid hydrocarbons extracted therefrom on the communitized tract from the Mesa Verde formation as an entirety shall be construed and considered as the commencement, completion, continued operation or production as to each lease committed hereto.

4. All production of dry gas and disposal thereof shall be in conformity with allocations, allotments and quotas made and fixed by any duly authorized person or regulatory body under applicable Federal or State Statutes. The provisions of this Agreement shall be subject to all applicable Federal or State Statutes or executive orders, rules and regulations which affect performance of any of the provisions of this Agreement and El Paso shall not suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this Agreement if such compliance is prevented by or if such failure results from compliances with any such law, rule or regulation.

5. This Agreement shall be effective as of the date hereof upon execution by the parties hereto notwithstanding the date of execution, and upon approval of the Commissioner of Public Lands of the State of New Mexico, and shall remain in force and effect for a period of two (2) years and so long thereafter as dry gas and liquid hydrocarbons extracted therefrom are produced from any part of said communitized unit in paying quantities, provided that prior to production in paying quantities from said communitized unit and upon fulfillment of all requirements of the Oil Conservation Commission of the State of New Mexico with respect to any dry hole or abandoned well, this Agreement may be terminated at any time by the mutual agreement of the parties hereto.

6. This Agreement shall be subject to the consent and approval of the Commissioner of Public Lands of the State of New Mexico.

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

8. This Agreement may be executed in one or more counterparts by any of the parties hereto and all counterparts so executed shall be taken as a single Agreement and shall have the same force and effect as if all parties had in fact executed but a single instrument.

STATE OF OKLAHOMA)
)
COUNTY OF TULSA)

On this _____ day of _____, 1953, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is the _____ President of SUNRAY OIL CORPORATION, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

Notary Public, County of Tulsa,
State of Oklahoma

STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO)

On this 5th day of October, 1953, before me appeared Thos. B. Scott, Jr., to me personally known, who, being by me duly sworn, did say that he is the _____ President of BROOKHAVEN OIL COMPANY, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said Thos. B. Scott, Jr. acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

June 13, 1957
Evelyn L. Welking
Notary Public, County of Bernalillo,
State of New Mexico

STATE OF TEXAS)
)
COUNTY OF DALLAS)

On this _____ day of _____, 1953, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is the _____ President of DELHI OIL CORPORATION, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

Notary Public, County of Dallas, State
of Texas

STATE OF CALIFORNIA)
)
COUNTY OF SAN FRANCISCO)

On this 1st day of October, 1953, before me appeared Edward Evensen and ~~Harriet E. Evensen, his wife~~, to me known to be the person^{she} described in and who executed the foregoing instrument, and acknowledged to me they executed the same as ~~their~~ ^{his} free act and deed.

E. W. C. 12-1-53

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

12/25/54

Manor M. Bender X
Notary Public, County of San Francisco,
State of California

STATE OF MASSACHUSETTS)
)
COUNTY OF)

On this _____ day of _____, 1953, before me appeared A. S. Hopkins, to me known to be the person described in and who executed the foregoing instrument, and acknowledged to me he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My commission expires:

Notary Public, County of
State of Massachusetts

STATE OF CALIFORNIA }
COUNTY OF CONTRA COSTA } "

On this 29th day of September in the year one thousand nine hundred and Fifty Three

before me VERNON C. ROUNER, a Notary Public in and for said County and State, residing therein, duly commissioned and sworn, personally appeared
Harriet F. Evensen

known to me to be the person described in, whose name is

subscribed to and who executed the within instrument, and acknowledged that she executed the same, as her free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in said County, the day and year in this Certificate first above written.

Vernon C. Rouner
Notary Public in and for said County and State

My Commission Expires 12/25/53
FURRER'S, RICHMOND

BEFORE THE OIL CONSERVATION COMMISSION OF THE
STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF EL PASO NATURAL GAS COMPANY FOR
COMPULSORY COMMUNITIZATION OF THE
E/2 OF SECTION 32, TOWNSHIP 31
NORTH, RANGE 10 WEST, N. M. P. M.,
SAN JUAN COUNTY, NEW MEXICO, OR,
IN THE ALTERNATIVE, FOR UNORTHODOX
SPACING:

No. 595

TO THE HONORABLE COMMISSION:

Your Applicant, EL PASO NATURAL GAS COMPANY, represents that it is a Delaware corporation, with a permit to do business in the State of New Mexico, and that it is the present owner and holder of leasehold rights or gas operating rights to the base of the Mesaverde Formation under the following described oil and gas leases:

- (a) New Mexico State Lease B-10735-32, dated October 20, 1943, Harry S. Wright, Lessee, embracing, among other lands, the following described land in San Juan County, New Mexico: Township 31 North, Range 10 West, N. M. P. M., Section 32, NW/4 NE/4, containing forty (40) acres, more or less;
- (b) New Mexico State Lease B-10735-33, dated October 20, 1943, Harry S. Wright, Lessee, embracing, among other lands, the following described land in San Juan County, New Mexico: Township 31 North, Range 10 West, N. M. P. M., Section 32, NE/4 NE/4, containing forty (40) acres, more or less;
- (c) New Mexico State Lease E-2724-2, dated June 10, 1949, Manuel A. Sanchez, Lessee, embracing, among other lands, the following described land in San Juan County, New Mexico: Township 31 North, Range 10 West, N. M. P. M., Section 32, NE/4 SE/4, containing 40 acres, more or less;
- (d) New Mexico State Lease B-10735-29, dated October 20, 1943, Harry S. Wright, Lessee, embracing, among other lands, the following described land in San Juan County, New Mexico: Township 31 North, Range 10 West, N. M. P. M., Section 32, SE/4 SE/4, containing forty (40) acres, more or less.

Your Applicant represents that Brookhaven Oil Company, a corporation, owns an undivided one-half (1/2) interest and your applicant an undivided one-half (1/2) interest in New Mexico State Lease B-11124-32, dated March 21, 1944, Lessee Harry S. Wright, embracing, among other lands, the following described land in San Juan County:

Township 31 North, Range 10 West, N. M. P. M., Section 32, SW/4 SE/4, containing forty (40) acres, more or less.

Your Applicant further represents that Edward Evensen

is the present owner and holder of New Mexico State Lease E-499-5, dated August 13, 1945, Harry S. Wright, Lessee, embracing, among other lands, the following described land in San Juan County:

Township 31 North, Range 10 West, N. M. P. M., Section 32, SW/4 NE/4, containing forty (40) acres, more or less.

Your Applicant represents that all the present owners and holders of the above described leasehold rights, aggregating 240 acres, more or less, have agreed to communitize and pool, and have executed appropriate communitization agreement to communitize and pool the above described oil and gas leases insofar as said leases cover the above described land, in order to form one tract or drilling unit for the production of dry gas and liquid hydrocarbons extracted therefrom from the surface to the base of the Mesaverde Formation.

Your Applicant further represents that A. S. Hopkins, whose mail address is P. O. Box 257, Cambridge 39, Massachusetts, is the present owner and holder of State of New Mexico Lease B-10735-5, insofar as it covers the SE/4 NE/4 of said Section 32, containing forty (40) acres, more or less.

Your Applicant further represents that Charles W. Shaffer, whose address is 410 West Palmer Street, Glendale, California, owned State of New Mexico Lease B-10567, insofar as it covered the NW/4 SE/4 of said Section 32, and that your Applicant is informed and believes that said lease expired by its own terms on August 20, 1953, and that the State of New Mexico is the owner of the oil and gas rights in and to said NW/4 SE/4 of said Section 32.

Your Applicant represents that it made diligent effort to enter agreement with A. S. Hopkins as to the leasehold interests owned by him for communitization of his interests with the other leasehold interests owned by your Applicant, by Brookhaven Oil Company, and by Edward Evensen, and that A. S. Hopkins has refused to join in any communitization agreement, or to sell his leasehold interest for the market value thereof.

Your Applicant represents that it made diligent efforts to enter an agreement with Charles W. Shaffer for communitization

of the tract of land formerly owned by him, or in the alternative to purchase from the said Charles W. Shaffer his leasehold interest insofar as it covers the NW/4 SE/4 of said Section 32, and that your Applicant was unable to obtain agreement of lease owner for communitization or to complete purchase in time to begin drilling operations prior to expiration of the lease.

Your Applicant represents that pursuant to the terms and provisions of Order No. R-110, entered by this Commission, 320 acre spacing has been established for drilling gas wells to the Mesaverde Formation, in San Juan County, New Mexico, and that your Applicant has exercised due diligence, but has been unable to obtain concurrence of owners of leases as to 80 acres lying within the E/2 of said Section 32. Your Applicant represents that the E/2 of Section 32 contains 320 acres of land, and is a proper spacing unit for drilling a Mesaverde well, and that your Applicant and the other owners of oil and gas leasehold rights who desire to communitize or pool the leases into a uniform spacing unit will be deprived of their opportunity to recover their just and equitable share of the natural gas in the gas pool lying under the tracts of land covered by their leases unless this Commission requires the owners of oil and gas leasehold interests or mineral rights who have not joined in the communitization agreement to communitize or pool their interests to form a proper spacing unit.

Your Applicant respectfully requests that an appropriate order be entered by the Commission directing the owners of outstanding oil and gas leasehold rights or mineral interests in the SE/4 NE/4 and the NW/4 SE/4 of said Section 32 to communitize or pool their interests, pursuant to the terms of a communitization agreement which has been filed for approval with the Commissioner of Public Lands of the State of New Mexico.

In the alternative, your Applicant requests that if this Commission determine that it will not order compulsory pooling of the E/2 of Section 32, then, in that event, the Commission issue an appropriate order designating the following tracts of land, to-wit, N/2 NE/4, SW/4 NE/4, S/2 SE/4 and NE/4 SE/4 of said Section 32 containing 240 acres, more or less, as an unorthodox spacing unit,

and permit your Applicant and the cooperating leasehold owners
to produce gas therefrom.

Respectfully submitted,

EL PASO NATURAL GAS COMPANY,
By:


Attorney