

CASE 5157: Application of CITIES  
SERVICE FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

CASE No.

5157

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Application,

Transcripts,

Small Exhibits

ETC.

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
January 30, 1974

EXAMINER HEARING

IN THE MATTER OF:

Application of Cities Service Oil  
Company for compulsory pooling,  
Eddy County, New Mexico.

Case No. 5157

IN THE MATTER OF:

Application of Jake L. Hamon for  
compulsory pooling and for an  
unorthodox location, Eddy County,  
New Mexico.

Case No. 5164

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil  
Conservation Commission:

William F. Carr, Esq.  
Legal Counsel for the Com-  
mission  
State Land Office Building  
Santa Fe, New Mexico

For the Applicant:  
Cities Service Oil Company

Thomas Kellahin, Esq.  
KELLAHIN & FOX  
500 Don Gaspar  
Santa Fe, New Mexico

For the Applicant:  
Jake Hamon

Clarence Hinkle, Esq.  
HINKLE, BONDURANT, COX  
and EATON  
Hinkle Building  
Roswell, New Mexico

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MR. NUTTER: We will call Case 5157.

MR. CARR: Case 5157. Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico.

(Whereupon, a discussion was held off the record.)

MR. NUTTER: We will also call at this time, Case 5164.

MR. CARR: Case 5164. Application of Jake L. Hamon for compulsory pooling and for an unorthodox location, Eddy County, New Mexico.

MR. KELLAHIN: Tom Kellahin of Kellahin and Fox, Santa Fe, New Mexico, appearing on behalf of the Applicant, Cities Service Oil Company and I have three witnesses to be sworn.

MR. HINKLE: Clarence Hinkle, Hinkle, Bondurant, Cox and Eaton, appearing on behalf of Jake Hamon. I have two witnesses.

(Witnesses sworn.)

MR. NUTTER: We will proceed first with the Direct Testimony in Case 5157. Mr. Kellahin you are for the Applicant.

FRANK RINEY

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Will you please state your name, by whom you are employed and in what capacity?

A Frank Riney, Cities Service Oil Company as Manager.

Q Mr. Riney, have you previously testified before this Commission?

A Yes.

Q Are you familiar with the facts surrounding this particular Application?

A I am.

MR. KELLAHIN: If the Examiner please, are the witness' qualifications acceptable?

MR. NUTTER: Yes, they are.

BY MR. KELLAHIN:

Q Mr. Riney, would you please refer to what has been marked as Exhibit No. 1, identify it and explain briefly what Cities Service Oil Company is seeking?

A This is an oil-gas lease ownership plat of Township 21 South, Range 27 East, Eddy County, New Mexico, and outlined

RINEY-DIRECT

as the proposed proration units for our proposed tests in the south half of Section 9.

Q What acreage do you propose to dedicate to this particular well?

A South half of Section 9.

Q And does Cities Service Oil Company propose to be operator of this unit?

A We do.

Q What interests have not voluntarily joined you at this point in regards to the south half of Section 9?

A One-half interest is owned by J. M. Huber Corporation.

Q What acreage does Huber own?

A One-half interest in the southeast quarter of Section 9.

Q Would you please refer to what has been marked as Exhibit No. 2 and explain what this is?

A A copy of a letter we wrote to J. M. Huber Corporation, dated November 12th, 1973, in which we asked them to participate in the drilling of 11,600 foot Morrow test in the south half of Section 9.

Q Would you please refer to what has been marked as Exhibit 3?



RINEY-DIRECT  
CROSS

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A Exhibit 3 is a letter from J. M. Huber Corporation, dated November 15th, 1973, in which they asked that -- well, they proposed to wait for the results of the tests in Section 4 of 21 South, 27 East.

Q And would you refer to what has been marked as Exhibit 4?

A Exhibit 4 is a copy of our letter to J. M. Huber Corporation, dated January 19th, 1974, with a detail well estimate attached. We asked them to approve this and return it.

Q As of this date, Mr. Riney, has the Huber Corporation voluntarily joined you in the unit?

A No.

MR. KELLAHIN: That concludes my examination of this witness.

MR. NUTTER: Are there any questions of this witness?

MR. HINKLE: I might have one or two questions here.

CROSS EXAMINATION

BY MR. HINKLE:

Q These structural plats that you have referred to, they are based upon what, sub-surface interpretation?

MR. KELLAHIN: We have just come to those and I have another witness.

RINEY-CROSS

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CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Riney, when Huber referred to your letter he was waiting for the well in Section 4 to be completed, to your knowledge has the well been completed?

A To my knowledge, it has.

Q Do you know whether they got a producer or not?

A They did.

Q When was the well completed?

A I'm not sure. I don't know.

Q It has been completed as a producer, however?

MR. KELLAHIN: Yes, sir. Our geologist has that data.

BY MR. NUTTER:

Q You haven't heard anything further from Mr. Huber, or from the J. M. Huber Corporation since this letter of November 15, is this correct?

A Yes, we have, on January 4th.

MR. KELLAHIN: I don't have that one. What is the substance of that. Why don't you summarize for us what Mr. Huber's response was?

THE WITNESS: In this letter dated January 4th, 1974, from J. M. Huber Corporation, sets out that they would

RINEY-CROSS  
TAYLOR-DIRECT

request that we wait for the results of the tests in Section 4 and they advise that it has been finished and subsequent to the completion of that well Jake L. Hamon contacted them and requested that they join in drilling of a test 1650 from the north line 660 from the line of Section 9, and they were proposing to communitize the east half of Section 9.

BY MR. NUTTER:

Q Now, did they indicate they had a preference to go that way rather than --

A (Interrupting) They indicated they had a preference to go with J. L. Hamon, correct.

Q J. M. Huber has declined to join in the unit then?

A That is correct.

MR. NUTTER: Are there any further questions of Mr. Riney? You may be excused.

(Witness excused.)

E. E. TAYLOR

called as a witness, having been previously sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you please state your name, with whom you are employed and in what capacity?

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A My name is E. E. Taylor. I work for Cities Service as a geologist.

Q Mr. Taylor, have you previously testified before the Commission?

A I have, yes.

Q Are you familiar with the background in this particular Application of Cities Service Oil Company?

A I am.

MR. KELLAHIN: If the Examiner please, are the witness' qualifications as an expert geologist acceptable?

MR. NUTTER: Yes, they are.

BY MR. KELLAHIN:

Q Mr. Taylor, would you please refer to what has been marked as Applicant's Exhibit No. 5 and identify it and explain what information it contains concerning Morrow? I was referring to his Morrow structure map which is Exhibit No. 5.

A This is a Morrow structure map, contour-interval is 50 feet and in the Section 9 we have a red arrow which indicates the proposed location for Cities Service State CP-1 and the red outline covering the south half of Section 9 is the designated or proposed proration unit for this well.

Q Would you please describe for us what factors you

TAYLOR-DIRECT

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used in deriving your particular pick as this -- at this location?

A Well, we -- the information you see on the map, on this Morrow map, naturally is the sub-sea datum of the top of the Morrow, depicted electrical logs, and we also indicate the calculated open flow of the Morrow Wells below minus datum.

Now, although it's not shown on the map, from log analysis there are four wells which, I think, are primarily -- should be primarily concerned with the drilling of this State CP-1.

Q Would you please identify those four wells?

A One is the Coquina No. 1, the Yates State in Section 10. This well has 16 -- excuse me -- 26 feet of net pay by log analysis in the Morrow and the north offsets it at Gulf No. 1 Cerf Federal at 33 feet of net pay. The Monsanto No. 3 Burton Flats, 67 feet. By the way the Burton Flats is 3 in Section 3 and in Section 8, Mobil's No. 1 QQ has 37 feet of net pay in the Morrow.

Now, for proration purposes, we give -- we divided Morrow into four major divisions and we zone them from the Basal Morrow Zone, Zone 4, up through Zone 7, and each one of these zones will have anywhere from one for four sand members.

TAYLOR-DIRECT

We'll show you on this map might produce from single Cerf zone such as the Coquina Yates State. It produces from the Basal Zone, we call it Zone 4, or it could be four zones such as in the Mobil No. 1 Federal QQ. It produces from Zones 4, 5, 6 and 7 and based on the net pay of the wells, which I previously mentioned, I estimate the Morrow at the proposed location approximately 32 feet of net pay.

Q Please refer to what is marked as Exhibit No. 6 and identify it.

A Exhibit No. 6 is a structure map, contoured on top of the Strawn, contoured 50 feet and, again, the red arrow indicating the proposed location. There are three Strawn producers in the nearby vicinity of our well. The Coquina No. 1 Yates State produces, -- had calculated open flow, as you can see 3095 mcf and Gulf No. 1 Cerf Federal is the second well. They're in Section 10. Immediately north of it is Monsanto's No. 3 Burton Flats. The net pay in these three wells varies from three feet in the Gulf Cerf Federal to 18 feet in Coquina's No. 1 Yates State.

The Strawn -- or in the Morrow. I meant to say the Morrow is fairly hard to predict as far as net pay, what you might expect is the Strawn in my opinion, is the most unpredictable. I would estimate in about 10 feet would be the

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CROSS

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best estimate I could come up with at our location here for the Strawn.

Q Is this a standard location for the south half of this particular section?

A Yes, sir.

Q Why have you chosen this particular location?

A Well, we couldn't drill, say, 1980 from the south line and 660 from the east line and have a full 75 percent interest in the well, for one thing, and, in my opinion, all of Section 9 will be productive in the Morrow and at least part of it in the Strawn. Those are the two good reasons why I selected this location.

Q This, then, from -- in your opinion, is your best pick of a location for production, hydrocarbons, in the south half of this particular section?

A Yes, sir, I would prefer it to being moved over into the southwest quarter of Section 9.

Q Okay.

MR. KELLAHIN: I have no further questions of this witness.

MR. NUTTER: Any questions of him?

CROSS EXAMINATION

BY MR. HINKLE:

Q Mr. Taylor, did you say that all of Section 9, in

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you opinion, would prove productive in both Morrow and the Strawn?

A In the Morrow, I don't know about the Strawn. It's more unpredictable than the Morrow. I have seen cases of a good well in Burton Flats surrounded by a good Strawn well, surrounded by four wells that probably wouldn't be commercial producers.

Q Is it your opinion, that the south half of Section 9 would be productive in both the Strawn and Morrow?

A Yes, sir.

MR. HINKLE: That's all.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Taylor, isn't there another well in the northwest quarter of Section 9 that is not shown on this Exhibit here? Wasn't there a dry hole drilled up in the northwest quarter?

A Possibly a shallow hole. On Exxon's acreage in the northwest quarter?

Q Yes, right, it would be that Exxon acreage.

A It would have to be a shallow well.

Q There's no deep dry hole?

A No.



TAYLOR-CROSS

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Q Now, you mentioned the feet of pay in the Gulf Well and in the Coquina Well for the Strawn. You didn't mention the feet of pay in Burton Flats No. 3, what was it, do you know?

A In the Strawn?

Q Yes, sir.

A 13 feet.

Q 13 feet of pay. You figure the best you give your location was 10 feet possibly?

A Yes, sir.

Q Now, you mentioned that the -- back to the Morrow portion on your Exhibit No. 5, you said the Mobil QQ produces from Zones 4, 5, 6 and 7 and that the Coquina produces from Zone 4. How about the Gulf Well? What zone is that?

A From five and six, intermediate, six would be sort of Upper Strawn -- I mean Upper Morrow.

Q How about the Burton Flats No. 3?

A I think probably, Zones 4 and 5, the two lower zones.

Q Do you have any idea as to what zones to expect anything from in your well?

A I would think probably Zones 4 and 5, the lower zones.

MR. NUTTER: Are there any other questions of Mr.

Taylor? You may be excused.

(Witness excused.)

E. F. MOTTER

called as a witness, having been previously sworn, was  
examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Will you please state your name, by whom you are  
employed and in what capacity?

A E. F. Motter, Cities Service Oil Company, engineer-  
ing manager of M&P Division, Midland, Texas.

Q Mr. Motter, have you previously testified before  
this Commission?

A Yes, I have.

Q You are familiar with the facts surrounding this  
particular Application?

A Yes, I am.

MR. KELLAHIN: If the Examiner please, are the  
witness' qualifications as an expert acceptable?

MR. NUTTER: Yes, they are.

BY MR. KELLAHIN:

Q Mr. Motter, I would like to direct your attention  
to what has been marked as Exhibit No. 7, would you identify

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(Reporter's note: Pages 16 and 17 inadvertently skipped  
in transcription; text of deposition is intact.)

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this and explain what information it contains?

A Yes, this is a detailed-well statement of what we would call our State CP No. 1. I would like to make one comment here about the location right now. It shows 1980 from the south and 1980 from the east and Mr. Taylor testified this is an orthodox location. We have physically staked that well and the location falls 13 feet from the east-west electrical transmission line and for safety reasons we will move it, propose to move it south 150 feet, which will give an actual location of 1980 from the east, 1830 from the south.

Our estimate of this well as a producer is \$321,600. If I may, I might divert back to our previous case for a minute. I commented that those wells in that particular area were running a little higher, in fact, 350. One of the problems that we encounter in drilling in this area, is use complete circulation down until we get to about 3,000 feet in Delaware and as long as we can keep an adequate supply of water on hand and cuttings are transferred into the caverns, we normally can proceed. This is one of the things that we have to watch out for. In the area of the previous case, we have developed our own water well and this has cut the cost tremendously. I think our cost is around \$19,000 for hauling water alone.

MOTTER-DIRECT

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In this particular area, from the experience of some other wells, we do not feel we will encounter this problem. However, we do still have casing proposed. The nine and five-eighths casing will be 2970 or medium string.

Q 1970 or 2970?

A 2970.

Q Mr. Motter, what has been Cities Service experience in this particular area?

A Well, Cities Service has had quite a bit of experience in Eddy County in the last couple of years. As of right now, we have 11 wells producing and one is completed the tests followed. We're waiting on a connection. Two wells that are currently being completed. We currently have three rigs running. We have an interest in 38 outside operating wells and in 1974, we have budgeted 27 wells of which two will be wildcats and 25 will be direct or diagonal offsets to producers.

Q Based on this experience, Mr. Motter, and your present examination of the facts surrounding this particular Application, do you have any proposal for a risk factor to be applied in this case?

A Yes, we don't feel there is a drilling problem in this area or that they are quite as severe as in some of the

MOTTER-DIRECT

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others. Mr. Taylor has testified that we feel that chances of obtaining production here are quite good and we are recommending 25 percent risk factor in this particular well.

Q With regards to recommendations for cost of supervising this particular well, what, if any, recommendations do you have to make?

A Well, without taking up a lot of the Commission's time and other people's, I'm going to ask that if they will bear in mind my previous testimony. It would be \$205 a month for overhead, which does not include the cost -- excuse me -- it does cost -- it does include the cost of the production foreman.

MR. NUTTER: If we're going to take it to mind, you better incorporate by reference, Mr. Kellahin.

MR. KELLAHIN: Okay.

MR. NUTTER: Relating to the copus charge for combined fixed rate, that portion of the testimony? And the cost-of-living escalation?

MR. KELLAHIN: Mr. Examiner please, we would like to incorporate that part of the testimony from the previous case, which was Case No. 5158, into the testimony of this particular case with regards to the charges for supervision.

MR. NUTTER: That portion of the record of 5158 will

MOTTER-DIRECT

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be incorporated.

THE WITNESS: I might also comment, if I may, since we do have something of a proposal here that Cities Service is the same rate for drilling wells since November 19, 1973, is \$1,460 a month. This includes everything.

MR. NUTTER: That's what you seek while the well is drilling then for a <sup>combined</sup> blind fixed rate?

THE WITNESS: That includes all supervision, geological engineering, et cetera.

MR. NUTTER: You want this portion of this record incorporated in the record of that other case?

There is nothing in the record for drilling for the other one.

THE WITNESS: We'll not make reference to both.

BY MR. KELLAHIN:

Q Was Exhibit No. 7 prepared by you, Mr. Motter?

A It was prepared under my supervision, yes.

Q In your opinion, Mr. Motter, will the granting of this Application prevent waste, be in the best interest of conservation and not impair the correlative rights of others?

A No.

MR. KELLAHIN: If the Examiner please, we move the introduction of Applicant's Exhibits 1 through 7.

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MR. NUTTER: Applicant's Exhibits 1 through 7 will be admitted into evidence.

(Whereupon, Applicant's Exhibits Nos. 1 through 7 for identification were admitted into evidence.)

MR. NUTTER: Are there any questions of Mr. Motter?

MR. HINKLE: No questions.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Motter, the difference on the cost on this well and the one in the previous cases is because you do have a water supply?

A Yes, since that time we have developed our own water-supply well.

Q Well, now this well is closer to this water supply than the one you had proposed, your Simpson Well in Case 5158?

A We don't -- from the experience, Mr. Examiner, we don't think we'll have any problems in drilling down to 3,000 feet like we do have over here. The Cawley area as you are well aware is a discovery well.

Q So, you did have the same problem on the Simpson well as you did on the Cawley?



A Yes. Although, we think we're better prepared to take care of them. As an example, the Cawley mud hole is about \$25,000 and I think here we have about 15 estimated for mud cost.

Q That wouldn't revise your cost as far as mud was concerned on the Simpson?

A No.

Q I see.

MR. NUTTER: The witness may be excused.

MR. KELLAHIN: That concludes our Direct Examination.

MR. NUTTER: Mr. Hinkle, would you call your witnesses?

MR. HINKLE: Yes.

ROBERT L. SPEARS

called as a witness, having been previously sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HINKLE:

Q State your name and your residence and by whom you are employed?

A I'm Robert L. Spears, Midland, Texas. I'm District Geologist for Jake L. Hamon.

SPEARS-DIRECT

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Q Have you previously testified before the Commission?

A Yes, I have.

Q Your qualifications as a petroleum geologist are a matter of record with the Commission?

A Yes, sir.

Q Have you made a study of the area in which this well was involved in this Application to be drilled?

A Yes.

MR. HINKLE: Are the qualifications acceptable?

MR. NUTTER: Yes, they are.

BY MR. HINKLE:

Q Have you prepared or has there been prepared under your direction certain Exhibits for introduction in this case?

A Yes.

Q They have been marked as Exhibits 1 through 5?

A Right.

Q Would you give Mr. Kellahin a copy of our Exhibits?  
(Witness complies.)

Q Referring to Exhibit No. 1 and explain what this is, what it shows?

A Exhibit No. 1 is a sub-surface geological map of the Burton Flats Field as contoured on the Lower Morrow sand.

SPEARS-DIRECT

It shows the structural future of the Lower Morrow sand in the Burton Flats Field, a southwest dipping nose and shows the producing wells in the field which are colored as to their producing zone.

Q Does it also show ownership of the various leases in the area?

A It shows the partial ownership, Jake L. Hamon owns a four-fifths interest in the northeast quarter of Section 9. Coquina owns a one-fifth interest in the northeast quarter of Section nine. Cities Service owns a half interest in the southeast quarter of Section 9, and J. M. Huber Corporation owns a half interest in southeast quarter of Section 9.

Q Have you approached these owners or has Hamon approached these owners with respect to getting into communitization agreements?

A Yes.

Q What is the present status of entering into communitization covering the east half of Section 9?

A The present status of communitization agreement and operating agreement have been signed by Jake L. Hamon, J. M. Huber Corporation and Coquina Oil Corporation. It has not been signed by Cities Service.

Q Did Mr. Hamon or anyone for him approach Cities

SPEARS-DIRECT

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Service with respect to joining in this well?

A Yes.

Q Did Cities Service refuse or --

A They have not signed to this date.

Q I believe you stated that a communitization agreement actually be entered into with Coquina and with Huber Corporation?

A Right.

Q Have these forms of communitization agreement been approved by the U.S.G.S. and by the Commissioner of Public Lands as to the form?

A Yes, sir.

Q Now, refer to Exhibit No. 2 and explain that.

A Exhibit No. 2 is a sub-surface geological map of the Burton Flats Field. It is an isopachous map of the Lower Morrow sand. It shows the thicker sands on the curve to the north along in the discovery well, the Monsanto No. 1 Burton Flats Unit and thins to the southwest in Section 9.

Q Now, have you indicated on these Exhibits 1 and 2 the locations of Cities Service's proposed well?

A No, I haven't, but it's 980 from the east and 1830 from the south, Section 9.

Q Referring to both Exhibits No. 1 and No. 2, what

SPEARS-DIRECT

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is the situation in respect to the structure and the sand thickness with respect to these two proposed locations?

A Well, Mr. Hamon's location in Section 9 estimated top of the Lower Morrow which is nine minus 9,085 feet, with an estimated sand thickness of between 50 to 60 feet. Cities Service location in the southeast quarter would have an estimated Morrow sand top at minus 8,160 with estimated sand thickness of 30 to 40 feet.

Q What conclusion would you draw from these Exhibits?

A Well, structurally, both structurally and sand deposition wise, the Hamon location would be a better location.

Q Now, refer to Exhibit 3 and explain what this shows?

A Exhibit 3 is a sub-surface geological map of the Burton Flats Field as contoured on top of the Strawn limestone, Strawn limestone, being the top of the pay as exhibited in these three, four wells in the field. Actually, they are five wells, but --

Q Now, refer to Exhibit No. 4 and explain that?

A Exhibit No. 4 is a sub-surface geological map of the Burton Flats Field. It's an isopachous map on the massive Strawn limestone which is productive in the Burton Flats Field.

Q What do these two Exhibits, referring to Exhibits 3

SPEARS-DIRECT

and 4, what do these show with respect to the respective locations of Mr. Hamon's well and the proposed well of Cities Service?

A The structure map on top of the Strawn limestone would indicate that Mr. Hamon's location is better located structurally as compared to Cities Service location. On the isopachous map it also shows that additional massive limestone would be present in the Strawn in the Hamon location as compared to the Cities Service location.

Regionally the Strawn section changes in lithology to the west in the Mobil No. 1 QQ and interbedded limestone and shale sequence and also in the Humble Well in Section 5 to the north. Therefore, as you go west in directions in the immediate vicinity the Strawn section would become less prospective.

Q Well, do you conclude from Exhibits 3 and 4 that Mr. Hamon's location would be better located structurally as far as sand thickness is concerned in the Strawn?

A Yes, sir in limestone thickness.

Q Now, all of these Exhibits 1 through 4 show a red line. What is that?

A That's a cross section which includes three wells --

Q (Interrupting) On Exhibit 5?

SPEARS-DIRECT

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A On all of the Exhibits, cross section A Prime, it shows the Strawn limestone pay deposition in the area, plus it shows the Morrow sand deposition in the immediate area as can be seen on the cross section of massive limestone of this Strawn deteriorates to the west, it becomes less prospective. Also, the sands within the Lower Morrow Section becomes thinner as you go to the west.

Q Exhibit 5 also indicates the relative position of Mr. Hamon's proposed well?

A I have the projected position of Mr. Hamon's well into the cross section. As can be seen as you go west, structurally you go down dip.

Q Which shows that the well as he's located would be structurally high?

A Right.

Q Do you have any further comments with respect to any of these Exhibits?

A My only comment is as you go west, you get a lot less prospective.

MR. HINKLE: I would like to offer 1 through 5.

MR. NUTTER: Applicant's Exhibits 1 through 5 will be admitted into evidence.

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(Whereupon, Applicant's Exhibits,  
Case 5164, Nos. 1 through 5  
were admitted into evidence.)

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Spears, when you were talking about Exhibit  
No. 1, you mentioned the ownership of the various tracts  
there in Section 9?

A Yes.

Q Now, the northeast quarter, you said, Jake Hamon  
has what percentage of that?

A Four-fifths.

Q And Coquina has one-fifth?

A One-fifth, yes.

Q In the southeast quarter, you said Cities Service  
has a half and Huber has a half?

A J. M. Huber Corporation has a half.

Q All right. Now, do you know what the ownership of  
the northwest quarter is?

A Humble, Exxon, H.B.P.

Q They still own that, as far as you know?

A Yes.

Q And as far as you know, Cities Service has four-



SPEARS-CROSS

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fourths of the southwest quarter?

A Yes.

MR. NUTTER: Are there any questions of the witness?

CROSS EXAMINATION

BY MR. KELLARIN:

Q Mr. Spears, the last question of the Examiner would indicate, would it not, that regardless of whether this unit is composed of the east half of the section or whether it is composed of the north half of the section, Hamon's interests remains the same?

A Hamon's interest would remain the same.

Q And in addition to that, if the south half of the section is the final unit that's approved, then, from your testimony Cities Service would have a three-fourths interest, while if we force pool the east half, their interest is divided up?

A The way I calculated, they would have a fourth interest in the east half.

Q I'm interested in Exhibit No. 4 now, Mr. Spears. You indicated, did you not, Mr. Spears, that as you moved to the east in the east half here that the quality of pay increased as you went up structure, is it, am I right in that assumption?

SPEARS-CROSS

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A I said, "As we go west, the limestone becomes less prospective."

Q Conversely as you go east, it becomes more prospective?

A Well, you have three Strawn producers there, so, as you can see from the production in the maps up here to the north, you have one Strawn producer by being encircled by Morrow and Atoka producer, so, --

Q (Interrupting) You are talking about way up in Section --

A (Interrupting) 34.

Q 34. How about the Monsanto Burton Flats No. 1 here in Section 3?

A That can be seen on the isopachous map. It has a thin limestone section in it with no porosity, tested mud.

Q This 57 feet, is it, is that net pay?

A That's gross pay, 57. 27 feet of net pay.

Q Now, in Section 10, if you will look in the north half of this section there, there is a Monsanto and Gulf Well. How about the quality of this well?

A 65 feet I pick on the log as gross, massive limestone with 24 feet of net pay.

Q How about the Coquina-Yates Well in the South half

SPEARS-CROSS

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of Section --

A It's 85 feet and 32 feet of net pay.

Q Now, how would you compare that to the producing capabilities of all three of those wells with quality of pay?

A Well, the Strawn is comparable in this area to the permeability and porosity, so it's quality of how you pick the net pay in the wells. I don't have any production figures on this Gulf Well and due to the fact that they might not have had a connection in that area on the Gulf Well. As far as the Oil and Gas Commission Reports, the last one, it shows no production on the Gulf Well, so I assume that the well has not be connected.

MR. NUTTER: Just a matter of interest: It has been connected for some time, but it only started producing for some reason.

THE WITNESS: Well, maybe that's it.

MR. NUTTER: It had a connection, but only recently started producing.

THE WITNESS: According to the Gas and Oil Report that we get, it hadn't any production on it, to speak of.

BY MR. KELLAHIN:

Q I want to show you what has been marked as Exhibit

SPEARS-CROSS

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6 for Cities Service Oil Company, that is Strawn structure, and ask if you agree with the calculated open flow pressures in the data contained on the three wells, the Monsanto, the Gulf and the Coquina?

A Well, I have nothing to compare this with. I'm assuming these C.A.O.F.s are correct. I don't know the C.A.O.F.s were, so, I have no way to compare this.

Q My point, Mr. Spears, is the fact that you picked certain amounts of net pay on your Exhibit No. 4 is rather meaningless when you compare it to the quality of production to the wells?

A Well, I don't know what the wells are doing now, with the exception of the Coquina Well. It's producing two to three million <sup>cubic feet</sup> barrels a day out of the Strawn. Like I said before, I can't get a comparison on the Gulf Well, because it hasn't been in any published reports yet.

(Whereupon, a discussion was held off the record.)

Q On your Exhibit No. 1, Mr. Spears, the Morrow structure map, it was your testimony, was it not, that as you progressed to the south and west you increasingly became lower on the structure, is that not correct?

A Based on the Exhibit No. 1, yes.

SPEARS CROSS

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Q Now, does that have any bearing upon the quality of the well?

A I think so, due to the fact that it also thins up, the sand, direction wise to the southwest, so you have a loss of structure, plus a loss of sand which would somewhat effect the productivity of the well.

Q Well, then, as you get lower on the structure, that would mean, if I understand you correctly, the quality of the well would decrease?

A Well, it depends on sand deposition, plus the sand in the Burton Flats Field. Some of the wells have produced water, structurally low.

Q I see.

A Which I cite the Mobil No. 1-4 Federal to the north in Section 4, has penetrated the same sand as Monsanto No. 1 discovery well, and log calculations on that same sand, calculated water.

Q How about the Mobil Well in Section 8?

A Well, as you can see on the isopach, this sand present in the Mobil Well, 1-4 Federal, is probably not present in the Mobil 1-QQ Federal. If you look at the cross section, you can see that their perforations are scattered up and down the Morrow Section and wasn't included in one

SPEARS-CROSS

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massive <sup>5000</sup> ~~sean~~, but as the Monsanto No. 1, Burton Flats Unit.

Q I want to show you Exhibit No. 5 now, which is the Morrow structure map of Cities Service, and if you will refer to the Mobil Well in Section No. 8, do you have any other information other than what is contained on that Exhibit to indicate that the calculated open flow pressures -- that the calculated open flow data information contained on that Exhibit is anything other than as stated there?

A No, I don't have any other information as to that.

Q That would indicate that that was a pretty good well, wouldn't it?

A Which well?

Q The Mobil Well in Section 8?

A Section 8?

Q Yes, sir.

A I just go by the C.A.O.F., 7.339. I can look at the log though and see that the well has been perforated in several small stringers in the Morrow and I wouldn't indicate that that well is half as good as the Monsanto No. 1 Burton Flats Unit in Section 3.

Q Would you refer to the Gulf Well in Section 10?

A The Gulf Well in Section 10?

Q Yes, sir.

SPEARS-CROSS  
SHAW-DIRECT

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A What do you want me to do?

Q What is the capacity on that well as indicated by that Exhibit?

A Well, Exhibit 5 of Cities Service indicates 1.442 million.

Q And do you agree with that?

A I think published reports show something in that order, but the Gulf also indicated that they possibly have block formation there in that well, which would inhibit the productivity of the well.

MR. KELLAHIN: I have no further questions.

MR. NUTTER: Are there any further questions of Mr. Spears?

MR. HINKLE: No.

MR. NUTTER: You may be excused.

(Witness is excused.)

HOWARD W. SHAW

called as a witness, having been previously sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HINKLE:

Q State your name, your residence, and by whom you are employed?

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A I'm Howard W. Shaw, reside in Midland, Texas. I'm employed by Jake L. Hamon, production superintendent.

Q You are a petroleum engineer?

A Yes, sir.

Q Have you previously testified before the Commission?

A I have.

Q Have you made a study of the area which is under consideration here?

A I have.

MR. HINKLE: Qualifications sufficient?

MR. NUTTER: Yes, they are.

Q Refer to what has been marked as Hamon's Exhibit No. 6 and explain this? But first, Mr. Hamon's Application called for an unorthodox location, does it not?

A It does.

Q All right. Go ahead and explain No. 6 with respect to this?

A The location as staked originally 1,980 from the north line, 660 from the east line of Section 9 and by John West Engineering out of Hobbs, and this location fell in the middle of large caliche pit and due to the difficulty of drilling in such location, it was moved 330 feet north to be outside this caliche pit to a location 1,650 feet from the



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north line, 660 from the east line, which therefore makes it an unorthodox location.

Q Did you give notice to all of the offset owners of the proposed unorthodox location?

A I did.

Q Did you request waiver from them?

A I requested waivers from the six offset operators and received waivers from all except Cities Service approving our unorthodox location.

Q Now, are you familiar with well costs for drilling wells in this area to test the Strawn and Morrow formations?

A I am.

Q What, in your opinion, with the well that Mr. Hamon proposes to drill, cost, completed in one formation, either the Strawn or the Morrow, or dually completed or a dry hole?

A Well, as stated earlier by Mr. Motter of Cities Service, costs of pipe are changing from day to day and we put out an A.F.E. for this well with a cost of a dry hole at \$241,866 and a completed Morrow Well at \$385,437. However, these were what we considered to be the very maximum costs, which we try to include in our A.F.E. so that partners will not come back later and ask why we exceeded our well cost.

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By recalculating at what we actually think that we can drill this well for, come up with cost of \$208,666 for a dry hole; \$311,287 for a completed Morrow well.

Q Now, your testimony shows that Hamon has entered into communitization with agreement with Coquina and with Huber. Have they agreed to the drilling of these wells, of the well and to these approximate costs?

A We have approved A.F.E. back from Coquina. Huber has stated to us that they were withholding approval only awaiting the outcome of the Hearing.

Q Now testimony also shows that you have entered into operating agreement with both Coquina and Huber. These operating agreements provide a continuing procedure for the operating costs?

A They do.

Q Supervision?

A Yes, sir, they do.

Q What do they provide?

A They provide for a combined fix rate on drilling wells for all depths, would be \$1,275 per month. For producing wells, the first five wells are each at \$199 per month.

Q What would you -- do these operating agreements that

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you mentioned also provide risk factor for parties with non-consent?

A They do.

Q What provisions are there with respect to that?

A Our operating agreement calls for 200 percent risk factor for the well and the wellhead equipment, all down hole equipment and 100 percent factor on surface equipment.

Q Do you think that that is fair and reasonable?

A I do.

Q Are you requesting the Commission if they approve this Application to grant a risk factor of 200 percent?

A Yes, sir.

Q If those are forced to pool and do not agree to participate in the actual cost?

A I do so ask.

Q Do you have anything else you would like to submit to the Commission?

A No, sir.

MR. HINKLE: I would like to offer Exhibit No. 6.

MR. NUTTER: Applicant's Exhibit No. 6 will be admitted in evidence.

(Whereupon, Applicant's Exhibit

No. 6, Case 5164, will be admitted into evidence.)

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CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Shaw, you mentioned that Coquina had returned your A.F.E., but now that was A.F.E. at \$241,866 dry and \$385,437 completed?

A Yes, sir.

Q You haven't gotten it back from Huber yet?

A No, sir.

Q This well was the subject of a Hearing a couple or three weeks ago, wasn't it, at an unorthodox location, at a proposed location?

A No, sir.

Q Oh, it wasn't?

A No, it wasn't.

MR. HINKLE: That's another case.

(Whereupon, a discussion was  
held off the record.)

MR. NUTTER: Are there any other questions?

CROSS EXAMINATION

BY MR. KELLAHIN:

Q You referred to a plat that you had, I don't remember what Exhibit No. it was?

A 6.

SHAW-CROSS

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Q Did you prepare Exhibit No. 6?

A It was prepared under my supervision, yes, sir.

Q Would you identify what has been marked as that Southern Union Gas Plant, what is that?

A I have not been on this location, personally, but I had one of my field foreman and also one of my engineers out there and this plat was prepared from information that they gave me. It is not as designated a schematic diagram. It is not a scale diagram, but this was where my men showed the Southern Union Gas Plant to be with this black top road ending there at the gas plant.

Q Isn't that Southern Union Gas Plant really the Transwestern Gas Plant and the Southern Union Plant is over in the 40 acres to the west, just south of the black top road?

A I cannot say. This was just as it was given to me.

Q What information was given to you with regard to the low washout area? Could you describe for me what that is?

A That was nothing except a small topographical feature.

Q Would it prohibit you from drilling a well in that area?

A I would not think so.

Q If you drilled a well on that area, that would be an orthodox location, would it not?

A According to exactly where it was put, it could be within that area.

Q I'd like to refer to your A.F.E. for a moment, if you please. Does -- your testimony indicated a combined fixed rate of, was it \$175 a month well drilling?

A Yes.

Q And after drilling it was \$199 per month?

A Yes, sir.

Q Did those include the salary and expenses of production foreman?

A They include the salary and expenses of production foreman, yes. That is not on the A.F.E., however, that is in the operating agreement in the accounting section.

MR. NUTTER: Now, you are talking about something we didn't have in the record, I think. We didn't get an A.F.E.

MR. HINKLE: That wasn't in the record.

MR. KELLAHIN: I'm sorry. You referred to it.

MR. NUTTER: He gave some figures, but he didn't submit an A.F.E..

MR. HINKLE: We have no objection if he wants to --

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MR. KELLAHIN: (Interrupting) I'm sorry. I was ahead of you. I was looking at one and I heard his testimony and I thought it was an Exhibit.

THE WITNESS: Well, Mr. Nutter, the information he just asked about, however, was not in the A.F.E. anyway. It was in the accounting figure of the operating procedure agreement which we stated, but also which was not put in as an Exhibit.

BY MR. KELLAHIN:

Q In calculating your totals for your A.F.E., you included, did you not, an item for miscellaneous materials and supplies -- I'm sorry -- for geological items?

A That is correct.

Q What did you indicate as the charge for geological studies?

A \$3,000.

Q And then, in Item 20, you indicate overhead, supervision, et cetera, what was the charge for that?

A Well, that is, includes your combined fixed rate which we previously testified was \$1,275 per month, plus time which we expect an engineer will be assigned to the well during the drilling and completion.

Q Am I correct then in understanding that your geology

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in your combined fixed rate, over and above the salaries, these other salaries and expenses we just talked about?

A Your question wasn't clear.

Q Salaries for the geologist and engineers are not included in your combined fixed rate?

A That's correct.

Q You are including in the combined fixed rate, salaries and expenses for production foreman only?

A Production foreman and overhead, district expenses.

Q I understand.

You testified that the A.F.E. that you submitted had a total cost for a producer of \$385,000 plus, but you then indicated that you believed the actual cost would be something in the neighborhood of \$311,000?

A That is correct.

Q That's a difference of some \$74,000.

A Yes, sir.

Q What will go into making up that difference or that savings to you?

A What I estimate to be \$2 per foot less footage drilling costs.

Q \$2 per foot --

(Whereupon, a discussion was held off the record.)



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MR. NUTTER: A.F.E. has been identified as  
Applicant's Exhibit No. 7.

(Whereupon, Applicant's Exhibit  
No. 7, Case 5164, was marked  
for identification.)

MR. NUTTER: It is admitted in evidence.

(Whereupon, Applicant's Exhibit  
No. 7, Case 5164, was admitted  
into evidence.)

A I'm not exactly sure where you got on that, but  
there is one item was a reduction of \$2 per foot in the  
drilling cost, 11,700 feet. Additional items are what we  
think we can get pipe for, which would be \$2 less per foot  
on 600 feet of 13 and three-eighths casing; \$2 per foot less  
on 3,000 feet of nine and five-eighths inch casing; \$1.50 per  
foot less on 11,700 feet of five-and-a-half inch casing and  
\$1 per foot less on 11,700 feet of two and three-eighths inch  
tubing.

With these changes, or hopefully these changes, we come  
up with a cost figure which I gave for a completed well of  
\$311,287.

Q What is your anticipated cost for separation?

A For gas production, \$6,500.

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Q I have one last question. What experience has Jake L. Hamon had in Eddy County, New Mexico in drilling Morrow wells?

A We have drilled within the last year, two wells in Eddy County, New Mexico, one of which is a dry hole and one of which produced for a short period of time and then was plugged and abandoned.

MR. KELLAHIN: I have no further questions.

REDIRECT EXAMINATION

BY MR. HINKLE:

Q Mr. Shaw, your testimony then in regard to the revision of the A.F.E. account of pipe costs, isn't it true that on account of the shortage of pipe, you have to pay exorbitant prices for pipe in the last few months?

A Yes, sir, it is. We have had a fairly good supply, but there are times when we certainly have to pay over and above the -- what is quoted in current domestic price.

Q That sometimes runs into several dollars?

A Several dollars per foot.

Q That is the reason why then you have the original figure so high?

A That, in addition to the fact that it is difficult now to say for what price you can get a well drilled as the

SHAW-CROSS

drilling contractors also are changing their prices from day to day.

MR. HINKLE: That's all.

MR. NUTTER: Are there any further questions of

Mr. Shaw? He may be excused.

MR. HINKLE: If you would like, we could introduce this copy of the operating agreement, if you would like to have it?

MR. NUTTER: I don't think it is really necessary. There was no question I don't think except maybe an explanation about the kind of fixed rates there and he stated what they were. We had Cities Service combined fixed rates, what they were without a copy of the operating agreement.

(Witness excused.)

MR. NUTTER: I do note that Mr. Motter incorporated that portion of the record in a previous case that related to the cost of living index in the operating agreement to combined fixed rates, and that this operating agreement also contains the same clause.

MR. HINKLE: I might say this, that the communitization agreement, there is a separate one for the Strawn and separate one for Morrow.

MR. NUTTER: You mean the voluntary communitization?

MR. HINKLE: Yes, this is due to the fact that the U.S.G.S. requires that so if you only get production in one zone, you don't have to go back and modify it.

MR. NUTTER: I think in these two cases that we are hearing right now, Cities Service Application's pooling all mineral interests in the Pennsylvanian and Jake L. Hamon's Application is for the Strawn and the Morrow.

Does anyone else have anything they wish to offer in either case?

State your name, please?

MR. CROMWELL: J. S. Cromwell.

MR. NUTTER: For J. M. Huber Corporation?

MR. CROMWELL: Yes. Just to note that we have at no time refused to consider at the appropriate time participation in the Morrow test to be located within the east half of Section 9, 21 South, 27 East. That's irrespective of any specific gas proration unit that might be involved. I believe that the specific language of our file of a letter will so indicate, but I don't introduce it as testimony or evidence.

I do however, favor the east half of Section 9 for gas prorationing because of the following considerations:  
Hamon affords the east half proration unit, in our opinion,

MOTTER-REDIRECT

more favorably located for commercial production. More importantly, the well development pattern would probably occur for the east half of the west half of the proration unit in Section 9, would be more prudent, in our opinion, from the conservation standpoint.

MR. NUTTER: Thank you, Mr. Cromwell.

MR. KELLAHIN: I would like to call one witness.

MR. NUTTER: All right.

MR. KELLAHIN: I would like to recall Mr. Gene Motter.

(Whereupon, a discussion was held off the record.)

REDIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Motter, you heard the testimony with regard to Hamon's proposal for an unorthodox location, does Cities Service Oil Company have any objection to the proposed unorthodox location?

A We don't object to the unorthodox location, we object to the prorationing that has to go along with it.

Q Let's discuss the prorationing unit, Mr. Motter, what would be Cities Service's interest in a south-half prorationing unit?

A Well, this would be three-fourths of the south half; quite frankly I intended to incorporate it and it is my testimony before basically that one of our main interests here is to keep our rights to one well rather than splitting what might be two wells.

Q Conversely if the east half of the section is the prorationing unit, what would Cities Service's interest be?

A We would have a fourth interest in, I guess, the wells still on the east half and half on the well to the west.

Q Are you familiar with the configurations of prorationing units in the Burton Flats area?

A Yes, I am.

Q Normally what is the pattern for those units?

A No particular pattern; it more or less goes along to favor geology and perhaps in an orthodox location they are either north-south or east-west, there is no standard prorationing unit in the area.

MR. KELLAHIN: Thank you. That's all the questions I have.

MR. NUTTER: Are there any questions of Mr. Motter?

MR. HINKLE: No questions.

MR. NUTTER: Any closing statements? You are both applicants, you can both go first, or last.

MR. KELLAHIN: I defer to Mr. Hinkle.

MR. HINKLE: I don't have anything.

MR. NUTTER: Do you have anything further?

MR. KELLAHIN: I have nothing.

MR. NUTTER: Does anyone have anything to offer in Case 5157 and 5164? If not we will take it under advisement and the Hearing is recessed.

(Whereupon, the Hearing was recessed at 3:20 P.M.)

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

I, RICHARD L. NYE, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

  
 RICHARD L. NYE, Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5157-5164 heard by me on 1/30, 1974.

 Examiner  
 New Mexico Oil Conservation Commission

THE NYE REPORTING SERVICE  
 STATE-WIDE DEPOSITION NOTARIES  
 225 JOHNSON STREET  
 SANTA FE, NEW MEXICO 87501  
 TEL. (505) 982-0386





## OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO  
P. O. BOX 2088 - SANTA FE  
87501

March 18, 1974

I. R. TRUJILLO  
CHAIRMAN  
LAND COMMISSIONER  
ALEX J. ARMIJO  
MEMBER  
STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR

Mr. Tom Kellahin  
Kellahin & Fox  
Santa Fe, New Mexico

Mr. Clarence Hinkle  
Hinkle, Bondurant, Cox & Eaton  
Roswell, New Mexico

Re: CASE NO. 5157 and 5164

ORDER NO. R-4742

Applicant:

Cities Service & Jake L. Hamon

Dear Sir:

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

Very truly yours,

A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC           x            
Artesia OCC           x            
Aztec OCC                           

Other Mr. G. S. Cromwell, 1900 Wilco Building, Midland, Texas 79701

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASES NOS. 5157 AND 5164  
Order No. R-4742

APPLICATION OF CITIES SERVICE OIL  
COMPANY FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

APPLICATION OF JAKE L. HAMON  
FOR COMPULSORY POOLING AND FOR  
AN UNORTHODOX LOCATION, EDDY  
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on January 30, 1974,  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 15th day of March, 1974, the Commission,  
a quorum being present, 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 Commission has jurisdiction of this cause and the  
subject matter thereof.

(2) That in Case No. 5157, the applicant, Cities Service  
Oil Company, seeks an order pooling all mineral interests in  
the Pennsylvanian formation underlying the S/2 of Section 9,  
Township 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy  
County, New Mexico.

(3) That in Case No. 5164, the applicant, Jake L. Hamon,  
seeks an order pooling all mineral interests in the Strawn and  
Morrow formations underlying the E/2 of Section 9, Township 21  
South, Range 27 East, NMPM, Burton Flats Field, Eddy County,  
New Mexico.

(4) That both applicants, Cities Service Oil Company and  
Jake L. Hamon, seek to be named the operator of the unit each  
seeks to have pooled.

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Cases Nos. 5157 and 5164  
Order No. R-4742

(5) That Cases Nos. 5157 and 5164 were consolidated as both cases involve some common acreage and the granting of one application would result in a denial of the other.

(6) That Cities Service Oil Company has the right to drill and proposes to drill its State C-P Well No. 1 at an orthodox location for its proposed unit to test the Pennsylvanian formation underlying said unit.

(7) That Jake L. Hamon has the right to drill and proposes to drill his Federal 9 Com Well No. 1 at an unorthodox location for his proposed unit to test the Strawn and Morrow formation underlying said unit.

(8) That the evidence indicates that all of said Section 9 is underlain by the Strawn limestone and the Morrow Sand.

(9) That there is a reasonable expectation that both formations can reasonably be presumed productive of gas from all of said Section 9.

(10) That there are interest owners in both proposed proration units who have not agreed to pool their interests.

(11) That the evidence indicates that the entire S/2 of the above-described Section 9 can be efficiently and economically drained and developed by a well located at an orthodox location within the S/2 of said Section 9.

(12) That there is a reasonable expectation that the entire N/2 of the above-described Section 9 could be efficiently and economically drained and developed by a well located within the N/2 of said Section 9.

(13) 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 gas in said pool, the application of Cities Service Oil Company should be approved by pooling all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the S/2 of Section 9, Township 21 South, Range 27 East, NMPM Burton Flats Field, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location for said unit.

(14) That the application of Jake L. Hamon for an order pooling all mineral interests in the Strawn and Morrow formations underlying the E/2 of Section 9, Township 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy County, New Mexico, should be denied.

(15) That the applicant Cities Service Oil Company should be designated the operator of the well and unit described in Finding No. (13) above.

(16) 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.

(17) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 25 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(18) 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.

(19) That following determination of reasonable well costs, any non-consenting working interest owner that 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.

(20) That \$205.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates), provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order based on the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

(21) 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.

Cases Nos. 5157 and 5164  
Order No. R-4742

(22) 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 June 15, 1974, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That the application of Jake L. Hamon for an order pooling all mineral interests in the Strawn and Morrow formations underlying the E/2 of Section 9, Township 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy County, New Mexico, is hereby denied.

(2) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the S/2 of Section 9, Township 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy County, New Mexico, are hereby pooled to form a standard 320 acre gas spacing and proration unit to be dedicated to its State C-P Well No. 1 to be drilled at an orthodox location for said unit.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15th day of June, 1974, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of June, 1974, Order (2) of this order shall be null and void and of no effect whatsoever;

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 Commission and show cause why Order (2) of this order should not be rescinded.

(3) That Cities Service Oil Company is hereby designated the operator of the subject well and unit.

(4) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) 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.

(6) That the operator shall furnish the Commission 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 Commission and the Commission 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 Commission will determine reasonable well costs after public notice and hearing.

(7) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that 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.

(8) 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, 25 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.

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

(10) That \$205.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates), provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; that the adjustment shall be computed by multiplying

-6-

Cases Nos. 5157 and 5164  
Order No. R-4742

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 preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

(11) 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.

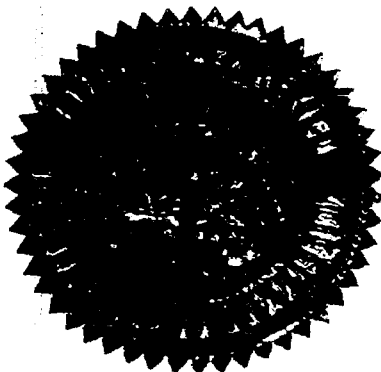
(12) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(13) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



*I. R. Trujillo*  
I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member

*A. L. Porter, Jr.*  
A. L. PORTER, Jr., Member & Secretary

S E A L

dr/

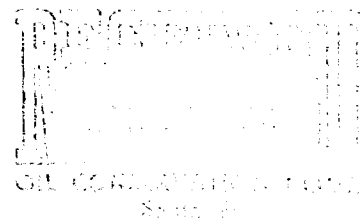
Case 5-164



CITIES SERVICE OIL COMPANY

Box 4906  
Midland, Texas 79701  
Telephone: 915 684-7131

January 9, 1974



New Mexico Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter

Re: Request of Jake L. Hamon for  
Unorthodox Location, Eddy  
County, New Mexico

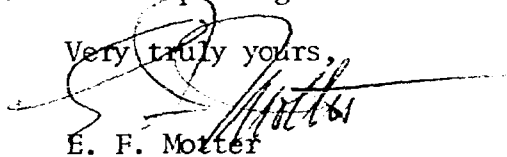
Gentlemen:

Cities Service Oil Company as an offset operator has received a request for waiver from Jake L. Hamon for an unorthodox location 1650' from the North Line and 660' from the East Line, Section 9, T-21-S, R-27-E, N.M.P.M., Eddy County, New Mexico. Proposed location indicates the proration unit would be the E/2 Section 9. Cities Service holds the mineral rights on the SW/4 Section 9 and 1/2 of the minerals under SE/4 Section 9.

On January 4, 1974, Cities Service, through its attorneys Kellahin and Fox, applied for an order pooling all mineral interests in the S/2 Section 9, T-21-S, R-21-E, N.M.P.M., Eddy County, New Mexico. The proposed location for this proration unit is orthodox at 1980' from the East Line and 1830' from the South Line. We anticipate this case will be heard at the Examiner Hearing on January 30, 1974.

In view of the foregoing, Cities Service objects to Jake L. Hamon's application for the unorthodox location and requests no action be taken on this matter until the Cities Service pooling case is heard.

Very truly yours,

  
E. F. Motter  
Region Engineer - Production  
Southwest Region  
E & P Division

EFM:mfg

cc: Mr. Jake L. Hamon  
908 Vaughn Bldg.  
Midland, Texas 79701



CITIES SERVICE OIL COMPANY



Box 1919  
Midland, Texas 79701  
Telephone: 915 684-7131

May 10, 1974

*Sum 5-1574*  
*2-168*

New Mexico Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Re: Order R-4742

Gentlemen:

Attached, as provided in Order R-4742, is a copy of the itemized schedule of estimated well costs for the Cities Service State-CP No. 1 which will be drilled at an orthodox location on a proration unit comprised of the S/2 of Section 9, T-21-S, R-27-E, NMPM, Burton Flats Field, Eddy County, New Mexico.

All known working interest owners have been supplied with a copy of the estimated well costs.

Very truly yours,

E. F. Motter  
Engineering Manager  
Southwest Region  
E & P Division

EFM:mfg

Enc.

OP 69

## DETAILED WELL ESTIMATE

WELL NUMBER 1 LEASE State "CP"  
 CONTRACTOR \_\_\_\_\_ LOCATION 1980' FSL and 1980' FEL  
 DATE 1-9-74 SECTION 2, T-21-S, R-27-E  
 J. O. NO. \_\_\_\_\_ DEPTH 11,650' COUNTY Eddy STATE New Mexico

DESCRIPTION	GRADE	SIZE	QUAN.	W	ESTIMATE PRODUCER	ESTIMATE DRY HOLE	REVISED ESTIMATE	ACTUAL COST
<b>TANGIBLES</b>								
Casing								
Set @ 610' H-40 ST&C 13-3/8"	A		615	48	6,000	6,000		
H-40 ST&C 9-5/8"	A		1,970	36	13,000	13,000		
Set @ 2970' K-55 ST&C 9-5/8"	A		1,030	36	7,000	7,000		
N-80 LT&C 5-1/2"	A		10,110	17	41,000	-		
N-80 LT&C 5-1/2"	A		1,635	20	8,000	-		
Well head connections	A				10,000	1,500		
Tubing N-80 Buttress 2-7/8"	A		11,300	6	21,000	-		
Sucker rods								
Bottom hole pump								
Packer	A				1,100	-		
Engine or motor								
Pumping unit								
Electrical equip. inc. Labor & Trans.								
Line pipe, fittings inc. Labor & Trans.								
<b>TANK BATTERY</b>								
Stock tanks Coated	A	210	1		3,000	-		
G. B., settler, free water K. O. tank								
Separator, heater treater, etc.	A		1		10,000	-		
Cost to install T. B.					1,500	-		
<b>INTANGIBLES</b>								
Contract Drlg. labor (footage) \$10,000/Ft.					116,500	116,500		
Rotary day work 5 Days @ \$2000/Day					10,000	10,000		
<del>Rotary day work</del> Unit Time 6 Days					3,000	-		
Subsurface casing equipment					3,000	2,000		
D. S. T., electric logs, etc.					11,000	11,000		
Acidizing, fracing					4,000	-		
Perforating					2,500	-		
Misc. company and contract labor					3,000	2,000		
Road building, location					5,500	5,500		
Cement & cementing service					11,000	11,000		
Cement squeeze jobs					-	-		
Drilling mud, chemicals					12,000	12,000		
Drilling bits, coreheads, reamers								
Mud logging unit					2,500	2,500		
Rental of miscellaneous equip.					2,000	2,000		
Company, contract hauling					3,000	2,000		
Water, fuel					6,000	6,000		
Miscellaneous incidentals					5,000	5,000		
Total estimated cost - 100%					321,600	214,000		
Total estimate C. S.				%				

# Memo

3/1  
From  
D. S. NUTTER  
CHIEF ENGINEER

To Legal Dept

Enter an order in  
case 5157 pooling the  
5/2 of Sec 9, T 21S, R  
27E for a Pennsylvania  
test well to be drilled  
at a std loc on the  
unit. Name Atlas  
Sow as operator and  
impose a 25 percent  
risk factor. Make  
the combined fixed  
rate charge 205/month  
w/ cost of ~~drilling~~ living (over)

escalation (attached)

Also enter an order in  
Case No. 5164 denying  
Jake L. Hamois  
application for passing  
the E/2 of Section 9  
same Township.

DOCKET: EXAMINER HEARING - WEDNESDAY - JANUARY 30, 1974

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,  
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:

CASE 5153: In the matter of the hearing called by the Oil Conservation Commission on its own motion to consider the amendment of Commission Form C-113, Refiner's Monthly Report.

CASE 5154: In the matter of the hearing called by the Oil Conservation Commission on its own motion, at the recommendation of the Commission's "Pictured Cliffs Gas Proration Committee," to consider the amendment of Commission Order No. R-1670 for the purpose of elimination of gas prorationing in the Aztec-Pictured Cliffs, Ballard-Pictured Cliffs, Fulcher Kutz-Pictured Cliffs, and West Kutz-Pictured Cliffs Gas Pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 5128: (Continued from the January 3, 1974, Examiner Hearing)

Application of Gulf Oil Corporation for a non-standard gas proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 160-acre non-standard gas proration unit comprising the NE/4 SW/4 and W/2 SE/4 of Section 28 and the NW/4 NE/4 of Section 33, both in Township 21 South, Range 37 East, Blinbry Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to its J. N. Carson Wells Nos. 4 and 9 located in Units 0 and 1, respectively, of Section 28.

CASE 5132: (Continued from the January 3, 1974, Examiner Hearing)

Application of American Quasar Petroleum Company of New Mexico for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the White City Unit Area comprising 5,120 acres, more or less, of Federal, State and fee lands in Township 25 South, Ranges 25 and 26 East, Eddy County, New Mexico.

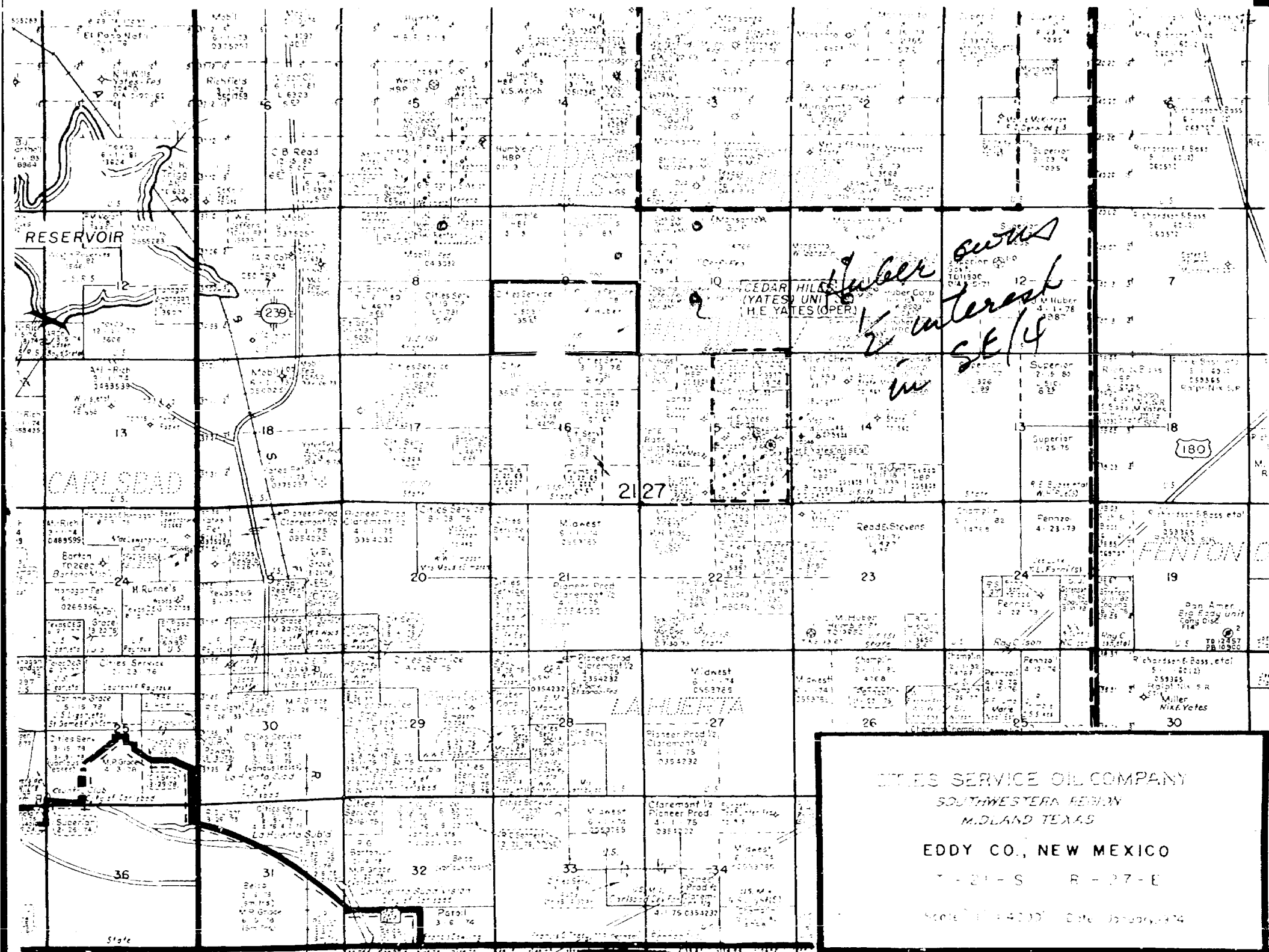
CASE 5155: Application of Harding Oil Company for directional drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks to re-enter an existing well, the surface location of which is 2310 feet from the South line and 1650 feet from the West line of Section 34, Township 13 South, Range 32 East, adjacent to the old Gross-Devonian Pool, Lea County, New Mexico, and to directionally drill said well in such a manner as to bottom the well in the Devonian formation within 100 feet of a point 430 feet South 60 degrees West of the surface location.

- CASE 5156: Application of Franklin, Aston & Fair for pool creation and special pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new gas pool for Morrow production for its McIntyre Well No. 6-A located in Unit 0 of Section 20, Township 17 South, Range 30 East, Eddy County, New Mexico, and for the promulgation of special pool rules therefor including a provision for 640-acre spacing.
- CASE 5159: Application of Petroleum Reserve Corporation for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Wood Canyon Unit Area comprising 2,560 acres, more or less, of Federal and fee lands in Township 24 South, Range 25 East, Eddy County, New Mexico.
- CASE 5160: Application of Randolph M. Richardson for a unit agreement, Eddy and Chaves Counties, New Mexico. Applicant, in the above-styled cause, seeks approval for the West Hope Unit Area comprising 13,448 acres, more or less, of Federal, State and Fee lands in Townships 17 and 18 South, Ranges 20 and 21 East, Eddy and Chaves Counties, New Mexico.
- CASE 5161: Application of Depco, Inc. for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for its Northwest Artesia Unit Area comprising 640 acres, more or less of State lands in Sections 31 and 32, Township 17 South, Range 28 East, and Section 6, Township 18 South, Range 28 East, Eddy County, New Mexico.
- CASE 5144: (Continued and Readvertised)
- Application of Depco, Inc. for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Grayburg-San Andres formation through six wells located in its Northwest Artesia Unit Area, Artesia Pool, Eddy County, New Mexico.
- CASE 5162: Application of Western Oil Producers, Inc. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill an undesignated Morrow gas well at an unorthodox location 1980 feet from the South line and 660 feet from the East line of Section 34, Township 17 South, Range 26 East, Eddy County, New Mexico, the S/2 of said Section 34 to be dedicated to the well.
- CASE 5163: Application of Western Oil Producers, Inc. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill an undesignated Morrow gas well at an unorthodox location 660 feet from the South and East lines of Section 27, Township 17 South, Range 26 East, Eddy County, New Mexico, the S/2 of said Section 27 to be dedicated to the well. As an alternative, applicant seeks approval for a location 1980 feet from the South line and 660 feet from the East line of said Section 27.

CASE 5158: Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 29, Township 21 South, Range 27 East, Eddy County, New Mexico, to be dedicated to its Simpson Well No. 1 to be drilled at an orthodox location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5157: Application of Cities Service Oil Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 9, Township 21 South, Range 27 East, Burton Flats Field, Eddy County, New Mexico, to be dedicated to its State C-P Well No. 1 to be drilled at an orthodox location for said unit. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5164: Application of Jake L. Hamon for compulsory pooling and for an unorthodox location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order force pooling all mineral interests in the Strawn and Morrow formations underlying the E/2 of Section 9, Township 21 South, Range 27 East, Burton Flats Field, Eddy County, New Mexico, to be dedicated to a well to be drilled at an unorthodox location 1650 feet from the North line and 660 feet from the East line of said Section 9. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.





November 12, 1973

J. M. Huber Corporation  
1900 Wilco Building  
Midland, TX 79701

Attention: Mr. G. S. Cronwell

Subject: Proposed Cities Service #1 CP State Well  
1980' PSH, and 1980' FEL  
Section 9, T21S, R27E  
Eddy County, New Mexico

Gentlemen:

We propose the drilling of a 11,650' Morrow test at the location set out in the caption. The proration unit to cover the S/2 of Section 9. We estimate the cost of a producer at \$299,800.00 and a dry hole at \$204,600.00.

Cities owns a full working interest in the SE/4 of Section 9 and a 50% working interest in the SE/4 Section 9. The records show that J. M. Huber Corporation owns the remaining 50% interest in the SE/4 of Section 9. This would amount to 25% of the proposed 320 acre proration unit.

We propose that J. M. Huber Corporation participate in the drilling of this test. Plans are being made to drill the test right after the first of the year; therefore we will appreciate your advising of your decision in this matter at an early date.

Thank you.

Yours very truly,

CITIES SERVICE OIL COMPANY

J. Frank Riney  
Landman

JFR11

Cities

5157

2

J. M. Huber Corporation

1900 Wilco Building  
Midland, Texas 79701

OIL AND GAS  
DIVISION

TELEPHONE  
MUTUAL 2-3794

November 15, 1973

Cities Service Oil Company  
800 Vaughn Building  
Midland, Texas 79701

Attention: Frank Riney

RE: Proposed #1 C P State Well  
1980' FSL & FEL  
Section 9-21S-27E  
Eddy County, New Mexico

Gentlemen:

A Morrow test is presently drilling in Section 4, T21S,  
R27E.

We would prefer to see this well completed before  
making a decision on your referenced well proposal.

Very truly yours,

J. M. HUBER CORPORATION

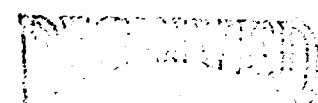
*Stan Cromwell*  
Stan Cromwell  
District Manager

SC: mmp

Cities

5157

23



NOV 16 1973

Cities Service Oil  
Section 9-21S-27E

EET  
Jy  
11/16/73

Well in Sec 4  
has been  
comple.

January 9, 1974

J. M. Huber Corporation  
1900 Wilco Building  
Midland, TX 79701

Subject: Proposed Cities Service #1 "CP" State Well  
11,000' Morrow test  
1900' PRL and 1900' PRL  
Section 9, T21S, R27E  
Eddy County, New Mexico

Gentlemen:

Attached is a copy of a Detailed Well Estimate covering the subject test. As we mentioned in our recent telephone conversation, Cities still wishes to drill the test at the location set out in the caption and has filed an application with the New Mexico Oil Conservation Commission to force pool the mineral interests under the 1/2 of Section 9 T21S, R27E.

If you require any additional information, please advise.

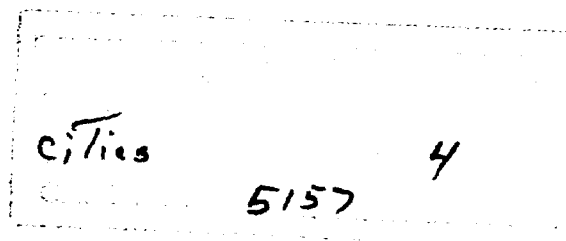
Yours very truly,

CITIES SERVICE OIL COMPANY

J. Frank Riney  
Landman

JFR:1

Attached



OP 69

WELL NUMBER 1

CONTRACTOR \_\_\_\_\_

DATE \_\_\_\_\_

J. O. NO. \_\_\_\_\_

1-9-74DEPTH 11,650'

DETAILED WELL ESTIMATE *line would move 1830' FSL 1980 FEL*  
*because of power still be std.*

LEASE \_\_\_\_\_

LOCATION \_\_\_\_\_

SECTION \_\_\_\_\_

COUNTY \_\_\_\_\_

State "CP"

1980' FSL and 1980' FEL

9, T-21-S, R-27-E

Eddy

STATE

New Mexico

DESCRIPTION	GRADE	SIZE	QUAN.	W	ESTIMATE PRODUCER	ESTIMATE DRY HOLE	REVISED ESTIMATE	ACTUAL COST
<b>TANGIBLES</b>								
Casing			615	48	6,000	6,000		
Set @ 610' H-40 ST&C 13-3/8"	A		1,970	36	13,000	13,000		
H-40 ST&C 9-5/8"	A		1,030	36	7,000	7,000		
Set @ 2970' K-55 ST&C 9-5/8"	A		10,110	17	41,000	-		
N-80 LT&C 5-1/2"	A		1,635	20	8,000	-		
N-80 LT&C 5-1/2"	A							
Well head connections	A				10,000	1,500		
Tubing N-80 Buttress 2-7/8"	A		11,300	6	21,000	-		
Sucker rods					1,100	-		
Bottom hole pump	A							
Packer								
Engine or motor								
Pumping unit								
Electrical equip. inc. Labor & Trans.								
Line pipe, fittings inc. Labor & Trans.								
<b>TANK BATTERY</b>								
Stock tanks Coated	A	210	1		3,000	-		
G. B., settler, free water K. O. tank	A		1		10,000	-		
Separator, heater treater, etc.					1,500	-		
Cost to install T. B.								
<b>INTANGIBLES</b>								
Contract Drlg. labor (footage) \$10.00/Ft.					116,500	116,500		
Rotary day work 5 Days @ \$2000/Day					10,000	10,000		
<del>Rotary day work</del> Unit Time 6 Days					3,000	-		
Subsurface casing equipment					3,000	2,000		
D. S. T., electric logs, etc.					11,000	11,000		
Acidizing, fracing					4,000	-		
Perforating					2,500	-		
Misc. company and contract labor					3,000	2,000		
Road building, location					5,500	5,500		
Cement & cementing service					11,000	11,000		
Cement squeeze jobs					-	-		
Drilling mud, chemicals					12,000	12,000		
Drilling bits, coreheads, reamers					2,500	2,500		
Mud logging unit					2,000	2,000		
Rental of miscellaneous equip.					3,000	2,000		
Company, contract hauling					6,000	6,000		
Water, fuel					5,000	5,000		
Miscellaneous incidentals					321,600	214,000		
Total estimated cost - 100%								
Total estimate C. S.								

*pulling  
25%  
risk factor*

*same  
combined  
fixed  
rate as  
in case  
5/58*

JAKE L. HAMON  
AUTHORITY FOR EXPENDITURE

No. 3-74

Date 1-9-74

Lease Federal 9 COM Well No. 1 Depth 11,700

Field Burton Flat County Eddy State New Mexico

Location 1650' FNL & 660' FEL of Section 9, T-21-S, R-27-E

Reason for Request To drill & complete as Morrow Gas Well.

INTANGIBLES	Estimated	
	Dry Hole	Producer
1 Footage <u>11,700</u> feet @ <u>12.00</u> /ft.	140 000.00	140 000.00
2 Day Work <u>3</u> days @ <u>2200.00</u> /day	6 600.00	6 600.00
<u>4</u> days @ <u>2050.00</u> /day	4 100.00	8 200.00
3 Turnkey (MI, RU, MO)		
4 Completion Unit <u>4</u> days @ <u>630</u> /day		2 520.00
5 Location, Roads, Damages & Restoration	10 000.00	10 000.00
6 Drilling Mud and Chemicals	22 000.00	22 000.00
7 Mud Oil		
8 Drill Stem Tests <u>3</u> @ <u>1300</u> /test	3 900.00	3 900.00
9 Cement & Cementing Service:		
Conductor <u>      </u> sks		
Surface <u>625</u> sks = <u>1857</u> + <u>396</u> = <u>2253</u>		
Intermediate <u>1200</u> sks = <u>3333</u> + <u>950</u> = <u>4283</u>		
Long String <u>500</u> sks = <u>2227</u> + <u>1831</u> = <u>4058</u>		
Liner <u>      </u> sks = <u>      </u> + <u>      </u> = <u>      </u>		
	Total 6 536.00	10 594.00
10 Logging, Open Hole: Dual Ind. Lat. 9, 2000' Comp. Neut. Form. Den. w/GR-Cal.	7 230.00	7 230.00
11 Stimulation Treatment		4 200.00
12 Perforating & Correlation Log		2 918.00
13 Rental Equipment		2 000.00
14 Bits 1 - 4-1/2"		175.00
15 Labor		1 000.00
16 Trucking		1 000.00
17 Mud Logger		
18 Geological	3 000.00	3 000.00
19 Miscellaneous Materials & Supplies		3 000.00
20 Overhead, Supervision and etc.	4 000.00	4 500.00
21 Other		

TOTAL INTANGIBLES

207 766.00    233 237.00

TANGIBLES

1 Casing:		
Conductor <u>      </u> ' of <u>      </u> @ <u>      </u> /ft.		
Surface <u>600</u> ' of <u>13-3/8</u> @ <u>11.00</u> /ft.	6 600.00	6 600.00
Intermediate <u>3000</u> ' of <u>9-5/8</u> @ <u>9.00</u> /ft.	27 000.00	27 000.00
Long String <u>11700</u> ' of <u>5-1/2</u> @ <u>5.00</u> /ft.		58 500.00
Liner <u>      </u> ' of <u>      </u> @ <u>      </u> /ft.		
2 Tubing: <u>11700</u> ' of <u>2-3/8</u> @ <u>3.00</u> /ft.		35 100.00
3 Rods: <u>      </u> ' of <u>      </u> @ <u>      </u> /ft.		
4 Wellhead & Wellhead Connections	500.00	5 000.00
5 Float Equip. , Stage Tools, Liner Tools & Packers		2 000.00
6 Pumping Unit, Motor & Sub-Surface Equipment		
7 Stock Tanks <u>2</u> - <u>500</u> bbl. @ <u>3000</u> /tank		6 000.00
8 Separator		6 500.00
9 Heater-Treater		
10 Line Pipe		1 000.00
11 Labor		3 500.00
12 Trucking		1 000.00
13 Miscellaneous Materials & Supplies		
14 Other		

TOTAL TANGIBLES

34 100.00    152 200.00

TOTAL ALL COSTS

\$241,866.00    \$385,437.00

It is recognized that the amounts provided for herein are estimates only, and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than herein set out.

Accepted: \_\_\_\_\_ Date \_\_\_\_\_

Approved: \_\_\_\_\_ Date January 9, 1974

Company \_\_\_\_\_

JAKE L. HAMON

By \_\_\_\_\_

By \_\_\_\_\_

*8/5/74*

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956  
Non-Federal Lands

OPERATING AGREEMENT

DATED

January 4, 1974,

FOR UNIT AREA IN TOWNSHIP 21 South, RANGE 27 East,

Eddy COUNTY, STATE OF New Mexico.

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN  
APPROVED FORM A.A.P.L. NO. 610  
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER  
ROSS-MARTIN COMPANY, BOX 800, TULSA 74101

*not suitable for sale  
at \$1.00 per acre*

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## OPERATING AGREEMENT

THIS AGREEMENT, entered into this 4 day of January, 19 74, between  
Jake L. Hamon

hereafter designated as "Operator", and the signatory parties other than Operator.

## WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

## 1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include 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".
- (6) 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 Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

## 2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

## A. Title Examination: See Sec. 31(a)

~~Each party other than Operator shall promptly submit to Operator abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this contract. All of these abstracts and title records shall be examined for the benefit of all parties by Operator's attorneys.~~

Operator shall promptly submit abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this agreement, to \_\_\_\_\_ for examination by the latter's attorney for the benefit of all parties.

All title examinations shall be made without charge. Each examining attorney shall prepare a complete title report on each separate tract based upon the abstract record and title papers submitted to him. Each title report shall contain a list of fee owners and their interests, shall state the attorney's opinion concerning validity of their interests, and shall contain an enumeration and description of title defects, if any, a report upon mortgages, taxes, pending suits, and judgments, and unreleased oil and gas leases, and a list of requirements, if any, upon which the examiner's approval of title to the lease or oil and gas interest is contingent. The title report shall also contain a specific description of the oil and gas lease being subjected to this contract, with a statement of its form, term (which will be satisfactory if it has a primary term expiring not sooner than \_\_\_\_\_), amount of royalty, status of delay rental payments, and unusual drilling



~~obligations and of excess royalty, oil payments, and other special burdens. A copy of each title opinion, and of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.~~

All title examinations shall be made, and title reports submitted, within a period of \_\_\_\_\_ days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of \_\_\_\_\_ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative immediately, and the parties shall proceed to their performance as they are hereinafter stated.

#### B. Failure of Title:

After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

#### C. Loss of Leases For Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the remaining portion of the Unit Area.

### 3. UNLEASED OIL AND GAS INTERESTS

NONE

~~If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B" and for the primary term therein stated. As to such interests, 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.~~

### 4. INTERESTS OF PARTIES

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 contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If the interest of any party in any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth ( $\frac{1}{8}$ ) royalty, such party shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

#### 5. OPERATOR OF UNIT

Jake L. Hamon shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit 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 from breach of the provisions of this agreement.

#### 6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

#### 7. TEST WELL

On or before the 1<sup>st</sup> day of April, 1974, Operator shall commence the drilling of a well for oil and gas in the following location:

NE $\frac{1}{4}$  Section 9, Township 21 South, Range 27 East  
(E $\frac{1}{2}$  Section 9 to be dedicated to said well and shall be subject to communitization agreement approved by U.S.G.S. and Commissioner)

and shall thereafter continue the drilling of the well with due diligence to test the Strawn formation of Pennsylvanian age.

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete 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 test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

#### 8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

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 costs 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 costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs 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 at the rate of six percent (6%) per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

## 9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

## 10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. 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.

## 11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Ten Thousand and no/100 ----- Dollars (\$ 10,000.00 ) except in connection with a well the drilling, reworking, deepening, 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 and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$ 5,000.00.

## 12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of 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 on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may 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 (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) 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. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 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.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. 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 section 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 section, 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, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests 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 section, 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) 200% 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 Section 25, and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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.

Within sixty (60) days after the completion of any operation under this section, 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 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. 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; 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 operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned 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 schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, 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 Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

### 13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit 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. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. 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.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers 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 Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. 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. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

#### 14. ACCESS TO UNIT AREA

Each party shall have access to the Unit 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 shall, upon request, furnish each of the other parties with copies of all 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 Unit Area.

#### 15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

#### 16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if 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 then 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 its 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. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, 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.

### 17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Each party shall pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 100% of any such shut-in well payment. The amount of such reimbursement shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Section 23 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

### 18. PREFERENTIAL RIGHT TO PURCHASE

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

### 19. SELECTION OF NEW OPERATOR

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

## 20. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, 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 Unit 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 Unit 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 rights 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 may, at its discretion, 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 contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

## 21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

## 22. 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 Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is 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 them liable as partners.

## 23. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit 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 unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the 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 section 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 section.

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



## 24. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, 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. 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. 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, 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 assignors' or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Unit Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

## 25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit 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 execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. 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 Unit Area.

## 26. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

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. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation 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. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with 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".

## 27. 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. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit 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.

## 28. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand (\$1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

## 29. 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 possible diligence to remove the force majeure as quickly as possible.

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 restraint, 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.

## 30. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be 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. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

31. OTHER CONDITIONS, IF ANY, ARE:

31(a) The parties hereto represent that they are the owners of the leasehold interests shown on Exhibit "A" attached hereto. No title examination shall be required by operator but the respective parties shall, upon request of operator, furnish to operator copies of oil and gas leases, assignments, rental receipts and other instruments which may be necessary or required to evidence title of the respective parties.

31(b) This operating agreement is entered into by and between the parties hereto simultaneously with a Communitization Agreement covering the E $\frac{1}{2}$  Section 9, Township 21 South, Range 27 East, N.M.P.M. Eddy County, New Mexico which is to be approved by the United States Geological Survey and the Commissioner of Public Lands of the State of New Mexico. Said Communitization Agreement only communitizes the leasehold interests described on Exhibit "A" attached hereto as to the ~~Morrow~~ <sup>Strawn</sup> zone or formation of Pennsylvanian age and the provisions of this agreement shall be limited to said zone or formation. Notwithstanding any of the other provisions herein contained to the contrary the term of this agreement shall be co-extensive with the life of the Communitization Agreement.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

ATTEST:

\_\_\_\_\_  
Jake L. Hamon

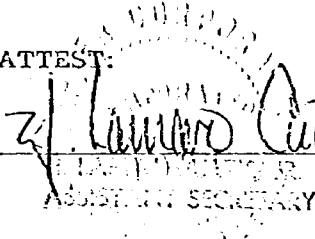
OPERATOR

COQUINA OIL CORPORATION

ATTEST:

\_\_\_\_\_  
J. M. HUBER CORPORATION

ATTEST:

  
\_\_\_\_\_  
William H. Curtis  
ASSISTANT SECRETARY

\_\_\_\_\_  
J. S. Collins  
Vice President  
CITIES SERVICE OIL COMPANY

ATTEST:

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

ATTEST:

\_\_\_\_\_

\_\_\_\_\_  
Jake L. Hamon

OPERATOR

ATTEST:

\_\_\_\_\_

COQUINA OIL CORPORATION

*J. Ferrell*

Attorney in Fact

J. M. HUBER CORPORATION

ATTEST:

\_\_\_\_\_

\_\_\_\_\_  
CITIES SERVICE OIL COMPANY

ATTEST:

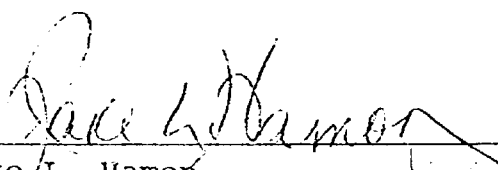
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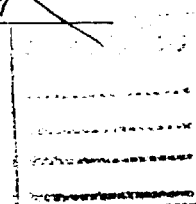
This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

ATTEST:

\_\_\_\_\_

  
\_\_\_\_\_

Jake L. Hamon



OPERATOR

ATTEST:

\_\_\_\_\_

ATTEST:

\_\_\_\_\_

ATTEST:

\_\_\_\_\_

COQUINA OIL CORPORATION

\_\_\_\_\_

J. M. HUBER CORPORATION

\_\_\_\_\_

CITIES SERVICE OIL COMPANY

\_\_\_\_\_

EXHIBIT "A"

Operator of Communitized Area: Jake L. Hamon  
P.O. Box 663  
Dallas, Texas 75221

DESCRIPTION OF LEASES COMMITTED

Tract No. 1:

Lessor: United States

Lessee of Record: Coquina Oil Corporation ----- 1/5  
Jake L. Hamon ----- 4/5

Serial No. of Lease: NM 18727

Date of Lease:

Description of  
Lands Committed: NE $\frac{1}{4}$  Section 9, Township 21 South, Range 27 East.

Number of Acres: 160

Working Interest  
and Percentage: Jake L. Hamon ----- 80%  
Coquina Oil Corporation ----- 20%

Overriding Royalty  
and Percentage: None

Tract No. 2:

Lessor: State of New Mexico

Lessee of Record: Cities Service Oil Company ----- 1/2  
J. M. Huber Corporation ----- 1/2

Serial No. of Lease: L-1648

Date of Lease:

Description of  
Lands Committed: SE $\frac{1}{4}$  Section 9, Township 21 South, Range 27 East

Number of Acres: 160

Working Interest  
and Percentage: Cities Service Oil Company ----- 50%  
J. M. Huber Corporation ----- 50%

Overriding Royalty  
and Percentage

00000

## EXHIBIT ' c '

Attached to and made a part of ... Operating Agreement dated  
January 4, 1974 between Jake L. Hamon as operator  
and Coquina Oil Corporation, et al, covering E $\frac{1}{2}$   
Section 9, Township 21 South, Range 27 East, Eddy  
County, New Mexico.

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"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.

"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.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall be defined as set forth under the subparagraph selected below:

- A. ☒ 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.
- B. ☐ Material which is ordinarily so classified and controlled by Operator in the conduct of its operations. List shall be furnished Non-Operators upon request.

### 2. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under the subparagraph selected below:

- A. ☐ Statement in detail of all charges and credits to the Joint Account.
- B. ☐ Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.
- C. ☒ Statement of all charges and credits to the Joint Account, summarized by appropriate classification indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

### 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 ten per cent (10%) 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.

### 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 the Joint Property as provided for in Section VII.

### 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 accounting hereunder 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 Non-Operators is expressly required under Paragraphs 5A, 5B, 6A and 6 of Section II, Section III, Section V, Section VI, and Paragraph 4 of Section VII, of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the Operator shall notify all Non-Operators 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 employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of first-level supervisors in the field if such charges are excluded from overhead rates in Option A of Section III.
- (3) Salaries and wages of technical employees temporarily assigned to and directly employed on the Joint Property if such charges are excluded from overhead rates in Option B of Section III.
- (4) Salaries and wages of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from overhead rates in Option C of Section III.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1A of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost 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 and Paragraph 1A of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III.
- D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

### 3. Employee Benefits

Operator's current cost 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 and Paragraph 1A of Section III shall be chargeable as indicated in the subparagraph selected below:

- A. ☐ Operator's actual cost.
- B. ☒ Operator's actual cost not to exceed fifteen per cent (15%).

### 4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and 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 Operator and Non-Operators.
- 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 Operators and Non-Operators. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by Operator and Non-Operators.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.

### 6. Services

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 1B of Section III. The cost of professional consultant services shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

### 7. 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 to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

### 8. Legal Expense

All costs and expenses of handling, investigating, and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorney's fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), unless agreed to by Operator and Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

### 9. 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.

#### 10. Insurance

Net premiums paid for insurance required to be carried on the Joint Property 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 therefor on the following basis:

#### 11. 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 for the necessary and proper conduct of the Joint Operations.

### III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus the rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraph 1 of this Section III or by combining all three of said items under the rates provided for in Paragraph 2 or 3 of this Section III, as indicated next below:

#### OPERATOR SHALL CHARGE INDIRECT COSTS TO THE JOINT ACCOUNT UNDER THE TERMS OF:

- ☐ Paragraph 1. (District Expense, Administrative Overhead and Warehousing)  
☒ Paragraph 2. (Combined Rates - Well Basis)  
☐ Paragraph 3. (Combined Rates - Percentage Basis)

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 Operator and Non-Operators as a direct charge to the Joint Account.

#### THE OVERHEAD RATES PROVIDED FOR IN ANY OF THE PARAGRAPHS SELECTED ABOVE

- A. ☐ shall ☒ shall not include salaries and personal expenses of first-level supervisors in the field.  
B. ☐ shall ☒ shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.  
C. ☒ shall ☐ shall not include salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property.

#### I. District Expense, Administrative Overhead and Warehousing

##### A. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's \_\_\_\_\_ office located at or near \_\_\_\_\_

(or a comparable office if location changed); and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

##### B. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1A of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charge shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged direct as provided in Paragraphs 2 and 8 of Section II. Such charge shall be made on the basis indicated below, either (1) well basis or (2) percentage basis, at the rates shown thereunder.

(1) ☐ Well Basis

#### RATE PER WELL PER MONTH

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

(2) ☐ Percentage Basis

#### PERCENTAGE BASIS

Development:

..... Percent ( %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

Operating:

..... Percent ( %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 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.

C. Operator's Warehouse Operating and Maintenance Expense

- [ ] Included in district expense  
 [ ] No charge either direct or indirect  
 [ ] Percentage basis (describe fully) .....

2. Combined Rates - Well Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

Well Depth	RATE PER WELL PER MONTH			
	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
All Depths	\$1275.00	\$199.00	\$172.00	\$157.00

3. Combined Rates - Percentage Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

PERCENTAGE BASIS

A. Development:

..... Percent ( %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 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 8 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.

4. Application of Administrative Overhead or Combined Rates - Well Basis

The following limitations, instructions and charges shall apply in the application of the rates as provided under either Paragraph 1B (1) or Paragraph 2 of this Section III.

A. Charges for drilling wells shall begin on the date each 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 the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

- (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for waterflood-ing operations and salt water disposal wells shall be considered the same as producing oil wells.
- (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. Any well being plugged or produced during any portion of the month shall be considered as a producing well for the entire month.
- (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling rig or workover rig capable of drilling shall be considered the same as drilling wells.
- (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, shut-in wells shall be counted in determining the charge hereunder for such month if said wells contribute allow-able production that is actually produced during such month from one or more unit wells as a result of allowable transfer, inclusion in the unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during the month.
- (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
- (6) Wells completed in multiple horizons, shall be considered as a producing well for each separately pro-ducing horizon, providing each completion is considered a separate well by governmental or other state-wide regulatory authority.

C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, irrespective of individual leases.

D. 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 preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian Index as published by the Dominion Bureau of Statistics, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

5. Application of Administrative Overhead or Combined Rates - Percentage Basis

For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 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 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 6 of this Section III. All other costs shall be considered as Operating.

6. Major Construction Overhead

For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling

and producing operations, Operator in addition to the Administrative Overhead or Combined Rates provided for in Paragraph 1, 2 or 3 of this Section III shall either negotiate a rate prior to beginning of construction or shall charge the Joint Account with an additional overhead charge as follows:

- A. Total cost less than \$25,000, no charge.
- B. Total cost more than \$25,000, but less than \$100,000, .....% of total cost.
- C. Total cost of \$100,000 or more, .....% of the first \$100,000 plus .....% of all over \$100,000 of total cost.

Total cost shall mean the total 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 wells shall be excluded.

#### 7. Amendment of Rates

The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

### IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operators may supply Material or services for the Joint Property.

#### 1. Purchases

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

#### 2. Material furnished from Operator's Warehouse or Other Properties

##### A. New Material (Condition "A")

- (1) Tubular goods, except line pipe, shall be priced on a maximum carload and/or barge load weight basis regardless of quantity transferred and equalized to the lowest prevailing price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available effective at date of transfer.
- (2) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.
- (3) When the Operator has equalized actual hauling costs as provided for in Paragraph 5 of Section II, Operator is permitted to include ten cents (10¢) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (4) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f.o.b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is normally available.
- (5) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

##### B. Used Material (Condition "B" and "C")

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which is not suitable for its original function until after reconditioning shall be furnished to the Joint Account under one of the two methods defined below:
  - (a) Classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the Operator of the transferring property.
  - (b) Classified as Condition "C" and priced at fifty per cent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the receiving property, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. 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.
- (4) 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 prices specified in Paragraphs 1 and 2 of this Section IV 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 procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that 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 10 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.

#### 5. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. Rates for laboratory services shall not exceed those currently prevailing if performed by

- outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.
- B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.
  - C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

#### V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be agreed to by Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from Joint Property.

1. **Material Purchased by the Operator or Non-Operators.**

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

2. **Division in Kind**

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator to the Joint Account.

3. **Sales to Outsiders**

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

#### VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless agreed to by Operator and Non-Operators shall be priced on the following basis:

1. **New Price Defined**

New price as used in this Section VI shall be the price specified for new Material in Section IV.

2. **New Material**

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. **Good Used Material**

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

- A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
- B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five per cent (75%) of new price.

4. **Other Used Material**

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

- A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
- B. Is serviceable for original function but not suitable for reconditioning.

5. **Bad-Order Material**

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. **Junk Material**

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

7. **Temporarily Used Material**

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

#### VII. 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 inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operators 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 Operator and Non-Operators.

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated January \_\_, 1974 between Jake L. Hamon, as operator, and Coquina Oil Corporation, et al, covering E $\frac{1}{2}$  Section 9, Township 21 South, Range 27 East, Eddy County, New Mexico.

Operator shall, at the joint expense of the parties hereto, at all times while operations are conducted hereunder, provide with responsible insurance companies, insurance as follows:

a. Workmen's Compensation insurance in accordance with the laws of the State of New Mexico and Employers' Liability insurance with limits of not less than \$100,000.00;

b. Public Liability insurance with respect to bodily injuries with limits of not less than \$100,000.00 as to any one person and \$300,000.00 as to any one accident; and Property Damage Liability insurance with limits of not less than \$100,000.00 as to any one accident; and

c. Automobile Public Liability insurance with respect to bodily injuries with limits of not less than \$100,000.00 as to any one person and \$300,000.00 as to any one accident; also Automobile Public Liability insurance with respect to Property Damage with limits of not less than \$100,000.00 as to any one accident.

Operator shall not provide, for the joint account of the parties hereto, insurance against the hazards of fire, windstorm, explosion, blowout, cratering, reservoir damage or insurance other than that specified above.

S-75 /

BEFORE THE  
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF  
CITIES SERVICE OIL COMPANY FOR  
COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO

A P P L I C A T I O N

COMES NOW CITIES SERVICE OIL COMPANY and as provided by Section 65-3-14, New Mexico Statutes 1953, as amended, applies to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interests in an under the S/2 of Section 9, Township 21 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show the Commission:

1. Applicant is the owner of the right to drill and develop the following described acreage: S/2 of Section 9, Township 21 South, Range 27 East, N.M.P.M.

2. Applicant has obtained voluntary agreement for pooling from all but the following:

J. M. Huber

Huber Corporation, 1900 Wilco Building, DOCKET MAILED  
Midland, Texas

with an undivided 1/2 mineral interest Date \_\_\_\_\_  
in the SE/4 of Section 9, Township 21  
Range 27 East, N.M.P.M.

3. As required by the provisions of Commission Rule 104, applicant proposes to dedicate the S/2 of Section 9, Township 21 South, Range 27 East, N.M.P.M., Eddy County, New Mexico to the well.

4. Applicant requests that it be designated operator of the pooled unit requested above.

DOCKET MAILED

Date 1-18-74

5. Applicant proposes to drill a well at an orthodox well location to be called the State C-P #1, within said pooled unit.

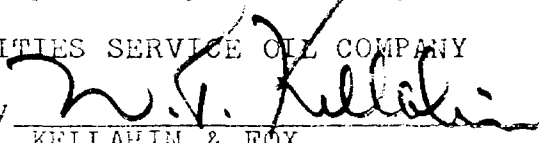
6. Applicant has been unable to obtain voluntary agreement for the pooling of the unpooled interests indicated in paragraph 2 above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, the Commission should pool all interests in the spacing or proration unit as a unit.

WHEREFORE, applicant respectfully requests that the Commission set this matter for hearing before the Commission's duly appointed examiner, and that after notice and hearing as required by law the Commission enter its order pooling all interest underlying the S/2 of Section 9, Township 21 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and designating applicant operator of the pooled unit, together with provision for applicant to recover its costs out of production including a risk factor to be determined by the Commission and with provisions for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear and for further orders as may be proper in the premises.

Respectfully submitted,

CITIES SERVICE OIL COMPANY

By

  
KELLAHIN & FOX

P. O. Box 1769

Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT



BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING

CALLER BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASE NOS. 5157 AND 5164  
Order No. R- 4742

APPLICATION OF CITIES SERVICE OIL  
COMPANY FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

APPLICATION OF JAKE L. HAMON  
FOR COMPULSORY POOLING AND FOR  
AN UNORTHODOX LOCATION, EDDY  
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on January 30, 1974,  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this \_\_\_\_\_ day of March, 1974, the Commission,  
a quorum being present, 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 Commission has jurisdiction of this cause and the subject  
matter thereof.

(2) That in Case No. 5157, the applicant, Cities Service Oil  
Company, seeks an order pooling all mineral interests in the  
Pennsylvanian formation underlying the S/2 of Section 9, Town-  
ship 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy  
County, New Mexico.

(3) That in Case No. 5164, the applicant, Jake L. Hamon,  
seeks an order pooling all mineral interests in the Strawn and  
Morrow formations underlying the E/2 of Section 9, Township 21  
South, Range 27 East, NMPM, Burton Flats Field, Eddy County,  
New Mexico.

Cases Nos. 5157 and 5164  
Order No. R-

(4) That both applicants, Cities Service Oil Company and Jake L. Hamon, seek to be named the operator of the unit each seeks to have pooled.

(5) That Cases Nos. 5157 and 5164 were consolidated as both cases involve some common acreage and the granting of one application would result in a denial of the other.

(6) That Cities Service Oil Company has the right to drill and proposes to drill its State C-P Well No. 1 at an orthodox location for its proposed unit to test the Pennsylvanian formation underlying said unit.

(7) That Jake L. Hamon has the right to drill and proposes to drill his Federal 9 Com ~~No. 1 well~~ <sup>Well No. 1</sup> at an unorthodox location for his proposed unit to test the Strawn and Morrow formation underlying said unit.

(8) That the evidence indicates that all of said Section 9 is underlain by the Strawn limestone and the Morrow Sand.

(9) That there is a reasonable expectation that both formations can reasonably be presumed productive of gas from all of <sup>said</sup> Section 9.

(10) That there are interest owners in both proposed proration units who have not agreed to pool their interests.

(11) That the evidence indicates that the entire S/2 of the above-described Section 9 can be efficiently and economically drained and developed by a well located at an orthodox location within the S/2 of said Section 9.

(12) That there is a reasonable expectation that the entire N/2 of the above-described Section 9 could be efficiently and economically drained and developed by a well located within the N/2 of said Section 9.

(13) 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 gas in said pool, the application of Cities Service Oil Company should be approved by pooling all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the S/2 of Section 9. Town-

ship 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy County, New Mexico.

*to be dedicated to a well to be drilled at a standard location for said unit.*

(14) That the application of Jake L. Hamon for an order pooling all mineral interests in the Strawn and Morrow formation underlying the E/2 of Section 9, Township 21 South, Range 27 East, NMPM, Burton Flats Field, Eddy County,

New Mexico, should be denied.

(15)

(12) That the applicant Cities Service Oil Company should be designated the operator of the ~~subject~~ well and unit *described in*

(16)

*Finding No. (13) above.*

(13) 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.

(17)

(14) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 25 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(18)

(15) 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.

(19)

(16) That following determination of reasonable well costs, any non-consenting working interest owner that 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.

(20)

(17) That \$205.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates), provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; *based on* ~~that 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 preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics; and the adjusted rate shall be the rates currently in use, plus or minus the computed adjustment;~~ that the operator is hereby authorized to withhold from

production the proportionate share of such supervision charge 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.

(21)  
(18) 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.

(22)  
(19) 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 June 15, 1974, the order pooling said unit should become null and void and of no effect whatsoever.

as for

~~whatsoever.~~

IT IS THEREFORE ORDERED:

(2) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the S/2 of Section 9, Township 21 South, Range 27 East, NNPM, Burton Flats Field, Eddy County, New Mexico, are hereby pooled to form a standard 320 acre gas spacing and proration unit to be dedicated to ~~xxxxxx~~ <sup>its State C-P Well No. 1</sup> to be drilled at an orthodox location for said unit.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15<sup>th</sup> day of May June, 1974, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15<sup>th</sup> day of May June, 1974, Order (2) of this order shall be null and void and of no effect whatsoever;

(1) That in the event of failure to commence drilling an orthodox gas spacing and mineral interest, in the Pennsylvanian formation underlying the S/2 of Section 9, Township 21 South, Range 27 East, NNPM, Burton Flats Field, Eddy County, New Mexico, to be drilled.

Case No.  
Order No. R-

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 Commission and show cause why Order (2) of this order should not be rescinded.

(3) That Cities Service Oil Company is hereby designated the operator of the subject well and unit.

(4) That after the effective date of this order and <sup>within</sup> ~~at least~~ 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) 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.

(6) That the operator shall furnish the Commission 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 Commission and the Commission 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 Commission will determine reasonable well costs after public notice and hearing.

(7) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

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Case No.  
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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.

(8) 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, 25% 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.

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

(10) That \$ 205 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates), provided that this rate shall be adjusted on the first day of April of each year following the effective date of this order; that the adjustment shall be computed by multiply-



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(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 interests 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 be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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