CA 7643 & 7650
Consolidated for hearing

6420
100 bone of St...

DOCKET MAILED
~~Date~~ 8/6/82 (Poolees)

Texaco proposed
8750/mo daily
395/mo prod
penalty 200% penalty

CASE NO.

7643

APPLICATION,

TRANSCRIPTS,

SMALL EXHIBITS,

ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
18 August 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Texaco, Inc., for compulsory pooling, Lea County, New Mexico.	CASE 7643
and	&
Application of Texaco, Inc., for compulsory pooling, Lea County, New Mexico.	CASE 7650

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: Owen Lopez, Esq.
HINKLE LAW FIRM
500 Don Gaspar
Santa Fe, New Mexico 87501

I N D E X

E X H I B I T S

MR. NUTTER: We'll call next Case Number 7643.

MR. PEARCE: That is on the application of Texaco, Inc., for compulsory pooling, Lea County, New Mexico.

MR. NUTTER: And also Case Number 7650.

MR. PEARCE: Again that is on the application of Texaco, Inc., for compulsory pooling, Lea County, New Mexico.

MR. NUTTER: I believe applicant wanted consolidation of these cases for hearing purposes. They will be consolidated.

MR. LOPEZ: Mr. Examiner, my name is Owen Lopez, with the Hinkle Law Firm, Santa Fe, New Mexico, appearing on behalf of the applicant, and we have two witnesses to be sworn.

(Witnesses sworn.)

GLENN KING

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. LOPEZ:

Q. Mr. King, would you please state your name, residence, and occupation?

A. My name is Glenn King, Midland, Texas. I'm an attorney and landman for the Land Department of Texaco.

Q. Have you previously testified before the Commission and had your qualifications accepted as a matter of record?

A. No, I have not.

Q. Would you briefly then explain your educational and employment background as a landman?

A. I have a Bachelor of Science degree with a double major in political science and history from East Texas State University and a Doctor of Jurisprudence from the University of Texas School of Law.

I've been with Texaco for approximately two and a half years, most of that time spent preparing contracts. I currently am supervisor of the contract section for the Midland Division.

Q. Are you familiar with Texaco's application in these two cases?

A. Yes, I am.

Q. Are you familiar with the land ownership of the areas involved in these cases and the matters with which a landman would routinely be familiar?

A. Yes.

MR. LOPEZ: Are the witness' qualifications acceptable?

MR. NUTTER: They are.

Q. Would you please state what Texaco seeks in these two cases?

A. Texaco seeks an order pooling the mineral interests from 6420 feet beneath the surface to 100 feet below the Strawn formation in the west half of the northeast quarter of Section 33 for Case Number 7643; and the east half of the northeast quarter of Section 33 for Case 7650; Section 33 being in Township 16 South, Range 37 East.

In each case the interests to be pooled will be dedicated to a well to be drilled at a standard location on each tract.

We also wish to submit information on the cost of drilling, completing the wells, the allocation of such costs, actual operating costs, charges for supervision.

We wish to be designated as operator and we seek a charge for additional risk involved in drilling these wells which we are assuming.

MR. LOPEZ: Mr. Examiner, it might be pointed out at this time that as the witness explained, the mineral interest to be pooled differs somewhat from the description contained in the advertisement under the cases, and if I recall your usual operating procedure may allow us to readvertise and go ahead and put on the testimony here today.

MR. NUTTER: Where's the difference?

MR. LOPEZ: Well --

A. The application and docket state that we wish to pool the Drinkard and Strawn formations; however, we wish to pool from 6420 feet beneath the surface to 100 feet below the Strawn.

MR. NUTTER: Where is the 6420 feet?

A. That should be the base of the Paddock formation.

MR. NUTTER: Is that the top of the Drinkard?

A. I don't believe so. On that matter I really --

MR. NUTTER: Okay, you're going to discuss the vertical limits when we get to that?

MR. HORVATH: That will show on the cross section, yes.

MR. NUTTER: Okay, we may have to read-

vertise it and we may not. We'll get to that later.

MR. LOPEZ: Okay, fine. Good.

Q. Would you now please refer to Exhibit Number One and identify the exhibit?

A. Yes. Exhibit One is a land plat showing the area. The northeast quarter of Section 33 is outlined with dashed line; that's the acreage in question.

The small dot in the southeast quarter of the northeast quarter is the proposed location for the initial well.

At this time Texaco either owns or has committed approximately 94 percent of the working interest under this acreage. The remaining six percent is uncommitted and is owned equally one-third by Lanroy Inc., one-third by Cleroy Inc., and one-third by John McGinley, et us Catherine McGinley.

MR. NUTTER: Are you talking about this ownership being uniform throughout the 160?

A. Right.

MR. NUTTER: So we have undivided interest in the --

A. Yes, sir.

MR. NUTTER: They are all common in every acre in this 160-acre tract?

A. Yes.

MR. NUTTER: Okay.

Q. Now I'd refer you to what has been marked as Exhibit Number Two and ask you to identify it.

A. Exhibit Two consists of a group of letters. The first three are the cover letters which we sent out with the operating agreement which we propose for this area and the AFE to all the working interest owners. In this case we have a cover letter to J. R. McGinley, to Lanroy Inc., and Cleroy Inc.

The fourth letter is the response from Mr. McGinley. He speaks for all three of them, in which -- in his letter he declines to join. We followed up with telephone conversations with Mr. McGinley in which he said that all three companies -- or that the other two companies and himself declined to either lease or join.

Q. Would you now turn to what's been marked Exhibit Three and identify it?

A. Exhibit Three consists of the operating agreement which we proposed to all the working interest owners. It is a standard American Association of Petroleum Landmen Form Operating Agreement with no significant changes.

Exhibit A to this operating agreement will show the various working interest owners and the interest that

they own. I believe there are twelve parties of which seven agreed to join the unit, two agreed to lease their interests, and three, the three in question, refused to join or lease.

Q. Now would you refer to Exhibit Four and identify it?

A. Exhibit Four is the AFE which was also submitted to these same parties. Also penciled in have been the dry hole costs.

MR. NUTTER: What is that figure? I can't read it very well.

A. Dry hole cost is $890,300.

MR. NUTTER: Thank you.

Q. Does Texaco propose to be named as operator in these cases?

A. Yes, we do.

Q. Do you -- are you prepared to make a recommendation as to the amount of penalty which should be assessed as charges for supervision for operating the wells?

A. Yes. We propose supervision charges of $3750 per well per month for drilling wells, and $375 per well per month for producing wells. These figures are consistent with those found in the operating agreement we propose and are approximately industry standard for a well of this type.

Q. And I believe the operating agreement

also provides for a 300 percent nonconsent penalty?

A. Yes. It provides for a penalty consisting of 300 percent of the nonconsenting parties share of costs, which is what we request from the Commission, that amount to be 100 percent plus a 200 percent penalty.

Q. Do you have any problems with regard to expiration of the leases in connection with the acreage under consideration?

A. Yes, we do. Some of the leases are going to be expiring pretty soon. The first lease expires in September. Therefor, of course, we respectfully request expeditious handling of this matter.

Q. Were Exhibits One through Four prepared by you or under your supervision?

A. Yes, they were.

Q. In your opinion will the granting of these applications be in the interest of prevention of waste and protection of correlative rights?

A. Yes, it will.

MR. LOPEZ: I have nothing further on direct.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Okay, Mr. King, you mentioned that a number of parties had agreed to join in the drilling of the well and others had not.

A. Yes.

Q. Okay, now on Exhibit A to the operating agreement are these various parties with their interests.

A. Yes.

Q. Would you go through and tell us which ones have consented and which ones have not?

A. Everyone has agreed to join in the unit with the exception of the Felmont and Mary Ruth McCrory, who have leased out their interests, and Cleroy, Lanroy, and J. R. McGinley and his wife, Catherine.

Q. Okay, so who owns the lease, then, on the Felmont and McCrory interests, Texaco?

A. Leased to Texaco now.

Q. So everybody's in except Cleroy, Lanroy, and McGinley.

A. Yes.

Q. Now, who is the royalty owner here? Or are they royalty owners also?

A. They own the mineral fee.

Q. Okay, so they -- they will be royalty

owners and working interest owners under a forced pooling action, is that correct?

A. Yes.

Q. And how about all -- what's -- who owns the rest of the royalty?

A. Most of these parties own mineral fee themselves. Sohio and Producing Royalties, I believe, are the only two who are committing leashold interests. The other parties own mineral interests.

Q. I see. And you have been in contact with Lanroy, Cleroy, and McGinley --

A. Yes.

Q. -- on this proposition since June the 9th, I presume.

A. Yes.

Q. That's the date of this letter.

A. Their letter back to us declining was received on July 8th and we immediately followed up with telephone conversations. We talked to them several times and they --

Q. Now that was McGinley's response.

A. Yes.

Q. He was representing Cleroy and Lanroy.

A. Also owns the company, McCrory, and they

are three affilitated companies. In this case he owns the acreage in his individual capacity but he speaks for the other two companies as well.

Q So you feel you have given them ample time in which to participate in the well before bringing this action.

A Yes.

MR. NUTTER: Are there any further questions of Mr. King? He may be excused.

Would you call your next witness, please?

MR. LOPEZ: Yes.

EDWARD A. HORVATH

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. LOPEZ:

Q MR. Horvath, would you please state your full name, residence, and occupation?

A My name is Edward A. Horvath. I live in Midland, Texas. I'm a development geologist with Texaco in Midland.

Q Have you previously testified before the

Commission and had your qualifications accepted?

A. No, I have not.

Q. Would you then briefly describe your educational background and employment experience?

A. I have a BA degree in geology from Wooster College. I have an MS degree in geology from the University of Utah.

I have twenty-two years of experience as a geologist in drilling and development exploration work in the Permiean Basin, covering west Texas and eastern New Mexico.

Q. I take it then you are familiar with the applications of Texaco in these cases?

A. Yes.

Q. And you are also familiar with the geological features underlying the acreage in acreage in question.

A. Yes, I am.

MR. LOPEZ: Are the witness' qualifications acceptable?

MR. NUTTER: Yes, they are.

Q. I would now ask you to refer to what has been marked Exhibit Five and identify this exhibit.

A. Exhibit Five is a structural map contoured on top of the Strawn limestone. It covers from the Lovington

East Penn Field, which is on the lefthand side, going across to the Casey Strawn Field on the righthand side. The vertical scale is one inch equal 2000 feet. The contour interval is 100 feet, starting with the highest portion on the far left, -7100, and declining to a -7600 to the right, to the east.

There's a slight structural nosing coming across this area from left to right.

The regional location, there's a location map or plat down in the lower lefthand corner, this is located on what we call the Carlsbad Shelf or the Northwestern Shelf. South of that is the Delaware Basin and the Central Basin Platform.

The wells that are colored in red are Strawn producers. On the far left is the Lovington East Penn Field. There are one, two, three, four wells that were completed in it. There are only presently -- only one well is still producing. That's the one that's totally colored in red. That was the discovery well.

Going further across to the east, we see five wells which are completed in the Casey Strawn Field area. Those five wells were completed into the Strawn.

There is one well that catches the north, up in that northwest corner that is in the Lovington Northeast

Penn Field area. It's a Strawn producer.

The Texaco acreage, of course, is colored in yellow, either total interest or part interest. The arrow with the circle shows the proposed location on this lease that we will drill for a Strawn test.

The black arrows point to at least nine wells which have penetrated the Strawn in this area. Many of them are tight; a couple of them have tested formation water.

The red band that we see going across is a geologic interpretation connecting the porosity from the Lovington East Penn Field area across the Casey Strawn Area. I believe that is a band of porosity. Probably it's a facies related type of development. Porosity has developed into it during sub-areal exposture.

Q. Now I'd refer you to what has been marked as Exhibit Six and ask you to identify this.

A. This is a structural cross section. It's an east/west one, mainly, going across again to the fields where we just saw in the last exhibit that zone of porosity, starting at the far left from the Lovington East Penn Field area.

There are three wells that are completed in the Strawn that we see on the far left. One is a dry hole

in the Strawn produced out of a shallow horizon. Going across our proposed location of the Carter No. 1, it's 11,500 foot Strawn test, into three wells that are in the Casey Strawn Field area completed in the Strawn.

It's hung on a minus datum of 3000 feet. You'll see the shallow horizons. You were asking earlier about the Paddock, which is a Glorieta equivalent. There is some Paddock production in the area. We come down next to the Upper Clear Fork, or the Blinebry that's in New Mexico, the Tubb, the Lower Clear Fork, or Drinkard, as it's known in New Mexico. That does produce in the area. And finally down into the Strawn horizon. We see the Strawn with a slight dip going from west to east, as was shown on the structural map.

Q All right, now refer to what's been marked as Exhibit Number Seven and identify it.

A Exhibit Seven is a similar cross section but it's (not understandable). It's an enlargement of the Strawn section, which we're mainly after, again across the identical wells. It shows on the far left, it shows the Strawn with thickness of about 100 feet, which we see on the far left. This is the Lovington East Penn Field, the three producers with the red on top in the Strawn.

We come to another well which penetrated

the Strawn. It's a tight section. It's not tested but it appears to be tight on the log. We move across to our proposed location in the Strawn, and into the Casey Strawn Field area. Again there are two wells that are completed into it.

The red indicates the perforated intervals that we see through here; the green are DST's that were run; again perforated intervals here in red and the green are the DST's.

The potentials are put down at the bottom. As we can see as we come across this area, the porosity does not directly relate to the top of the Strawn. This is one of our problems because the Strawn at the top has a nice structure configuration but the porosity as seen to the far east- is a little bit higher; as we move to the west it seems to be dipping down. There is a possibility -- this is a very good, reasonable prospect for drilling to the Strawn, but there is a problem with the porosity. If this porosity continues dipping on down, it can become water bearing. This well has perforated this zone through here, perforated and got water. If they moved a little bit higher, probably got oil out of this.

So there is a problem with porosity, very erratic in its development. It can come in high and be oil productive. It can come in low and be water productive.

or if similar to this one, it's tight and nonproductive.

Q Now referring to what's been marked Exhibit Eight.

A This is another structural cross section. It is mainly a north/south, more of a northwest/southeast cross section across the Casey Strawn Field area. On the far left we have two wells that were -- penetrated the Strawn. This was tight in the Strawn; this one was wet in the Strawn. We have two producers in the Casey Strawn, dropping on off to two wells that again penetrated the Strawn but were tight. This is going across that structure nosing as we saw in the previous exhibit.

Again we see the shallow horizons, again coming down from the Paddock, down through the Drinkard, and then down to the Strawn.

Q Okay, now would you refer to what's been marked Exhibit Nine and identify it?

A Exhibit Nine will be a blow-up again of the Strawn across the identical cross section.

This is again sort of a northwest/southeast cross section across the Casey Strawn Field area. This well penetrated the Strawn and it was merely tight. There's no test to interpret but the log indicates it's tight.

This one, which is due north of our loca-

tion, got porosity in two zones, but was wet in both zones. Perforated the lower zone and got water; perforated the higher zone and got water.

Then we come into another well, again which is across one off the previous cross section, which got water down below and oil out of this set of perforations.

The next well next to it, the porosity a little bit higher, was oil productive.

Coming back down it looks like a little porosity but the DST, they received nothing on the DST off of this except some drilling fluid.

And down into the tight section in the Strawn.

Again, the erratic porosity development and you can see that it becomes a very high risk because of that porosity, trying to forecast it. We believe it is in that band coming across, but if it will be high or low, this will be very risky portion of it.

Q. You heard Mr. King testify as to the penalty for nonconsent mineral interest owners in the operating agreement. Do you have an opinion as to what the risk penalty should be authorized if the applications are granted in these cases?

A. Yes, the evidence has been presented on

these exhibits. It justifies a 200 percent risk penalty.

Q. Were Exhibits Five through Nine prepared by you or under your supervision?

A. Yes, they were.

Q. Is it your opinion that the granting of these applications will be in the interest of the prevention of waste and the protection of correlative rights?

A. Yes, they will.

MR. LOPEZ: I have nothing further.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Horvath, mention was made during Mr. King's testimony of the advertisement of this case to be for the pooling of mineral interests in the Drinkard and the Strawn formations.

Now just observing one of your cross sections, and we see that if you stated -- he stated that you wanted to amend the application to go from, what was it, 6420 to a depth of --

A. 100 feet below the Strawn.

Q. -- one hundred feet below the base of the Strawn.

Now, by going to 64 -- by pooling from

6420 at the proposed location you would, in effect, be pooling the Blinebry and the Tubb in addition to the Drinkard, then on through the Strawn.

A. It would be Abo, Wolfcamp, all the way on down through the Strawn, total bounds.

Q. Okay. Are there any Blinebry or Tubb wells in this area?

A. There are no Blinebry of Tubb that I know of. There are nearby Paddock, which is that Lovington Field, and is there is Drinkard, which is Knowles West, which is over by the Casey Strawn, it's kind of in between both locations.

Q. Okay. Would your proposal then be to also include the Paddock in the pooling order?

A. It would not be for the Paddock, no, below the Paddock.

Q. And possibly you might get some Abo, maybe.

A. Abo, yes.

Q. So, Mr. Lopez, you'd prefer to withhold entry of an order at this time until we've readvertised the cases, or would you rather go ahead and risk drilling the well under the existing advertisement and then amend the order if you got production in some of these other formations?

It depends on what your time schedule is for drilling the well.

MR. LOPEZ: We need to take the risk. Yeah, we'll go for the amendment.

MR. NUTTER: It can be amended quite easily, I'm sure, because you won't be drilling deeper and you're not changing the chances of someone wanting to participate and not being able to by -- by willing to participate under these terms and then you'd amend it to go deeper and they didn't want to participate.

Everything that you've got prospects for are above, shallower and above what your deepest target is here.

MR. LOPEZ: Right.

MR. NUTTER: So do you want to take the case under advisement, then?

MR. LOPEZ: Yes.

MR. NUTTER: Okay. Are there any further questions of Mr. Horvath? He may be excused.

Do you have anything further, Mr. Lopez?

MR. LOPEZ: No, sir.

MR. NUTTER: Does anyone have anything they wish to offer in Cases Numbers 7643 and 7650?

We'll take the cases under advisement.

CERTIFICATE

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7648-7650 heard by me on 8/18 19 80.

, Examiner
Oil Conservation Division

BALL, BOYD, C.S.R.
Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

December 1, 1982

Mr. Owen Lopez
Hinkle, Cox, Eaton,
Coffield & Hensley
Attorneys at Law
Box 2068
Santa Fe, New Mexico 87501

Dear Mr. Lopez:

As provided in Order No. R-7062, Texaco Inc. is granted an extension of the date to spud the well to May 1, 1983.

It is my understanding that this time is needed to evaluate a nearby well which is or will be a new completion.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

LAW OFFICES

HINKLE, COX, EATON, COFFIELD & HENSLEY

500 DON GASPAR

POST OFFICE BOX 2068

SANTA FE, NEW MEXICO 87501

(505) 982-4554

OF COUNSEL
CLARENCE E. HINKLE
ROY C. SNODGRASS JR.
O. M. CALHOUN

LEWIS C. COX
PAUL W. EATON
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.
STUART D. SHANOR
C. D. MARTIN
PAUL J. KELLY, JR.
OMEN M. LOPEZ
JAMES H. BOZARTH
DOUGLAS L. LUNSFORD
PAUL M. BOHANNON
ERNEST R. FINNEY, JR.*
J. DOUGLAS FOSTER
T. CALDER EZZELL, JR.
WILLIAM B. BURFORD*
JOHN S. NELSON
RICHARD E. OLSON
DEBORAH NORWOOD*
ANDERSON CARTER, II
STEVEN D. ARNOLD
JEFFREY L. BOWMAN
JOHN C. HARRISON
DAVID L. SPOEDE
JEFFREY D. HEWETT*
JAMES BRUCE
MICHELE A. DREXLER

*NOT LICENSED IN NEW MEXICO

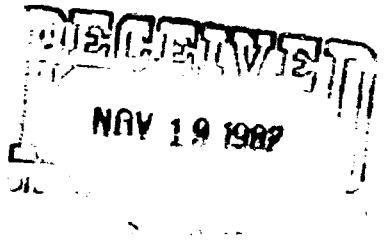
W. E. BONDURANT, JR. (1913-1973)
ROBERT A. STONE (1905-1981)

MIDLAND, TEXAS OFFICE
1000 FIRST NATIONAL BANK BUILDING
POST OFFICE BOX 3580
(915) 683-4691

AMARILLO, TEXAS OFFICE
700 AMERICAN NATIONAL BANK BUILDING
POST OFFICE BOX 1215
(806) 372-5569

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
POST OFFICE BOX 10
(505) 622-6510

November 19, 1982



Mr. Joe D. Ramey
Director
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Applications of Texaco Inc. for
Compulsory Pooling;
Case No. 7650, Order No. R-7066, and
Case No. 7643, Order No. R-7062

Dear Joe:

Order No. R-7066, dated September 1, 1982, granted Texaco's application for compulsory pooling of the Drinkard and Strawn formations underlying the E1/2 NE1/4 of Section 33, Township 16 South, Range 37 East, N.M.P.M., Lea County, New Mexico. Texaco is presently drilling a well on this tract.

Order No. R-7062, dated September 1, 1982, granted Texaco's application for compulsory pooling of the Drinkard and Strawn formations underlying the W1/2 NE1/4 of Section 33, Township 16 South, Range 37 East, N.M.P.M., Lea County, New Mexico. The Order provided that drilling of the well shall commence on or before December 1, 1982.

It is expected that the well now being drilled, the subject of Order No. R-7066, will soon reach total depth and be completed. However before commencing the second well, the subject of Order No. R-7062, Texaco needs to evaluate the results of the offset well to determine its course of action. Due to this, we respectfully request, in accordance with the Order, administrative approval by the Division of a time extension of 120 days within which to begin drilling on the W1/2 NE1/4 of Section 33.

Your attention to this matter and cooperation is appreciated.

Sincerely,

Owen M. Lopez

OML:to

cc: Mr. Bruce Pope

HAND DELIVERED

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5434

September 1, 1982

Mr. Owen Lopez
Hinkle, Cox, Eaton, Coffield
& Hensley
Attorneys at Law
P. O. Box 2068
Santa Fe, New Mexico 87501

Re: CASE NO. 7643
ORDER NO. R-7062

Applicant:

Texaco Inc.

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7643
Order No. R-7062

APPLICATION OF TEXACO, INC. FOR
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on August 18, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 1st day of September, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Texaco, Inc., seeks an order pooling all mineral interests from the top of the Drinkard formation to a point 100 feet below the base of the Strawn formation underlying the W/2 NE/4 of Section 33, Township 16 South, Range 37 East, NMPM, Casey-West Knowles Area, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil and gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $3750.00 per month while drilling and $375.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the top of the Drinkard formation to a point 100 feet below the base of the Strawn formation underlying the W/2 NE/4 of Section 33, Township 16 South, Range 37 East, NMPM, Casey-West Knowles Area, Lea County, New Mexico, are hereby pooled to form a standard 80-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of December, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Drinkard and Strawn formations;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of December, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Texaco, Inc. is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days

following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $3750.00 per month while drilling and $375.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

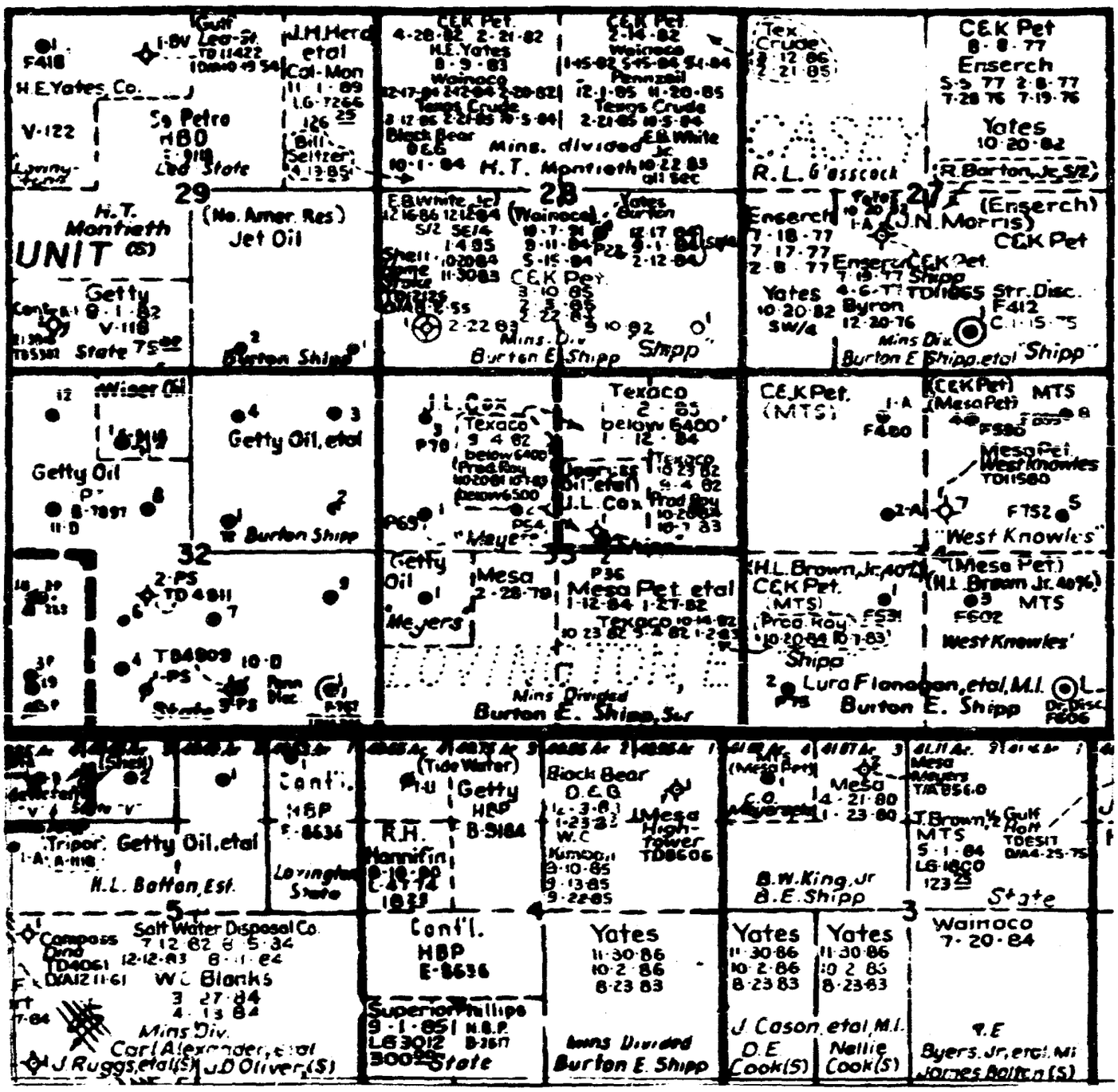
(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY,
Director



BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION

Texaco EXHIBIT NO. 1

CASE NO. 7643, 7650

TEXACO
PETROLEUM PRODUCTS

PRODUCING DEPARTMENT

TEXACO
U.S.A.
A DIVISION OF TEXACO INC.
P. O. BOX 3109
MIDLAND, TEXAS 79702

June 9, 1982

192293 - Lee Carter Lease
Lea County, New Mexico

Mr. J. R. McGinley
420 South Main
Tulsa, Oklahoma 74103

Dear Mr. McGinley:

Enclosed please find one copy of the proposed Operating Agreement with an additional signature page and one copy of the revised AFE for the Lee Carter Well No. 1 which Texaco plans to drill in the latter part of the third quarter of this year. Please review these instruments and return the executed signature page to us by July 9, 1982. Should you not return it to us by that time, we will conclude that you are not interested in joining and will proceed accordingly.

Your prompt consideration of this offer is appreciated.

Yours very truly,

E. H. Watkins
Land Manager

By _____
Ron Griggs

JRG-BW
Enclosures

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
Texaco EXHIBIT NO. 2
CASE NO. 7643, 7650

TEXACO
PETROLEUM PRODUCTS

PRODUCING DEPARTMENT

TEXACO
U.S.A.
A DIVISION OF TEXACO INC.
P. O. BOX 3109
MIDLAND, TEXAS 79702

June 9, 1982

192293 - Lee Carter Lease
Lea County, New Mexico

Lamroy Inc.
420 South Main
Tulsa, Oklahoma 74103

Attention: Mr. Bob Burke

Gentlemen:

Enclosed please find one copy of the proposed Operating Agreement with an additional signature page and one copy of the revised AFE for the Lee Carter Well No. 1 which Texaco plans to drill in the latter part of the third quarter of this year. Please review these instruments and return the executed signature page to us by July 9, 1982. Should you not return it to us by that time, we will conclude that you are not interested in joining and will proceed accordingly.

Your prompt consideration of this offer is appreciated.

Yours very truly,

E. H. Watkins
Land Manager

By _____
Ron Griggs

JRG-BW
Enclosures

TEXACO
PETROLEUM PRODUCTS

PRODUCING DEPARTMENT

TEXACO
U.S.A.
A DIVISION OF TEXACO INC.
P. O. BOX 3109
MIDLAND, TEXAS 79702

June 9, 1982

192293 - Lee Carter Lease
Lea County, New Mexico

Cleroy Inc.
420 South Main
Tulsa, Oklahoma 74103

Attention: Mr. Bob Burke

Gentlemen:

Enclosed please find one copy of the proposed Operating Agreement with an additional signature page and one copy of the revised AFE for the Lee Carter Well No. 1 which Texaco plans to drill in the latter part of the third quarter of this year. Please review these instruments and return the executed signature page to us by July 9, 1982. Should you not return it to us by that time, we will conclude that you are not interested in joining and will proceed accordingly.

Your prompt consideration of this offer is appreciated.

Yours very truly,

E. H. Watkins
Land Manager

By _____
Ron Griggs

JRG-BW
Enclosures

TELEPHONE NUMBER
(918) 585-5853

J. R. McGINLEY, JR.
512 MAYO BUILDING
TULSA, OKLAHOMA 74103

MAILING ADDRESS
P O BOX 3405
TULSA, OK 74101

July 6, 1982

Texaco
P. O. Box 3109
Midland, Texas 79702

ATTN: E. H. Watkins

RE: 192293 Lee Carter Lease
Lea County, New Mexico

Gentlemen:

We are in receipt of your operating agreement sent under cover letter dated June 9, 1982. At this time we do not plan to participate in the proposed Lee Carter No. 1, NE/4 of Section 33-T16S-R37E, Lea County, New Mexico.

Please note for future reference our mailing address of:

J. R. McGinley, Jr.
P. O. Box 3405
Tulsa, OK 74101

Yours truly,

J. R. McGinley, Jr.

By: John R. McGinley, III

JRM,III/rgf

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

July 1, 1982,

OPERATOR TEXACO INC.

CONTRACT AREA Northeast Quarter (NE/4) of Section 33, T-16-S, R-37-E, from 6420 feet below the surface of the earth to 100 feet below the base of the Strawn formation.

COUNTY ~~XXXPARISH~~ OF Lea STATE OF New Mexico

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
Texaco EXHIBIT NO. 3
CASE NO. 7643, 7650

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between TEXACO INC., _____, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☒ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties, [redacted] shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost; and

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded; and

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties in the same proportions in which they shared in such prior production; and

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

TEXACO INC. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

At the earliest practical date, Operator shall commence the drilling of a well for oil and gas at ~~the following exact~~ a legal location in the East Half of the Northeast Quarter (E/2 NE/4) of Section 33, Township 16 South, Range 37 East, N.M.P.M., Lea County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to the Strawn formation or to 11,500 feet, whichever is the lesser

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

300% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first obtaining the written consent of such other party.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as Exhibit "E", or is a separate Agreement.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one year and so long thereafter as oil and or gas is produced from the interval or inter-

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and or surface facilities.

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

Without the consent of all parties,

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-five Thousand Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Ten Thousand Dollars ($ 10,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of one-fourth (1/4) due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

F. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

G. Preferential Right to Purchase:

Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand Dollars ($ 5,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.

__ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and or so long as oil and/or gas production continues from any lease or oil and gas interest.

☒ Option No 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 60 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 60 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

(a) Each party will use its best efforts to abstain from distributing any information or photographs to the press or other media without the approval of all the parties except as required by law or regulation. When all parties have reviewed such material, and all parties have approved the issuance of the material, the company designated as operator shall have the principal responsibility for its issuance. The only other exception to the foregoing shall be that in the event of an emergency involving extensive property damage, operations failure, loss of human life or other clear emergency, the party designated as operator is authorized to furnish such minimum strictly factual information as shall be necessary to satisfy the legitimate public interest on the part of the press and duly constituted authorities. If time does not permit the obtaining of prior approval by the other party or parties, such party shall thereupon promptly advise the other party or parties of the information so furnished.

(b) As to any contract executed by operator with an independent contractor covering operations or services to be performed on properties covered by this operating agreement, operator shall require that any indemnification provision contained therein shall extend to and inure to the benefit of non-operator in the same manner as operator.

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of July, 1982.

APPROVED AS TO:
Contract GK
Terms
Form
Acct.

OPERATOR

TEXACO INC.

By _____
Attorney-in-Fact

NON-OPERATORS

ATTEST

By _____

SOHIO PETROLEUM CORPORATION

By _____

ATTEST

By _____

CLEROY INC.

By _____

ATTEST

By _____

LANROY INC.

By _____

ATTEST

By _____

J. R. McGINLEY

By _____

ATTEST

By _____

SUN PRODUCTION COMPANY

By _____

ATTEST

By _____

PRODUCING ROYALTIES, INC.

By _____

ATTEST

By _____

W. T. REED

By _____

ATTEST

By _____

PETROLEUM CORPORATION OF TEXAS

By _____

ATTEST

By _____

HERITAGE RESOURCES

By _____

ATTEST

By _____

FELMONT OIL CORPORATION

By _____

ATTEST

By _____

MARY RUTH McCOREY

By _____

EXHIBIT "A"

(Attached to and made a part of Operating Agreement dated July 1, 1982, between TEXACO INC. and PRODUCING ROYALTIES, INC. et al)

CONTRACT AREA

The Northeast Quarter (NE/4) of Section 33, T-16-S, R-37-E, from 6420 feet below the surface of the earth to 100 feet below the base of the Strawn formation.

INTERESTS AND ADDRESSES OF THE PARTIES

Texaco Inc. P. O. Box 3109 Midland, Texas 79702	74.125001%
Sohio Petroleum Corporation 50 Penn Place Oklahoma City, Oklahoma 73118	6.250000%
✓ Felmont Oil Corporation P. O. Box 2266 Midland, Texas 79702	4.000000%
✓ Mary Ruth McCorey C/O Jim McCorey P. O. Box 25764 Albuquerque, New Mexico 87125	3.125000%
✓ Cleroy Inc. 420 South Main Tulsa, Oklahoma 74103	2.083333%
✓ Lanroy Inc. 420 South Main Tulsa, Oklahoma 74103	2.083333%
✓ J. R. McGinley et ux Catherine 420 South Main Tulsa, Oklahoma 74103	2.083333%
Sun Production Company P. O. Box 1861 Midland, Texas 79702	1.666667%
Producing Royalties, Inc. P. O. Box 1071 Lubbock, Texas 79407	1.562500%
W. T. Reed 10143 Buckwood Drive El Paso, Texas 79925	1.562500%
Petroleum Corporation of Texas P. O. Box 911 Breckenridge, Texas 76024	.833333%
Heritage Resources, a general partnership composed of Dorothy Wentz Sparks, Baren Healey and Burke Healey as Trustee for the Dorothy Wentz Trust P. O. Box 777 Davis, Oklahoma 73030	.625000%

have leased to Texaco

EXHIBIT "B"

(Attached to and made a part of Operating Agreement dated July 1, 1982, between TEXACO INC. and PRODUCING ROYALTIES, INC. et al)

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT, made this _____ day of _____, 19____, between

_____

_____

_____

_____

whose address is _____,

Lessor (whether one or more), and _____, Lessee,

whose address is _____, **WITNESSETH:**

1. Lessor in consideration of _____ Dollars

($_____) in hand paid, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee, for the purpose, by any means or methods, of testing for formations or structures and prospecting and drilling for, mining, and producing oil, gas, distillate, condensate, helium, carbon dioxide, uranium, thorium, salt, sulphur and all other minerals, whether similar or dissimilar to those mentioned, injecting water, other fluids, air, steam, or gas, into subsurface strata, storing minerals and fluids, laying pipe lines, dredging canals, building, using and maintaining roads, bridges, docks, tanks, powers, stations, telephone and electric transmission lines, and other structures and facilities, including houses for employees, for producing, saving, caring for, treating, processing, and transporting minerals and substances covered hereby and for conducting said operations, the following described land, including any reversionary rights therein, in _____ County, New Mexico, together with all land or interests owned by Lessor adjoining or contiguous to such land, whether in the same or different sections, to-wit:

For determining the amount of any rental or shut-in gas royalty payment hereunder, the leased premises shall be treated as comprising _____ acres, whether there be more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of ten years from this date (hereinafter called "primary term"), and as long thereafter as oil, gas, condensate, sulphur or any other mineral or substance covered hereby is produced hereunder or from the land above described, or any operations (as hereinafter defined) are conducted, any payment is made, or any condition exists, which as hereinafter provided continues this lease in force.

3. The royalties to be paid by Lessee are (a) on oil, including but not limited to distillate and condensate recovered by ordinary field separators, ~~one-eighth (1/8th)~~ 3/4 of that produced and saved from the leased premises, the same to be delivered at the wells or to the credit of Lessor in the pipe line to which the wells may be connected, or in the absence of a pipeline connection to the transporter receiving Lessee's oil, and at the same price received by Lessee; provided, however, Lessee may from time to time purchase such royalty oil, paying therefor the market value at the wells in the field or area for oil (crude) having the same or nearest to the same gravity, or at (but not more than) the price received by Lessee for Lessee's oil; (b) on gas, including casinghead gas and all other gaseous or vaporous substances, produced from said land and sold or used off the leased premises or in the manufacture of gasoline or in the extraction of sulphur or any other product, the market value at the wells of ~~one-eighth (1/8th)~~ 3/4 of the gas so sold or used, such market value at the wells in no event to exceed the ~~one-eighth (1/8th)~~ 3/4 of the net proceeds received by Lessee calculated or allocated back to the wells from which produced; provided that on gas sold at the wells, the royalty shall be ~~one-eighth (1/8th)~~ 3/4 of the net proceeds received by Lessee from such sale, and provided further that, if any such sale of gas is regulated as to price by any governmental agency having jurisdiction, such market value or net proceeds shall in no event exceed the amount received by Lessee, calculated or allocated back to the wells from which produced, which is not subject to refund and which amount may be further adjusted up or down prospectively or retrospectively when the price or rate authorized by such governmental agency is finally determined; (c) on sulphur produced as such and marketed, One Dollar ($1.00) per long ton (2240 lb.); (d) on all other minerals or substances covered hereby produced or mined, one-twentieth (1/20th) in kind of the crude product or crude ore to be delivered at the wellhead or at the point at which a mined product or ore reaches the surface, or at Lessee's election, one-twentieth (1/20th) of the value (at the wellhead or at the point at which a mined product or ore reaches the surface) of the crude product or crude ore produced or mined and marketed. During any period (whether before or after the expiration of the primary term hereof) while there is a gas well or wells completed hereunder and gas is not being sold or used and the well or wells are shut in and this lease is not being otherwise continued in effect under its terms or by production or operations, Lessee may pay or tender as royalty an amount (which shall be the same regardless of the number of shut-in wells) per half year, equal to one-half the annual rental hereinafter provided, and it will be considered that gas is being produced for all purposes of this lease during the entire period for which any such payment is made or tendered (regardless of any subsequent shutting in of the well or wells following any gas sale, sales or use made during any such half-year period); such amount for the first half year to be payable within ninety (90) days following the shutting in of the first well unless production or operations are commenced or resumed during such ninety (90) day period, or, if this lease is then otherwise being maintained in force under its terms, within ninety (90) days following a cessation of production or operations, unless production or operations are commenced or resumed during such ninety (90) day period, and for subsequent periods in like manner semi-annually in advance thereafter. Each such royalty payment or tender may be made by check or draft of Lessee to the parties entitled to receive royalties in the same manner as provided for "rental" payments under Paragraph Four (4) hereof. Within the meaning hereof, the term gas well or wells shall include wells capable of producing natural gas, condensate, distillate, or any vaporous substance covered hereby, and wells classified or capable of being classified as gas wells by any governmental authority. Lessee shall have free use of oil, distillate, condensate, gas and water from the leased premises, except water from Lessor's wells and tanks, for all operations hereunder.

4. If operations are not commenced hereunder on or before one year from this date, this lease shall then terminate as to both parties unless Lessee on or before the expiration of said period shall pay or tender to Lessor, or to the credit of Lessor in _____ Bank at _____ or any successor bank, the sum of _____ Dollars ($_____), hereinafter called "rental," which shall extend for twelve (12) months the time within which operations may be commenced. Thereafter, annually, in like manner and upon like payments or tenders the commencement of operations may be further deferred for periods of twelve (12) months each during the primary term. Payment or tender of rental may be made by check or draft of Lessee delivered or mailed to the authorized depository bank or to Lessor (at address last known to Lessee) on or before such date for payment, and the payment or tender will be deemed made when the check or draft is so delivered or mailed. If said named or successor bank (or any other bank which may, as hereinafter provided, have been designated as depository) should fail or liquidate or for any reason refuse or fail to accept rental, Lessee shall not be held in default for failure to make such payment or tender of rental until ninety (90) days after Lessor shall deliver to Lessee a proper recordable instrument naming another bank to receive such payments or tenders. The above named or successor bank or any other bank which may be designated as depository shall be Lessor's agent. Operations hereunder shall be deemed to be commenced when the first material is placed on the leased premises or when the first work, other than surveying or staking the location, is done thereon which is necessary for such operations.

5. If during the primary term and before there has been a discovery of any mineral or substance covered hereby on the leased premises, Lessee should drill a dry hole or fail in any operation to establish production thereon, this lease shall not be terminated thereby if Lessee commences further or additional operations, or commences or resumes the payment or tender of rentals, on or before the rental paying date, if any, next ensuing after ninety (90) days following the completion of the dry hole or failure of such operation to establish production, or, if there be no rental paying date, commences further or additional operations within ninety (90) days thereafter or before the expiration of the primary term, whichever is the later date. If after the discovery of any mineral or substance covered hereby, the production of all such minerals and substances should cease from any cause, this lease shall not be terminated thereby if, within ninety (90) days thereafter, production of any mineral or substance covered hereby is commenced, resumed or restored, or, if within ninety (90) days thereafter, Lessee commences further or additional operations hereunder, this lease shall remain in force so long as operations (whether on the same well or mine or on different wells or mines successively) are continuously prosecuted and if any such operations result in the production of any mineral or substance covered hereby, so long thereafter as any mineral or substance covered hereby is produced hereunder from the leased premises, or, if cessation of such production occurs within the primary term hereof, this lease shall not be terminated thereby if Lessee commences or resumes the payment or tender of rentals on or before the rental paying date, if any, next ensuing after ninety (90) days following cessation of such production, or if, on or before such rental paying date, or if there be no rental paying date within ninety (90) days after such cessation or before the expiration of the primary term, whichever is the later date, Lessee commences additional or further operations hereunder and thereafter continuously prosecutes same and if any such operations result in the production of a mineral or substance covered hereby, so long thereafter as any such mineral or substance covered hereby is produced from the leased premises. If at the expiration of the primary term, no mineral or other substance covered hereby is being produced on the leased premises but Lessee is then engaged in operations thereon, or shall have drilled a dry hole or failed in any operation to establish production thereon within ninety (90) days prior to the end of the primary term, this lease shall remain in force so long as operations (whether on the same well or mine or on different wells or mines successively) are continuously prosecuted, and, if any such operations result in the production of a mineral or substance covered hereby, so long thereafter as any mineral or substances covered hereby is produced from the leased premises. All operations under this lease shall be deemed to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion of operations on any well or mine and the commencement or resumption of operations on the same or another well or mine. It is the intention hereof that this lease shall continue in effect for and during any such ninety (90) day period for all purposes hereunder.

6. Lessee shall have the right at any time until one year after the expiration of this lease to remove all fixtures and other property placed by Lessee on the leased premises, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth in cultivated land. Lessee shall pay Lessor for damages to Lessor's growing crops caused by Lessee's operations. No well shall be drilled within two hundred (200) feet of any residence, barn or irrigation well now on said land without Lessor's consent. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within three hundred thirty (330) feet of and draining the leased premises, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances and which would be reasonably expected to be profitable to Lessee.

7. Lessee is hereby granted the right and power, to be exercised at its option at any time or times, to pool or combine the acreage covered by this lease, or any portion thereof or any undivided interest covered thereby, so to oil and gas, or either of them, with other land, lease, leases, mineral or royalty interests, or any portion thereof, as to which or undivided interests therein and regardless of ownership thereunder, in the immediate vicinity thereof, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore or develop and operate said leased premises. Units pooled for oil hereunder shall not exceed 80 acres each in area, plus a tolerance of 10% thereof, and units pooled for gas hereunder shall not exceed in area 640 acres each, plus a tolerance of 10% thereof, provided that if governmental authority, State or Federal, prescribes, allows or permits by regulation, rule, or order of statewide or special field rule application larger spacing or proration units for the development or operation of the unit or the field in which the unit is located or allocates a producing allowable based in whole or in part on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed, allowed or permitted or that may be used in such allocation or allowable. Any unit formed hereunder need not conform in size or area to any other unit; and units may be created hereunder to embrace all strata or any stratum or strata. The pooling in one or more instances shall not exhaust the rights

of Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the county where the unit is situated a written designation and description of each unit formed hereunder, and such instrument shall specify the effective date of the unit. Lessee wholly at its option may exercise its pooling option either before or after commencing operations for or completing an oil or gas well on acreage included in the unit, and any unit may include, but is not required to include, land or leases upon which a well producing or capable of producing oil or gas in paying quantities has theretofore been completed, or upon which operations have theretofore been commenced. Operations upon or production from any part of the pooled unit which includes all or a portion of the land covered by this lease, regardless of whether such operations were commenced or such production was secured before or after the execution of this lease, or the instrument designating the pooled unit, shall be considered as operations upon or production from the land covered by this lease, whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes as if the same were included in this lease, except that the royalty on production from the unit shall be as below provided. In respect to production from the unit, Lessee shall pay Lessor, in lieu of other royalties thereon, only such portion of the royalty stipulated in Paragraph 3 above as the amount of his acreage placed in the unit, or his royalty interest therein on an acreage basis, bears to the total acreage in the unit. A unit formed hereunder shall be valid and effective for all purposes of this lease (a) notwithstanding the fact that there may be mineral, royalty, overriding royalty, leasehold or other interests in lands within the unit which are not effectively pooled or unitized, or (b) notwithstanding the fact that any well projected or drilled on a unit designated or formed hereunder is nonproductive, plugged or abandoned, or is completed as a producer of a mineral not so pooled or unitized by such instrument designating and describing said unit. Any unit formed by Lessee hereunder may be dissolved by Lessee at any time by instrument filed for record in the county in which the leased premises are situated whether before drilling operations are commenced or after any failure to establish unit production or the cessation of production and/or operations on said unit, as the case may be.

8. The rights of either party hereunder may be assigned or subleased in whole or in part and the provisions hereof shall extend to their heirs, successors, sublessees, and assigns. However, no change or division in ownership of the lands, rentals, or royalties, shall enlarge the obligations or diminish the rights of Lessee. No change or division in such ownership shall be binding on Lessee until ninety (90) days after the Lessee shall have been furnished by registered mail with the original or a certified copy of the recorded instrument or instruments evidencing same. In the event of assignment or sublease hereof in whole or in part, liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof or of an interest therein who commits such breach. In the event of the death of any person entitled to rentals hereunder, Lessee may pay or tender such rentals to the authorized depository bank to the credit of the deceased or to the credit of the estate of the deceased until such time as Lessee is furnished proper evidence of the appointment and qualification of an executor or administrator of the estate or, if there be none, then until Lessee is furnished evidence satisfactory to it as to the heirs or devisees of the deceased. In event of assignment or sublease of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportionable among the several leasehold owners (including sublessees) ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners (including sublessees). Any payment or tender, including but not limited to rental and shut-in royalty, which is made under the terms of this lease in good faith and with reasonable diligence by Lessee in an attempt to make proper payment, but which is erroneous in whole or in part as to parties, amount, due date, property description, or depository, shall nevertheless be sufficient to prevent termination of this lease and further maintain this lease in effect in the same manner as though a proper payment had been made; provided, however, Lessee shall correct such error within thirty (30) days after Lessee has received written notice from the party or parties entitled to receive the same of such error, together with such instruments as are necessary to enable Lessee to make proper payment.

9. Lessee may at any time, and from time to time, execute and deliver to Lessor or place of record a release covering all or any portion of the leased premises or any mineral or stratum thereunder, and thereupon shall be relieved of all obligations as to the mineral, stratum, or acreage surrendered. After a release of all minerals and strata of this lease as to only part of the acreage, the payments hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by each such release.

10. In the event Lessor, either before or after production has been secured, considers that Lessee has failed to perform or to comply with any of the expressed or implied obligations of this agreement, Lessor shall notify Lessee in writing alleging specifically the respects in which Lessor considers Lessee has so failed to perform or comply, and Lessee shall have ninety (90) days after receipt of any such notice within which to remedy, or commence to remedy, any such default so alleged by Lessor. The delivery of said notice to Lessee and the lapse thereafter of ninety (90) days shall be a condition precedent to the bringing of any action by Lessor under this agreement. Neither the delivery of any such notice nor the performance thereafter by Lessee of any act aimed to remedy any default alleged by Lessor in any said notice shall be deemed an admission or presumption that Lessee is in default as to such obligation and there shall be no cancellation of this agreement, in whole or in part, for failure by Lessee to remedy or commence to remedy any default alleged by Lessor until the existence of such default by Lessee has been finally declared judicially and until a reasonable time thereafter has been allowed to remedy such default.

11. When production or operations are delayed, suspended, or interrupted by lack of water, labor or material, or by fire, storm, flood, war, rebellion, insurrection, riot, strike, differences with workmen, or by failure of carriers, gatherers, or purchasers, to take delivery or to transport or to furnish facilities therefor, or by failure, accident or breakdown, mechanical or otherwise, of producing, treating, gathering or delivery facilities, plants or pipe lines, including the necessity of making repairs or alterations thereof, or by lack of market in the field for the minerals or other substances covered hereby and produced hereunder, or as the result of any cause whatsoever beyond the control of Lessee, or if Lessee is required, ordered, or directed, by any Federal, State, or municipal law, executive order, rule, regulation or request, enacted or promulgated under color of authority, or by any official acting thereunder, to cease operations or production on the leased premises, the time of any such delay, suspension, or interruption shall not be counted against Lessee and this lease shall remain in force during such delay, suspension, or interruption and ninety (90) days thereafter, anything in this lease to the contrary notwithstanding.

12. Lessor hereby warrants and agrees to defend the title to said land. If Lessor owns less interest than the entire fee or mineral estate (even though this lease purports to cover only such lessor interest) the rentals, royalties or other payments to be paid Lessor shall be reduced proportionately. Lessee at its option may discharge any tax, mortgage, or other lien upon said land either in whole or in part, and thereby be subrogated to such lien with the right to enforce same and apply rentals and royalties toward satisfying same.

13. Whenever used in this lease, the word "operations" shall mean all work involved in or necessary or incidental to any one or more of the following: drilling, testing, completing, reworking, recompleting, deepening, side-tracking, plugging back, or repairing of a well, or excavation of a mine, in search for or in an effort to obtain, restore or increase production of oil, gas, sulphur or other mineral or substance covered hereby, or the conducting of secondary or tertiary recovery operations (through any existing or future method, including without limitation waterflooding) in an effort to obtain, restore or increase production of oil, gas, sulphur, or other mineral or substance covered hereby.

14. The leased premises and any facilities, including, but not limited to, any well or wells drilled or used for injection of water, other fluids, air, steam, or gas, any tank battery, tankage, or equipment for treating, compressing, handling, or transporting oil, gas, or other fluid, any pipeline or gathering system, or any road to and from or over the leased premises, placed or used thereon for any purpose, may also be used for Lessee's activities on other lands in the vicinity. Lessee is hereby granted the right of ingress and egress for road, pipeline, telephone or electrical transmission purposes, over other lands in the vicinity belonging to Lessor, for the purpose of carrying on or performing any activity or operation under this lease.

15. Should any one or more of the parties above named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor, their heirs, successors and assigns. Should any party execute this lease who is not named above as Lessor, it shall nevertheless be binding upon the party or parties executing the same. As used in this lease, the masculine gender includes the feminine and neuter genders.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

____________________ ____________________

____________________ ____________________

____________________ ____________________

____________________ ____________________

LESSOR

ACKNOWLEDGMENT

STATE OF NEW MEXICO }
COUNTY OF ________________ }

The foregoing instrument was acknowledged before me this ________ day of ________________, 19____

by________________________________

____

My Commission Expires________________ Notary Public in and for ________________ County, New Mexico

ACKNOWLEDGMENT

STATE OF NEW MEXICO }
COUNTY OF ________________ }

The foregoing instrument was acknowledged before me this ________ day of ________________, 19____

by________________________________

____

My Commission Expires________________ Notary Public in and for ________________ County, New Mexico

WHEN RECORDED RETURN TO

This instrument was filed for record on the____________ day of ____________ 19____, at ______ o'clock ____ M., and duly recorded in Vol.________, Page________ of the ____________ Records of this Office.

____

County Clerk. ________________ County, New Mexico.

By____________________ Deputy.

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated July 1, 1982, between TEXACO INC. and PRODUCING ROYALTIES, INC. et al.

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-two percent (22%) or percent most recently recommended by the Council of Petroleum Accountants Societies of North America.

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:

(X) 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 (X) 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 $ 3,750.00
Producing Well Rate $ 375.00

(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 $_____:

A. _____% of total costs if such costs are more than $_____ but less than $_____; plus

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

C. _____% 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

* To Be Negotiated

(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 or 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.

EXHIBIT "D"

(Attached to and made a part of Operating Agreement dated July 1, 1982, between TEXACO INC. and PRODUCING ROYALTIES, INC. et al)

INSURANCE PROVISIONS

Unit Operator shall carry the following insurance with respect to Unit Operations:

(1) Public liability and property damage insurance with limits of $100,000.00 for injuries to or death of one person and $300,000.00 for injuries or deaths in one accident, and $100,000.00 for property damage in one accident.

(2) Automobile public liability and property damage insurance with limits of $100,000.00 for injuries to or death of one person and $300,000.00 for injuries or deaths in one accident, and $100,000.00 for property damage in one accident.

All insurance coverage required hereby shall be carried at the joint expense and for the benefit of the Working Interest Owners. Premiums for automobile public liability and property damage insurance or Unit Operator's fully owned equipment shall not be charged directly to the joint account, but will be covered by the flat rate charge assessed for the use of such equipment. Unit Operator will not carry fire, windstorm or explosion insurance covering Unit Operations or Unit Equipment.

Contractors and subcontractors will be required to carry insurance of the same types as hereinabove specified and in such amounts as deemed necessary by Working Interest Owners.

If the parties hereto or any of them shall insure their respective risks beyond the specific limits of insurance required hereunder to be carried by the Unit Operator, the benefits of such insurance shall inure to the parties procuring and maintaining the same, respectively, and the cost of such insurance shall be borne by such parties, respectively, without reimbursement one from the other and without entering into any accounting hereunder.

EXHIBIT "E"

GAS STORAGE AND BALANCING PROCEDURE

(Attached to and made a part of Operating Agreement dated July 1, 1982, between TEXACO INC. and PRODUCING ROYALTIES, INC. et al)

The parties to the Operating Agreement to which this Exhibit "E" is attached own the working interest in the gas rights underlying the Unit Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

Subject to all of the terms of the Operating Agreement, each party has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent of the allowable gas production assigned to such proration unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. Each party taking gas shall furnish, or cause to be furnished, the Operator a monthly statement of gas taken. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto and their purchasers monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in storage less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying fifty percent (50%) of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the proration unit of such party with gas in storage and the denominator of which is the total percentage interest in such proration unit of all parties with gas in storage currently taking or delivering to a purchaser. This agreement shall constitute a separate agreement as to each reservoir in the Unit Area, except if production from two or more reservoirs is commingled in the wellbore so that the gas from each such reservoir cannot be separately metered, the commingled producing horizons shall then be considered to be a single reservoir for the purpose of this agreement. When gas production from a reservoir in a proration unit permanently ceases in an unbalanced condition, the underproduced party may take gas production from the other proration units in the Unit Area producing from the same reservoir. Production cannot be taken from one reservoir for the purpose of balancing underproduction from other reservoirs.

Each party producing and taking or delivering as to its purchaser shall pay any and all production taxes due on such gas.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

When gas production from a gas well reservoir permanently ceases, it shall be the obligation of the Unit Operator to determine the final accounting of underproduction and overproduction and each overproduced party shall account to and compensate each underproduced party with a sum of money equal to the amount actually received, less applicable taxes and royalties, by any overproduced party from the sale of that part of the total cumulative volume of gas produced which the underproduced party was entitled to take. Payment for such overproduction shall be in the order of accrual.

EXHIBIT "F"

(Attached to and made a part of Operating Agreement dated July 1, 1982, between TEXACO INC. and PRODUCING ROYALTIES, INC. et al)

NON-DISCRIMINATION AND CERTIFICATION OF NON-SEGREGATED FACILITIES

EQUAL EMPLOYMENT OPPORTUNITY

During the performance of the contract described above, Contractor agrees to the following additional terms and conditions to the extent they may be applicable to the work to be performed under such contract in accordance with the provisions of the following described Executive Orders, Acts, and implementing rules and regulations issued thereunder.

A. E.O. 11246, as amended by E.O. 11375 (Race, Color, Religion, Sex and National Origin)

1. If the contract is in excess of $10,000, the Contractor agrees to comply with the provisions of Section 202 of such Order (the "Equal Opportunity clause"), which clause is incorporate herein by reference pursuant to the regulations promulgated under such Order (41 C.F.R. Sec. 60-1.4(a)).

2. If the contract is in excess of $10,000, the Contractor certifies that it does not maintain or provide, nor will it maintain or provide for its employes any segregated facilities at any of its establishments, and that it does not permit nor will it permit its employes to perform their services at any location, under its control, where segregated facilities are maintained.* Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause of Executive Order 11246. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontractors exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity clause; that it will retain such certifications in its files; and that it will forward the precribed notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods).**

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*As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employes which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color or national origin because of habit, local custom or otherwise.

**The form of the prescribed notice is as follows: NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certificate of Nonsegregated Facilities as required by the May 9, 1967 order on Elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, seminannually or annually). Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.

3. If the contract is in excess of $50,000 and the Contractor has more than 50 employes, the Contractor agrees (a) to file annually, on or before March 31 of each year, (or within 30 days after the award of such contract if not filed within 12 months preceding the date of the award), complete and accurate reports on Standard Form 100 (EEO-1) with the appropriate governmental agency, in accordance with the regulations issued by the Secretary of Labor (41 C.F.R. Sec. 60-1.7), and (b) to develop a written affirmative action compliance program for each of its establishments in accordance with the regulations issued by the Secretary of Labor (41 C.F.R. Sec. 60-1.40).

B. E.O. 11701 (Section 402-Veterans Readjustment Act of 1974)

If the contract is in excess of $10,000, the Contractor agrees to comply with the affirmative action clause and regulations promulgated under such Order (41 C.F.R. Part 60-250) which clause is incorporated herein by reference pursuant to Section 60-250.22 of such regulations.

C. E.O. 11758 (Section 503-Rehabilitation Act of 1973)

If the contract is in excess of $2,500, the Contractor agrees to comply with the affirmative action clause and the regulations promulgated under such Order (41 C.F.R. Part 60-741), which clause is incorporated herein by reference pursuant to Section 60-741.22 of such regulations.

D. E.O. 11625 (Minority Business Enterprises)

1. If the contract is in excess of $10,000, the Contractor agrees to use its best effects to provide minority business enterprises with the maximum practicable opportunity to participate in the performance of such contract to the fullest extent consistent with the efficient performance thereof (41 C.F.R. Sec. 1-1.1310-2(a)).

2. If the contract is in excess of $500,000, the Contractor agrees to comply with the Minority Business Enterprises Subcontracting Program clause promulgated under such Order (41 C.F.R. Sec. 1-1.1310-2(b)), which clause is incorporated herein by reference.

E. Section 905-Railroad Revitalization and Regulatory Reform Act of 1976

1. The contractor agrees to comply with the requirements of Title 49 C.F.R. 265 Subpart B of the regulations promulgated under such Act regarding "Nondiscrimination in Federally assisted Railroad Programs" and the nondiscrimination clauses therein are incorporated herein by reference.

2. If the contract is for $50.000 or more, the Contractor agrees to comply with and implement the Affirmatative Action Program established pursuant to Section 265.11 of 49 C.F.R.

AUTHORITY FOR EXPENDITURE

M-112 (Drlg)

Lease Name & Well No. LEE CARTER WELL NO. 1 | Land Dept. Lease No. 192923 | Field ~~Casey-Strawn~~ WILDCAT

County Lea | State New Mexico | District Hobbs | Area Caprock

Classification: Exploratory ____ Development X | Oil X | Gas ____ | Depth 11,500'

Location 1980' FNL & 660' FEL, Section 33, T-16-S, R-37-E

QUANTITY	DESCRIPTION	CASH	M.O.H.
	WELL AND LEASE EQUIPMENT:		
	Surface Assembly: 13-3/8" x 8-5/8" x 5-1/2" x 2-7/8", 5000 psi W.P.	20,000	5,000
350'	13-3/8 " OD 48 # H-40, STC Casing		10,000
2100'	8-5/8 " OD 24 # K-55, STC "		30,300
2400'	8-5/8 " OD 28 # S-80, STC "		44,000
300'	8-5/8 " OD 32 # S-80, STC Drift to 7-7/8"		6,000
6500'	5-1/2 " OD 17 # K-55, LTC "		69,600
4500'	5-1/2 " OD 17 # N-80, LTC "		72,000
500'	5-1/2 " OD 17 # S-95, LTC "		4,200
1	Production Packer	8,000	
	" OD # "		
	" OD # "		
9500'	2-3/8 " OD 4.7 # J-55, EUE Tubing		41,800
2000'	2-3/8 " OD 4.7 # N-80, EUE "		13,600
3000'	2-7/8 " OD # T&C Line Pipe		13,900
	Installing Line Pipe	9,000	
SUB ACCT	INTANGIBLE DEVELOPMENT COSTS:		
760	Trucking	15,000	
761	Roads, Dirt Work, Pits	15,000	
762	Contract Drilling - Footage ft @ $		
763	Contract Drilling - Day Work 45 Days @ $ 7,500	337,500	
764	Contract Completion Unit (Incl.C.T.) 10 Days @ $1500	15,000	
765	Bits	50,000	3500
767	Salaries & Wages - Non-Rig (Co. Payroll only)		5,000
769	Drill Pipe Rental		
770	Directional Tools & Services		
771	Fishing Tools and Services		
772	Other Rental Tools & Eq. (Geograph, Gas Detector, Mud Logging Unit, Etc.)		
773	Mud and Additives	75,000	
774	Cementing & Services (Inc. Centralizers, Scrapers, Floating Equipment & Temp. Surveys)	65,000	2500
775	Water	30,000	
776	Fuel		
777	Coring Services and Analysis		
778	Drill Stem and Wire Line Testing Tests @ $		
779	Perforating	10,000	
780	Acidizing (x) and/or Fracturing ( )	20,000	
781	Electric Logging and Surveys	30,000	
782	Waste Disposal of Mud, Chemicals, Etc.		
783	Damages		
789	Other Drilling Costs (Inc. Cattle Guard, Staking, Location, State Permits, Etc.)	90,000	
	Tubing Inspection	10,000	
	Casing Crews	15,000	2500
	Rig Move in	100,000	
Well & Lse Eqpt	Gross $	TOTALS: $914,500	$ 315,400
IDC		Daystar 890,300	
Totals		GRAND TOTAL:	$1,229,900

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
Texaco EXHIBIT NO. 4
CASE NO. 7643, 7650

DISTRICT APPROVALS	DATE	OTHER APPROVALS	DATE
Petr. Engr JAH 5-6-82	5/7/82		
Comptroller		JCD	5/11/82
Warehouse			
Asst. Supt.			
Dist. Supt.			

Days to Drill 45 | Days to Complete 15 | Estimate No. ____

ARM'D(2), EGB, KEW, RWS, GLE, File

Dockets Nos. 27-82 and 28-82 are tentatively set for September 1 and September 15, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 18, 1982

9 A.M. - OIL CONSERVATION DIVISION - MORGAN HALL,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

ALLOWABLE: (1) Consideration of the allowable production of gas for September, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for September, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7635: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit CO_2-In-Action, Travelers Indemnity and all other interested parties to appear and show cause why the Trigg Well No. 3 located in Unit J, Section 25, Township 15 North, Range 28 East, San Miguel County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7636: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit CO_2-In-Action, Travelers Indemnity and all other interested parties to appear and show cause why the Amistad No. 1 located in Unit E of Section 18, and the Amistad No. 2 located in Unit D of Section 7, both in Township 19 North, Range 36 East, Union County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7637: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit R.A.F. Enterprises, Fireman's Fund Insurance Company and all other interested parties to appear and show cause why the Shaw Well No. 1, located in Unit M, Section 18, Township 4 North, Range 8 East, Torrance County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7638: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Cibola Energy Corporation, Mid-Continent Casualty Company, and all other interested parties to appear and show cause why the Simms Ranch Well No. 1, located in Unit N, Section 9, the Clyde Berlier Well No. 1, located in Unit K and the Clyde Berlier Well No. 2, located in Unit F, both in Section 21, the Mora Ranch Well No. 3 located in Unit M and the Mora Ranch Well No. 4, located in Unit M, both in Section 5, all in Township 21 North, Range 21 East, Mora County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7639: Application of Acoma Oil Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Wantz Abo, Drinkard and Blinebry Pool production in the wellbore of its S. J. Starkeys Lease Well No. 2, located in Unit B of Section 26, Township 21 South, Range 37 East.

CASE 7640: Application of Morris R. Antweil for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in all formations from the surface down through and including the Abo formation in and under the NE/4 NE/4 of Section 12, Township 20 South, Range 37 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7641: Application of Reading & Bates Petroleum Co. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in all formations from the surface down through the Devonian formation underlying the NW/4 SE/4 of Section 33, Township 14 South, Range 38 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7642: Application of Doyle Hartman for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface through the Jalmat Pool, underlying a previously approved 120-acre non-standard proration unit comprising the S/2 NE/4 and NE/4 NE/4 of Section 20, Township 25 South, Range 37 East, to be dedicated to a well to be drilled at a previously approved unorthodox location. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7643: Application of Texaco, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Drinkard and Strawn formations underlying the W/2 NE/4 of Section 33, Township 16 South, Range 37 East, Casey-West Knowles Area, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7650: Application of Texaco Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Drinkard and Strawn formations underlying the E/2 NE/4 of Section 33, Township 16 South, Range 37 East, Casey-West Knowles Area, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7644: Application of Rault Petroleum Corporation & McKay Petroleum Corporation for compulsory pooling, De Baca County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Abo formation underlying the SW/4 of Section 33, Township 3 South, Range 25 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7645: Application of Stevens Operating Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down to the base of the Abo formation underlying the NE/4 of Section 29, Township 7 South, Range 26 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7652: Application of Conoco Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Cisco formation underlying all of partial Sections 34 and 35, Township 20 1/2 South, Range 23 East, underlying a previously approved 688-acre non-standard proration unit, to be dedicated to a well at a previously approved unorthodox location which is to be re-entered. Also to be considered will be the cost of re-entering said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in re-entering said well.

CASE 7646: Application of Tenneco Oil Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Pennsylvanian gas well to be drilled 1855 feet from the North line and 660 feet from the East line of Section 25, Township 16 South, Range 33 East, the N/2 of said Section 25 to be dedicated to the well.

CASE 7651: Application of Nortex Gas & Oil Company for the amendment of Order No. R-6903, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Division Order No. R-6903 to provide that non-consenting working interest owners shall have thirty days following final adjudication of title in which to pay their proportionate share of well costs.

CASE 7647: Application of Guest Energy Corporation for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the San Andres formation in the open hole interval from 4150 feet to 5600 feet in its State A Well No. 2, located in Unit L of Section 26, Township 14 South, Range 33 East.

CASE 7653: Application of Rio Pecos Corporation for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Chaverlea-North Federal Unit Area, comprising 1,920 acres, more or less, of Federal and Fee lands in Township 8 South, Range 31 East.

CASE 7648: Application of Rio Pecos Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the top of the Wolfcamp to the base of the Pennsylvanian formation, underlying the W/2 of Section 35, Township 18 South, Range 24 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7654: Application of Rault Petroleum Corporation for an unorthodox gas well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location for an undesignated Pennsylvanian gas well to be drilled 600 feet from the South line and 660 feet from the West line of Section 13, Township 8 South, Range 27 East, the S/2 of said Section 13 to be dedicated to the well.

CASE 7306: (Reopened)

In the matter of Case 7306 being reopened pursuant to the provisions of Order No. R-6769 which promulgated temporary pool rules for Madera-Lower Penn Gas Pool in Lea County, including provision for 640-acre spacing units. All interested parties may appear and show cause why said pool should not be developed on 320-acre spacing.

CASE 7655: Application of Yates Petroleum Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Abo formation underlying the NW/4 of Section 20, Township 7 South, Range 26 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASES 7528 and 7529: (Continued from July 7, 1982, Examiner Hearing)

Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following two cases, seeks an order pooling all mineral interests down through the Abo formation underlying the lands specified in each case, each to form a standard 160-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon. Also to be considered in each case will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7528: NW/4 Section 4, Township 5 South, Range 24 East

CASE 7529: NE/4 Section 4, Township 5 South, Range 24 East

CASE 7649: Application of Southern Union Exploration Company for retroactive exemption, San Juan and Rio Arriba Counties, New Mexico. Applicant, in the above-styled cause, seeks the retroactive exemption from Section 5 of the New Mexico Natural Gas Pricing Act of the following Basin Dakota infill wells: Jicarilla A No. 13-E in Unit N of Section 13 and Jicarilla A No. 10-E in Unit G of Section 23, both in Township 26 North, Range 4 West, and Jicarilla K No. 15-E in Unit A of Section 1, Township 25 North, Range 5 West, all in Rio Arriba County, and the Hodges No. 15-E in Unit J of Section 27, Township 26 North, Range 8 West. Each of the aforesaid wells was subject to the New Mexico Natural Gas Pricing Act until exempted from same by the Division on July 23, 1982, and applicant seeks the retroactive exemption of each of said wells to date of first delivery into the pipeline which ranges from December 24, 1980 to January 11, 1982.

CASE 7594: (Continued from July 21, 1982, Examiner Hearing)

Application of Harvey E. Yates Company for statutory unitization, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purposes of a secondary recovery project, all mineral interests in that portion of the Bone Spring formation described as the Carbonate unit between the first and second Bone Spring Sands underlying the Young Deep Unit, encompassing 560 acres, more or less, of Federal lands underlying portions of Sections 3, 4, 9 and 10, Township 18 South, Range 32 East.

LAW OFFICES

HINKLE, COX, EATON, COFFIELD & HENSLEY

1000 FIRST NATIONAL BANK BUILDING

POST OFFICE BOX 3580

MIDLAND, TEXAS 79702

(915) 683-4691

LEWIS C. COX*
PAUL W. EATON
CONRAD E. COFFIELD
HAROLD L. HENSLEY, JR.*
STUART D. SHANOR*
C. D. MARTIN
PAUL J. KELLY, JR.*
JAMES H. BOZARTH
DOUGLAS L. LUNSFORD*
PAUL M. BOHANNON
ERNEST R. FINNEY, JR.
J. DOUGLAS FOSTER
T. CALDER EZZELL, JR.*
WILLIAM B. BURFORD
JOHN S. NELSON*
RICHARD E. OLSON*
DEBORAH NORWOOD
ANDERSON CARTER, II
STEVEN D. ARNOLD
JEFFREY L. BOWMAN
JOHN C. HARRISON*
DAVID L. SPOEDE
JEFFREY D. HEWETT
JAMES BRUCE*

*NOT LICENSED IN TEXAS

OF COUNSEL
CLARENCE E. HINKLE
ROY C. SNODGRASS, JR.
O. M. CALHOUN

W. E. BONDURANT, JR. (1913-1973)
ROBERT A. STONE (1905-1984)

ROSWELL, NEW MEXICO OFFICE
600 HINKLE BUILDING
POST OFFICE BOX 10
(505) 622-6510

AMARILLO, TEXAS OFFICE
1700 AMERICAN NATIONAL BANK BUILDING
POST OFFICE BOX 10068
(806) 372-5569

July 23, 1982

Case 7643

Mr. Dan Nutter
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Texaco Inc. Application for Compulsory Pooling, Lea County, New Mexico

Dear Dan:

I am transmitting herewith, executed in triplicate, copies of an Application for Texaco Inc. for compulsory pooling regarding its Lee Carter Well #1 in W½NE¼ Section 33, Township 16 South, Range 37 East, N.M.P.M., Lea County, New Mexico. Please note that we have requested that this Application be set for hearing on August 18, 1982.

If any additional materials or information are required, please advise.

Very truly yours,

HINKLE, COX, EATON,
COFFIELD & HENSLEY

Conrad E. Coffield

CEC:cl
xc: Texaco Inc.
Attention: Bruce Pope
Ron Griggs

BEFORE THE OIL CONSERVATION DIVISION

OF THE ENERGY AND MINERALS DEPARTMENT

STATE OF NEW MEXICO

Casey-Stamm
W. Kramer-Dr

Case 7643

APPLICATION OF TEXACO INC. FOR)
COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

APPLICATION

Texaco Inc., by its undersigned attorneys, hereby makes application for an Order pooling all interests in the Drinkard and Strawn formations underlying the W½NE¼ Section 33, Township 16 South, Range 37 East, N.M.P.M., Lea County, New Mexico, and in support thereof would show:

1. Applicant is entitled to proceed with the drilling of a well located in the W½NE¼ of Section 33, Township 16 South, Range 37 East, N.M.P.M., Lea County, New Mexico, under the authority of Applicant's ownership of an oil and gas leasehold interest therein.

2. Applicant proposes to drill its Lee Carter Well ~~#1~~ #2 at a legal location in said W½NE¼ Section 33, to a depth sufficient to test the Drinkard and Strawn formations and seeks to dedicate the W½NE¼ of Section 33 to the well. Applicant requested the parties listed on the attached schedule as leasehold owners of mineral interests in W½NE¼ Section 33 to agree to participate in the drilling of said well or to farmout or otherwise commit their interests to said well, but the parties so far have refused to do so.

3. Applicant asks that the Division consider the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charged for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

4. The pooling of all interests in the Drinkard and Strawn formations in W½NE¼ Section 33 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

5. Applicant respectfully requests the setting of this matter before the Division at its regular hearing on August 18, 1982.

Dated this 23rd day of July, 1982.

HINKLE, COX, EATON, COFFIELD & HENSLEY

By: _____

Conrad E. Coffield
Post Office Box 3580
Midland, Texas 79702
Attorneys for Texaco Inc.

SCHEDULE

Mr. J. R. McGinley
420 South Main
Tulsa, Oklahoma 74103

Lanroy Inc.
420 South Main
Tulsa, Oklahoma 74103

Cleroy Inc.
420 South Main
Tulsa, Oklahoma 74103

ORDERS

STATE OF NEW MEXICO

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION

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

CASE NO. 7643

Order No. R-7062

APPLICATION OF TEXACO, INC. FOR
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on August 18, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of August, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Texaco, Inc., seeks an order pooling all mineral interests ~~in the Drinkard and Strawn~~ from the top of the Drinkard formation to a point 100 feet below the base of the Strawn formation underlying the W/2 NE/4 of Section 33, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico. Casey-West Knowles Area,

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil and gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $3750.00 per month while drilling and $375.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, ~~in the Drinkard and Strawn~~ from the top of the Drinkard formation to a point 100 feet below the base of the Strawn formations underlying the W/2 NE/4 of Section 33, Township 16 South, Range 37 East, NMPM, Casey-West Knowles Area, Lea County, New Mexico, are hereby pooled to form a standard 80-acre ~~gas~~ oil spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of December, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Drinkard and Strawn formations;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of December, 1982, Order (1) of this order shall be

null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Texaco, Inc. is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days

following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That $ 3750.00 per month while drilling and $ 375.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to

withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY,
Director

S E A L