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ROSWELL, NEW MEXICO

March 19, 1956

MEMORANDUM RE: Gavilan Unit, Rio Arriba County, New Mexico

A conference was held in Washington, D. C. on March 8, 1956, attended by Mr. E. M. Pilkinton, Mr. R. E. Spratt, and Mr. E. A. Finley, of the U. S. Geological Survey, Mr. E. Alex Phillips and Mr. Foster Morrell, on the subject Unit.

The conclusions reached during this conference are as follows:

1. The Unit Area to embrace all of T. 24 N., R. 2 W., and T. 25 N., R. 2 W., outside of the Lindrith Unit Area.

2. The Unit Agreement shall provide for 320-acre Drilling Blocks to the base of the Mesaverde formation, to consist of the east half (E/2) and west half (W/2) of each Section, the exceptions thereto to be cited in the Unit Agreement.

3. The standard form of Unit Agreement shall apply for all formations below the Mesaverde.

4. The Unit Agreement shall include a drilling requirement of ten (10) wells to test the Pictured Cliffs formation to be commenced during the first year from the effective date of the Unit Agreement, such wells to be so located as to determine the reserves of the Unit Area, with provision that, (a) not less than three (3) wells are to be drilled within T. 24 N., R. 2 W., and (b) not less than five (5) wells are to be drilled within T. 25 N., R. 2 W. With regard to the

first ten (10) obligation wells, the location of five (5) of such wells shall be described by Section numbers.

5. Provision is to be included in the Unit Agreement that the second well shall be drilled on a Drilling Block to make the spacing of wells within the Unit Area equal to the density of wells offsetting the Unit Area, or at the election of the majority of working interest owners a second well may be completed on a Drilling Block if and when economic justification is determined for the drilling of wells to a density of one well per 160 acres.

6. A dry hole subsequently drilled on an intervening Drilling Block shall cause 160 acres (or 40 acres, to be subsequently determined by the applicants) on which the well is drilled to be withdrawn from the participating area.

7. It is intended to follow the spacing plan of one well located in the northwest quarter ($NW\frac{1}{4}$) and one well in the southeast quarter ($SE\frac{1}{4}$) of each section, except for variations necessitated by topographic conditions or irregular Drilling Blocks.

8. San Juan Gas Corporation, an Oklahoma Corporation, of which E. Alex Phillips is President, will be Unit Operator.

9. The form of Unit Agreement may follow the form used for the San Juan 27-5 Unit, amended as indicated above.

The above items were agreed to orally by the parties attending the conference of March 8, 1956. They are to be recognized as informal understandings subject to filing of formal application for preliminary approval of the Unit Area and the Unit Agreement as to form by the Director of the U. S. Geological Survey.

It was explained during the conference in Washington that I previously conferred in Roswell, New Mexico, with Mr. John A. Anderson, Regional Oil and Gas Supervisor, U. S. Geological Survey, on the subject unit during which Mr. Anderson expressed his preference to the use of the standard form of unit agreement for all formations. The proponents of the unit expressed their preference for the 320-acre Drilling Blocks to the base of the Mesaverde formation and the representatives of the U. S. Geological Survey at the conference in Washington each expressed themselves as being in favor of such Drilling Blocks.

Foster Morrell

FM/nrd