Case No.

978

Application, Transcript,
Small Exhibits, Etc.

Memo

OK. WWM 11/17/55

11/17/55

From [illegible]

To JWG Re: Case 978

I feel that it's OK to write a forced communitization order in Phillips application in Case 978 without benefit of transcript.

Check Order R-583 for form.

Memo

From I. R. TRUJILLO

Humble

To (Fuel sales to Consumers)

School Tax is paid out. deducted when paying Severance Tax

General American.

Pays severance - cannot pay [illegible] [illegible] severance.

No severance tax from Carbonic Chem.

[illegible] - deducts tax all [illegible] on lease.

Standard - deducts trucking charges

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

APPLICATION OF PHILLIPS PETROLEUM COMPANY FOR THE POOLING OF INTERESTS IN THE SE/4 OF SECTION 28, TOWNSHIP 25 SOUTH, RANGE 37 EAST, N.M.P.M., CROSBY-DEVONIAN POOL, LEA COUNTY, NEW MEXICO

No. 714

Comes now Phillips Petroleum Company and makes application for an order pooling the rights and interests of all persons having the right to drill for, produce or share in the production of gas from the Devonian Sand underlying the spacing unit comprising the Southeast Quarter (SE/4) of Section 28, Township 25 South, Range 37 East, N.M.P.M., in the Crosby-Devonian Pool, Lea County, New Mexico, upon such terms and conditions as are just and reasonable and will afford to the owners of each tract or interest within such spacing unit the opportunity to recover or receive his just and equitable share of the gas in said pool, and in support thereof alleges:

1. Phillips Petroleum Company is the owner of an oil and gas lease upon and covering an undivided 3/4 mineral interest in and to the North 60 acres of said spacing unit.

2. A 1/8 royalty interest under said lease is owned as follows:

Harry Leonard, Roswell, New Mexico	-	33.3333%
S. M. Cloyd, Oklahoma City, Oklahoma	-	50.0000%
Saunders Estate, Roswell, New Mexico	-	16.6667%

3. The remaining 1/4 mineral interest in and to the North 60 acres of said spacing unit is unleased and is owned by and in the proportions all as is shown on Exhibit "A" hereto attached and made a part hereof.

4. Woodley Petroleum Company is the owner of an oil and gas lease upon and covering the South 100 acres of said spacing unit.

5. A 1/8 royalty interest under said lease covering the South 100 acres of said spacing unit is owned as follows:

Mary Leonard, Roswell, New Mexico	-	1/8
S. L. Cloyd, Oklahoma City, Oklahoma	-	3/8
Saunders Estate, Roswell, New Mexico	-	1/8
Persons shown on Exhibit "A" in the proportions shown opposite their names	-	1/4

6. By Order No. R-639 entered by this Commission in Case No. 861 on May 27, 1955, a new gas pool was created and delineated and designated as the Crosby-Devonian Gas Pool, which order limited the drilling of wells in such pool to one well to each drilling or spacing unit of 160 acres, said acreage to be substantially in the form of a square conforming to a legal subdivision (quarter-section) of the United States Public Lands Survey, in which all the interests are consolidated by pooling agreement or otherwise, and on which unit no other well is completed or approved for completion in said pool.

7. The hereinabove described spacing unit consisting of the SE/4 of Section 28, Township 25 South, Range 37 East, is included within the boundaries of said Crosby-Devonian Gas Pool as delineated by said Order No. R-639.

8. By Order No. R-589-A entered by this Commission in Case No. 853, the Commission approved the well location of Phillips Petroleum Company's Copper No. 1 well located 660 feet East of the West line and 660 feet South of the North line of the SE/4 of Section 28, Township 25 South, Range 37 East, which well was heretofore drilled to and produced from the Queen formation overlying the Crosby-Devonian formation and is now being deepened to the Crosby-Devonian formation.

9. All persons owning any right to drill for, produce or share in the production of gas from the Devonian Sand formation underlying the hereinabove described spacing unit, with the exception of the persons whose names, other than Cecil Whitcomb and Charles B. Wrightsman, appear on Exhibit "A" hereto attached, have agreed to the pooling of their rights and interests insofar as same relate to the Crosby-Devonian formation underlying said spacing unit and have agreed that said Copper well shall constitute

the well permitted by Order No. R-63[illegible] to be drilled thereon. The persons whose names appear on Exhibit "A" hereto attached, other than Gail Whitcomb and Charles B. Wrightsman, have not agreed to the pooling of the rights and interests in and to said spacing unit nor upon the terms and conditions of the drilling of said Copper well as the well permitted to be drilled on said unit.

10. Applicant and the other owners of rights and interests within said spacing unit who have agreed upon the pooling of their interests within said spacing unit will be deprived of their opportunity to recover their just, equitable and fair share of the gas thereunder, waste will result, and the correlative rights of the parties will be violated unless an order is entered by this Commission pooling the rights and interests of all persons therein and prescribing the terms and conditions upon which the parties shall share in the cost and expense of drilling said well to the Crosby-Devonian formation and in the production obtained therefrom.

11. The pooling of said interests is in the interest of conservation, can be done without waste, and will protect the correlative rights of all parties.

WHEREFORE, applicant respectfully requests that the Oil Conservation Commission of the State of New Mexico enter an appropriate order pooling the rights and interests of all persons having the right to drill for, produce or share in the production of gas from the Devonian Sand formation underlying the hereinabove described spacing unit comprising the SE/4 of Section 28, Township 25 South, Range 37 East, Lea County, New Mexico, upon such terms and conditions as are just and reasonable and will afford to the owners of each tract or interest within such spacing unit the opportunity to recover or receive his just and equitable share of the gas in said pool, including provisions for the equitable sharing and payment of the cost and expense of drilling and operating the well drilled thereon and such other provisions as to the

Commission may seem just and proper.

Respectfully submitted,

PHILLIPS PETROLEUM COMPANY

By Jason W. Kellahin
Attorney

54½ E. San Francisco Street
Santa Fe, New Mexico

EXHIBIT A

Names and Addresses	Distributees' Interests
Aida Abelow 414 Avenue C Brooklyn 18, N. Y.	78/42,972
Emma E. Arnold c/o Adam F. Arnold 3417 Fulton St. N.W. Washington 7, D. C.	30/42,972
Miss Mary C. Austin 210 E. Benton Street Carrollton, Missouri	175/42,972
Gordon G. Berg 7905 Cottage Grove Ave. Chicago, Illinois	10/42,972
Roland Binning 139-40 226th Street Laurelton, L. I., New York	20/42,972
Howard W. Bradshaw Delphi, Indiana	16/42,972
Robert G. Bradshaw Delphi, Indiana	16/42,972
John L. Brady 5220 Barry Avenue Chicago, Illinois	10/42,972
Helen Budge 502A East Sixth Street Long Beach, California	20/42,972
Max R. Chudy 119 Rohr Avenue Buffalo, New York	100/42,972
George W. Clark 1254 Cleveland Road Glendale, California	12/42,972
David Cohen 278 Washington Street New York 7, New York	10/42,972
Robert C. Eble 8801 Shore Road Brooklyn, New York	49/42,972
Delia B. Edwards 8208 Seminole Avenue Philadelphia 18, Pennsylvania	15/42,972
Edward Mitchell Edwards Room 708, 1500 Walnut Street Philadelphia 2, Pennsylvania	25/42,972
E. M. Edwards Company 1500 Walnut Street, Room 708 Philadelphia 2, Pennsylvania	32/42,972

Names and Addresses	Distributees' Interests
Silas and Nell Evans (Interest of Helen Sifton, deceased) Contact: Michael, Spohn, Best & Friedrich Attn: George A. Schutt Attorneys-at-Law 110 East Wisconsin Avenue Milwaukee 2, Wisconsin	93/42,972
Rose P. Feltman 85 Eastern Parkway Brooklyn 17, New York	78/42,972
Charles T. Gallaher, 2nd 1216 Sixth Street Moundsville, West Virginia	5/42,972
Joseph Wesley Gallaher, 2nd 1216 Sixth Street Moundsville, West Virginia	5/42,972
Mrs. Carrie Gidwitz 2425 South Rockwell Street Chicago, Illinois	50/42,972
Charles W. Hastings 3323 East College Avenue Alton, Illinois	10/42,972
Daniel W. Hawess Box 48 Parma, Michigan	50/42,972
Grace C. Hayes 1506 East 29th Street Vancouver, Washington	5/42,972
Samuel W. Hefter 96-03 Baldwin Avenue Forest Hills, New York	12/42,972
Miss Francis Holman Ballinger, Texas	1/42,972
George P. Holman c/o Ballinger State Bank & Trust Company Ballinger, Texas	11/42,972
Elmer G. Johnson 242 N. Bennett Avenue Fontana, California	5/42,972
Harry L. Jones & Isabel Jones as Joint Tenants with Right of Survivorship and Not as Tenants in Common Spring Hill Farm Spring Hill, Maryland	40/42,972
Joseph H. Knapp Box 84 Baxter, Pennsylvania	10/42,972
Emma C. W. Lee 1661 Crescent Place N. W. Washington 9, D. C.	32/42,972

Names and Addresses	Distributees' Interests
Elinor June McAshan 7315 Okinawa Street Houston, Texas	7/42,972
John E. McConnell, Jr. 2525 Stanmore Drive Houston 19, Texas	200/42,972
Elizabeth S. McKee 285 Lincoln Place Brooklyn, New York	5/42,972
Stella Mathe 1708 East Kenwood Boulevard Milwaukee, Wisconsin	19/42,972
Fred Matthesius 9522 - 119th Street Richmond Hill, New York	25/42,972
Miss Ida Miller 3220 West Huntingdon Street Philadelphia, Pennsylvania	5/42,972
Edward F. Nicolin Calle Frontera 135 Mexico, D. F.	5/42,972
William T. Pitt 219 S. W. Sixth Avenue Miami, Florida	27/42,972
Florence C. Robertson 4 Raymond Street Lexington, Massachusetts	5/42,972
Burton L. Robinett and Mrs. Mildred Robinett as Joint Tenants with Right of Survivorship and not as Tenants in Common 1404 North Harding Avenue Chicago, Illinois	32/42,972
Louis Ross Monroe, Wisconsin	25/42,972
Flora G. Sarkisian, Executrix Estate of Diokran M. Sarkisian, Deceased 35 West 44th Street New York 18, New York	48/42,972
Edwin F. Scheetz, Jr. 607 Pitcairn Place Pittsburgh 32, Pennsylvania	10/42,972
Lionel L. Shatford 32 Fenwick Street Halifax, Nova Scotia	5/42,972
Catherine A. Sheridan Lounsbury Road Croton on Hudson, New York	78/42,972
Peter M. Smith Hertel Avenue Station P. O. Box 47 Buffalo, N. Y.	25/42,972

Names and Addresses	Distributees' Interests
Andrew M. Taylor c/o Ind. Bell & Tel. Company Indianapolis, Indiana	10/42,972
The National Bank of Commerce of Houston and Morgan J. Davis, Trustees for Sue Trammell Under Trust Indenture Dated October 5, 1943 as Amended P. O. Box 2558 Houston 1, Texas	130/42,972
The National Bank of Commerce of Houston and Morgan J. Davis, Trustees for Thomas Stephen Trammell Under Agreement Dated October 6, 1949 P. O. Box 2558 Houston 1, Texas	129/42,972
The National Bank of Commerce of Houston and Morgan J. Davis, Trustees for W. B. Trammell, Jr. Under Trust Indenture Dated October 5, 1943 as Amended P. O. Box 2558 Houston 1, Texas	129/42,972
Laura W. Hancock, Charles E. Wagandt and Mildred W. Zouck, Surviving Trustees Under the Will of Charles L. Wagandt 109 Beechdale Road Baltimore 10, Maryland	16/42,972
Gail Whitcomb Commerce Building Houston 2, Texas	745/42,972
Charles B. Wrightsman P. O. Box 256 Houston 1, Texas	40,267/42,972

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:

CASE NO. 978
Order No. R-747

THE APPLICATION OF PHILLIPS
PETROLEUM COMPANY FOR
COMPULSORY POOLING OF INTERESTS
IN THE SE/4 OF SECTION 28, TOWNSHIP
25 SOUTH, RANGE 37 EAST, NMPM,
CROSBY-DEVONIAN GAS POOL, LEA
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This case having come on for hearing at 9 o'clock a. m., on November 16, 1955, at Santa Fe, New Mexico, before the Oil Conservation Commission, hereinafter referred to as the "Commission".

NOW, on this 6th day of February, 1956, the Commission, a quorum being present, having considered the application, and all of the testimony and exhibits offered at said hearing, and being fully advised in the premises,

FINDS:

1. That due notice of the time and place of hearing having been given as required by law, the Commission has jurisdiction of this case and the subject matter thereof.

2. That Phillips Petroleum Company is the owner of an oil and gas lease covering an undivided 3/4 mineral interest in the north 60 acres of the Southeast Quarter (SE/4) of Section 28, Township 25 South, Range 37 East, NMPM, Lea County, New Mexico.

3. That Woodley Petroleum Company is the owner of an oil and gas lease covering the south 100 acres of said Southeast Quarter(SE/4) of Section 28, Township 25 South, Range 37 East, NMPM, Lea County, New Mexico.

4. That the remaining 1/4 mineral interest in and to the north 60 acres of said Southeast Quarter (SE/4) of Section 28, Township 25 South, Range 37 East, is unleased and is owned by and in the proportions as follows:

Name	Interest
Aida Abelow	78/42,972
Emma E. Arnold	30/42,972
Miss Mary C. Austin	175/42,972
Gordon G. Berg	10/42,972
Roland Binning	20/42,972
Howard W. Bradshaw	16/42,972
Robert G. Bradshaw	16/42,972
John L. Brady	10/42,972
Helen Budge	20/42,972
Max R. Chudy	100/42,972
George W. Clark	12/42,972
David Cohen	10/42,972
Robert C. Eble	49/42,972
Delia B. Edwards	15/42,972
Edward Mitchell Edwards	25/42,972
E. M. Edwards Company	32/42,972
Silas and Nell Evans (Interest of Helen Sifton - deceased)	93/42,972
Rose P. Feltman	78/42,972
Charles T. Gallaher, 2nd	5/42,972
Joseph Wesley Gallaher, 2nd	5/42,972
Mrs. Carrie Gidwitz	50/42,972
Charles W. Hastings	10/42,972
Daniel W. Hawess	50/42,972
Grace C. Hayes	5/42,972
Samuel W. Hefter	12/42,972
Miss Francis Holman	1/42,972
George P. Holman	11/42,972
Elmer G. Johnson	5/42,972
Harry L. Jones & Isabel Jones as Joint Tenants	40/42,972
Joseph H. Knapp	10/42,972
Emma C. W. Lee	32/42,972
Elinor June McAshan	7/42,972
John E. McConnell, Jr.	200/42,972
Elizabeth S. McKee	5/42,972
Stella Mathe	19/42,972
Fred Matthesius	25/42,972
Miss Ida Miller	5/42,972
Edward F. Nicolin	5/42,972
William T. Pitt	27/42,972
Florence C. Robertson	5/42,972
Burton L. Robinett & Mrs. Mildred Robinett as Joint Tenants	32/42,972
Louis Rosa	25/42,972
Flora G. Sarkisian, Executrix Estate of Dickran M. Sarkisian	48/42,972
Edwin F. Scheetz, Jr.	10/42,972
Lionel L. Shatford	5/42,972
Catherine A. Sheridan	78/42,972
Peter M. Smith	25/42,972

Name	INTEREST
Andrew M. Taylor	10/42,972
The National Bank of Commerce of Houston and Morgan J. Davis:	
Trustees for Sue Trammell	130/42,972
Trustees for Thomas Stephen Trammell	129/42,972
Trustees for W. B. Trammell, Jr.	129/42,972
Laura W. Hancock, Charles E. Wagandt and Mildred W. Zouck, Surviving Trustees under Will of Charles L. Wagandt	16/42,972
Gail Whitcomb	745/42,972
Charles B. Wrightsman	40,267/42,972

all as is shown by Exhibit A, attached to the application filed herein.

5. That the royalty interest under said SE/4 is as follows:

a. The 3/4 mineral interest in and to the north 60 acres: 1/8 royalty interest as follows: Harry Leonard, 33.3333%; S. M. Gloyd, 50%; Saunders Estate, 16.6667%.

b. The south 100 acres, 1/8 royalty as follows: Harry Leonard, 1/4; S. M. Gloyd, 3/8; Saunders Estate, 1/8; Persons listed under paragraph 4, above, 1/4.

6. That the SE/4 of Section 28, Township 25 South, Range 37 East, NMPM, is situated within the horizontal limits of the Crosby-Devonian Gas Pool as defined by Commission Order No. R-639, and constitutes a standard drilling and spacing unit as required by said order.

7. That said Order No. R-639 requires that all interests be consolidated by pooling agreement or otherwise, in order to form a standard drilling and spacing unit.

8. That all persons owning any right to drill for, produce, or share in the production of gas from the Devonian formation underlying the SE/4 of Section 28, Township 25 South, Range 37 East, NMPM, have agreed to the pooling of their rights and interests insofar as the same relate to the Crosby-Devonian formation, and have dedicated said interests to the applicant's Cooper No. 1 Well, located 1980 feet West of the East line, and 1980 feet North of the South line, of said Section, with the exception of those persons named in paragraph 4, above, other than Gail Whitcomb and Charles B. Wrightsman, who have agreed to such pooling.

9. That the pooling of the entire interest underlying the SE/4 of Section 28, Township 25 South, Range 37 East, NMPM, is in the interests of conservation; is required in the enforcement of a uniform spacing plan for the Crosby-Devonian Gas Pool; and unless required, the owner or owners of

separately-owned tracts, including applicant, would be deprived of the opportunity to recover their just and equitable share of the crude petroleum or natural gas, or both, in the pool.

10. That the drilling of an additional well or wells in the unit would result in waste, and would impair correlative rights of owners in the unit.

IT IS THEREFORE ORDERED:

1. That the application of Phillips Petroleum Company for compulsory pooling of the SE/4 of Section 28, Township 25 South, Range 37 East, NMPM, Lea County, New Mexico, be, and the same hereby is, approved, and the interests listed in paragraph 4 of the Findings of this order, insofar as they cover and affect the undivided 1/4 mineral interest in the North 60 acres of the said SE/4 be, and the same hereby are pooled with the remaining interests in said SE/4 for the formation of a standard drilling and spacing unit as required by Order No. R-639.

2. That the owner of any interest not voluntarily pooled shall share in the production from the unit from such time as he shall have:

a. Paid his proportional cost for the drilling of said well, or,

b. Made satisfactory arrangements with the operator for the liquidation of his proportionate share of the necessary and proper costs of drilling, equipping and operating said well, including charges for supervision, as provided by statute.

IT IS FURTHER ORDERED:

1. That the Commission retains jurisdiction of this case for the purpose of determining the proper costs of development and operation of the pooled unit, in the event such costs are not agreed upon.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JOHN F. SIMMS, Chairman

E. S. WALKER, Member

W. B. MACEY, Member and Secretary

ir/

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

February 6, 1956

COPY

Mr. E. H. Foster
Phillips Petroleum Co.
P.O. Box 1751
Amarillo, Texas

Dear Sir:

We enclose a copy of Order R-747 issued on February 6th, 1956, by the Oil Conservation Commission in Case 978, which was heard at the November 16, 1955, hearing.

Very truly yours,

W. B. Macey
Secretary - Director

WBM:brp
Encl.

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

March 16, 1956

COPY

Mr. Jason Kellahin
P.O. Box 597
Santa Fe, New Mexico

Re: Case 978, Order R-747

Dear Sir:

I am enclosing copies of letters received by this office pertaining to the above-captioned case for your handling.

You will note that in one instance Mr. Brady's letter was sent directly to Phillips Petroleum Company, Bartlesville.

Very truly yours,

W. B. Macey
Secretary - Director

WBM:brp

CC-Mrs. Silas Evans
Stella Mathe
John L. Brady

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

March 16, 1956

COPY

Miss Stella Mathe
1708 E. Kenwood Boulevard
Milwaukee 11, Wisconsin

Dear Miss Mathe:

Reference is made to your letter of March 12th pertaining to this Commission's Case 978 and resultant force pooling Order No. R-747.

I am turning your letter over to Phillips Petroleum Company's local attorney for his handling. Any future correspondence concerning your interest should be made directly to Phillips Petroleum Company.

Very truly yours,

W. B. Macey
Secretary - Director

WBM:brp

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

March 16, 1956

COPY

Mr. John L. Brady
5220 Barry Avenue
Chicago 41, Illinois

Dear Mr. Brady:

Reference is made to your letter of March 12th pertaining to this Commission's Case 978 and resultant force pooling Order No. R-747.

I am turning your letter over to Phillips Petroleum Company's local attorney for his handling. Any future correspondence concerning your interest should be made directly to Phillips Petroleum Company.

Very truly yours,

W. B. Macey
Secretary - Director

WBM:brp

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

March 16, 1956

COPY

Mrs. Silas Evans
3407 North Frederick Ave.
Milwaukee 11, Wisconsin

Dear Mrs. Evans:

Reference is made to your letter of March 10th pertaining to this Commission's Case 978 and resultant force pooling Order No. R-747.

I am turning your letter over to Phillips Petroleum Company's local attorney for his handling. Any future correspondence concerning your interest should be made directly to Phillips Petroleum Company.

Very truly yours,

W. B. Macey
Secretary - Director

WBM:brp

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

March 20, 1956

COPY

Mr. Burton L. Robinett
5412 N. Natchez Ave.
Chicago 31, Illinois

Dear Sir:

Reference is made to your letter of March 14th pertaining to this Commission's Case 978 and resultant force pooling Order No. R-747.

I am turning your letter over to Phillips Petroleum Company's local attorney for his handling. Any future correspondence concerning your interest should be made directly to Phillips Petroleum Company.

Very truly yours,

W. B. Macey
Secretary - Director

WBM:brp

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

March 20, 1956

COPY

Mr. Jason Kellahin
P.O. Box 597
Santa Fe, New Mexico

Re: Case 978, Order R-747

Dear Sir:

I am enclosing a letter received by this office pertaining to the above-captioned case for your handling. You will note that the letter was sent directly to Phillips Petroleum Company, Bartlesville.

Very truly yours,

W. B. Macey
Secretary - Director

WBM:brp
Encl.

CC-Mr. Burton L. Robinett
5412 N. Natchez Ave.
Chicago 31, Illinois

BEFORE THE

Oil Conservation Commission

SANTA FE, NEW MEXICO

November 16, 1955

IN THE MATTER OF:

CASE NO. 978

TRANSCRIPT OF PROCEEDINGS

ADA DEARNLEY AND ASSOCIATES

COURT REPORTERS

605 SIMMS BUILDING

TELEPHONE 3-6691

ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
November 16, 1955

IN THE MATTER OF:

Application of Phillips Petroleum Company for an order pooling the rights and interests of all persons having the right to drill for, produce or share in the production of gas from the Devonian formation underlying the SE/4 Section 28, Township 25 South, Range 37 East, Lea County, New Mexico, in the Crosby-Devonian Gas Pool.) Case No. 978

BEFORE:

Honorable John F. Simms
Mr. E. S. (Johnny) Walker
Mr. William B. Macey

TRANSCRIPT OF HEARING

MR. MACEY: The next case on the docket is Case 978.

MR. KELLAHIN: Jason Kellahin, appearing for Phillips Petroleum Company. If the Commission please, this is a case involving the forced pooling of fractional interests underlying the southeast quarter of Section 28, Township 25 South, Range 37 East in the Crosby-Devonian Gas Pool. As a preface to our presentation of the case, we would like to say that it is our interpretation of the Statute that the pooling of the working interests in the unit certainly under the provisions of R-639 which established pool rules for the Crosby-Devonian Pool, a unit of 160 acres, which unit should be a legal subdivision in which all of the interest has been consolidated. We have one witness, Mr. Keller.

C. F. K E L L E R

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

DIRECT EXAMINATION

By MR. KELLAHIN:

Q State your name, please.

A C. F. Keller.

Q By whom are you employed, Mr. Keller?

A Phillips Petroleum Company in Midland, Texas.

Q What position do you occupy with the Phillips Petroleum Company?

A Division landman.

Q Have you testified before the Commission previously?

A Yes, I have.

Q As a landman?

A Yes, I have.

MR. KELLAHIN: Are the witness's qualifications acceptable?

MR. MACEY: They are.

Q Are you familiar with Phillips' application in Case 978?

A Yes, sir.

Q Are you familiar with the ownership of the interest underlying that acreage?

A Yes, I am.

Q Would you tell the Commission briefly what that is?

A The north sixty acres of the southeast quarter is covered by two oil and gas leases owned by Phillips Petroleum Company which cover an undivided three-fourths interest. The other one-fourth interest under this sixty-acre tract is not presently under lease, but is owned by Charles B. Wrightsman and others.

Q How many others?

A Forty-nine others.

Q Fifty-two, I believe.

A Fifty-one others. The south 100 acres of the southeast quarter is owned by the Woodley Petroleum Company and they have a full-interest lease covering that 100 acres.

Q In connection with that, have you examined the application with particular reference to Exhibit A which is attached thereto?

A Yes, I have.

Q Does that correctly reflect the interests which have not been leased?

A Yes, it does.

Q Has any pooling agreement been reached involving the southeast quarter of Section 28?

A Yes, we have a unit operating agreement which has been executed by a number of parties, calculated on a percentage basis. The following parties have executed this agreement: Phillips is the owner of a 28.125 percent interest; Woodley Petroleum Company, 62.5 percent interest; Charles B. Wrightsman, 8.78527 percent; Gail White Corporation, .16254 percent, and W. B. Trammell, .08465 percent. Those interests represent a total of 99.65746 percent. The balance, which is .3425 percent, is owned by forty-nine individuals and they have not executed the agreement.

Q Are these individuals among those whose names appear in Exhibit A attached to the petition?

A Yes, they are.

Q Have you secured pooling agreement from a portion of those who appear on Exhibit A?

A A portion, yes.

Q Is there a well on this proposed unit?

A There is a well drilling at the present time.

Q Could you state generally what the status of that well is at the present time?

A I don't know the exact drilling well, but it is 8500 Devonian test, and it is getting close to the Devonian, I understand.

Q Have you prepared any estimate as to the cost of drilling the well?

A We estimate a drilling of one 8500 foot, $171,854.00.

Q On that basis what would the share of the cost of the unpooled interest be?

A Their part of the cost of the well would be $588.

Q Just as an example to the Commission, have you figured what the largest unpooled interest would be and what its share of the cost would be?

A Yes, the largest of the forty-nine individual interests is one which represents a .04363 percent interest in the unit, and based on this cost of $171,854.00 his proportionate share of the well cost would be $75.00.

Q Have you figured an average cost for the unpooled interest?

A One of the average interests is one that is a .01701 percent interest. His proportionate part would be $29.00.

Q What about the smallest unpooled interest?

A The smallest individual interest which hasn't been pooled is .00021 percent. His proportionate part of the well cost would be approximately thirty-five cents.

Q Mr. Keller, has any effort been made to secure signatures of these individuals to the pooling or operating agreement?

A No, there has not been, because we do not feel it would be

practical. We have found through experience that it is almost impossible to obtain the signature of an individual to such a pooling agreement without personal contact. We estimate that it would probably cost us about $7500 to go out and attempt to obtain these signatures. That would hardly offset their proportionate share of the well cost of $588.

Q Do you have anything you care to add to that?

A I believe not.

MR. KELLAHIN: That is all.

MR. MACEY: Any questions of the witness? If not, the witness may be excused.

MR. KELLAHIN: That is all we have.

MR. MACEY: We will take the case under advisement.

* * * * * * * *

* * * * * * * *

STATE OF NEW MEXICO)
: SS
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

Ada Dearnley
NOTARY PUBLIC-COURT REPORTER

My commission expires:

June 19, 1959.

JASON W. KELLAHIN
ATTORNEY AT LAW
54½ EAST SAN FRANCISCO STREET
POST OFFICE BOX 597
SANTA FE, NEW MEXICO
TELEPHONE 3-9396

October 21, 1955

Mr. W. B. Macey, Director
Oil Conservation Commission
State Capitol
Santa Fe, New Mexico

Dear Mr. Macey:

Attached is the application of Phillips Petroleum Company for an order pooling interests underlying their Copper No. 1 Well, Crosby-Devonian Pool, Lea County, New Mexico.

Due to the fact that this well at present is being deepened, we request that the hearing on this case be set as early as possible. A hearing before an examiner would be satisfactory.

Your consideration in this will be appreciated.

Yours very truly,

Jason W. Kellahin

Jason W. Kellahin

JWK:lm

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

The State of New Mexico by its Oil Conservation Commission hereby gives notice pursuant to law and the Rules and Regulations of said Commission promulgated thereunder of the following public hearing to be held at 9 o'clock a.m. on November 16, 1955, Mabry Hall, State Capitol, Santa Fe, New Mexico.

STATE OF NEW MEXICO TO:

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

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

CASE 978:

In the matter of the application of Phillips Petroleum Company for an order pooling all interests in the SE/4 Section 28, Township 25 South, Range 37 East, NMPM, Lea County, New Mexico, in the Crosby-Devonian Gas Pool.

Applicant, in the above-styled cause, seeks an order pooling the rights and interests of all persons having the right to drill for, produce or share in the production of gas from the Devonian formation underlying the SE/4 Section 28, Township 25 South, Range 37 East, Lea County, New Mexico.

GIVEN under the seal of the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, this 25th day of October, 1955.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

S/W. B. Macey
Secretary

S E A L

U N I T O P E R A T I N G A G R E E M E N T

BETWEEN

PHILLIPS PETROLEUM COMPANY, "OPERATOR"

AND

WOODLEY PETROLEUM COMPANY, ET AL, "NON-OPERATORS"

SOUTHEAST QUARTER (SE/4) SECTION 28,
TOWNSHIP 25 SOUTH, RANGE 37 EAST
N. M. P. M., LEA COUNTY, NEW MEXICO

Case 478

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UNIT OPERATING AGREEMENT

THE STATE OF NEW MEXICO)
)
COUNTY OF LEA)

THIS AGREEMENT, made and entered into as of the 2nd day of August, 1955, by and between PHILLIPS PETROLEUM COMPANY, a Delaware Corporation with an operating office at Bartlesville, Oklahoma, hereinafter called "Phillips" or "Operator", and, WOODLEY PETROLEUM COMPANY, a Corporation of Houston, Texas, CHARLES B. WRIGHTSMAN, of Houston, Texas, GAIL WHITCOMB, of Houston, Texas, JOHN E. McCONNELL, JR., of Houston, Texas, and, W. B. TRAMMELL, of Houston, Texas (or such of said parties as may execute this Agreement), hereinafter called "Woodley", "Wrightsman", "Whitcomb", "McConnell", and "Trammell", respectively, and hereinafter collectively called "Non-Operators",

W I T N E S S E T H:

The parties hereto represent that they are the respective owners of 99.70109 per cent of the mineral interest in all depths and strata below four thousand (4000) feet below the surface of the ground (either unleased fee interest or oil, gas and mineral leasehold interest covering fee interest), in the Southeast Quarter (SE/4) of Section 28, Township 25 South, Range 37 East, N. M. P. M., Lea County, New Mexico, in the following proportions, to-wit:

North 60 acres of said Southeast Quarter (SE/4):

Phillips (leased mineral interest)	-	75.00000%
Whitcomb (unleased mineral interest)	-	.43344%
Wrightsman (unleased mineral interest)	-	23.42739%
McConnell (unleased mineral interest)	-	.11636%
Trammell (unleased mineral interest)	-	.22573%

South 100 acres of said Southeast Quarter (SE/4):

Woodley (leased mineral interest)	-	100%

It is the desire of the parties hereto to enter into an agreement covering the joint development and operation of said SE/4 of Section 28 for the production of oil, gas and casinghead gas from all depths and strata

below four thousand (4000) feet below the surface of the ground.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto do hereby covenant and agree as follows:

1.

UNIT AREA. This agreement shall cover the oil, gas and casinghead gas (hereinafter called "oil and gas"), in and under and that may be produced from all depths and strata below four thousand (4000) feet below the surface of the ground in the following described land, to-wit:

The Southeast Quarter (SE/4) of Section 28,
Township 25 South, Range 37 East, N.M.P.M.,
Lea County, New Mexico,

which said area with respect to said substances and with respect only to said depths and strata is hereinafter called "Unit Area". Said Unit Area shall be developed and operated for the production of oil and gas by Operator subject to the terms of this agreement, and the parties hereto hereby commit to this agreement their leases and unleased mineral interests insofar as the same cover and pertain to the oil and gas in and under and that may be produced from the Unit Area; however, except for the right to occupy and use the Unit Area for the purposes hereof and the right to share in the production therefrom as herein provided, and except as may otherwise be herein specifically provided, title to the interests so committed shall remain in each of the respective parties.

2.

WORKING INTEREST AND ROYALTY INTEREST. Any unleased mineral interest committed to this agreement shall be treated for all purposes of this agreement as if it were an oil and gas lease in favor of the owner of such unleased mineral interest on a form providing for the usual and customary one-eighth (1/8) royalty and containing the usual and customary "lesser interest clause". Hence, for the purpose of this agreement and as between the parties hereto the royalty interest shall be treated as one-eighth (1/8) and the working interest shall be treated as seven-eighths (7/8). This

agreement shall in no way affect the right of the owner of any such unleased interest to receive an amount or share of production equivalent to the royalty which would be paid or due if such unleased interest were subject to an oil and gas lease as provided in this numerical section.

3.

UNIT PARTICIPATION. The seven-eighths (7/8) working interest in all oil and gas produced and saved from the Unit Area (i.e., from said strata below four thousand (4000) feet below the surface in said SE/4 of Section 28), and all equipment acquired pursuant hereto for the joint account of the parties shall be owned and shared, and all costs, expenses and liabilities accruing or resulting from the development and operation of the Unit Area pursuant hereto shall be shared and borne, by the parties hereto, in the following proportions:

Phillips	-	28.12500%
Woodley	-	62.50000%
Wrightsman	-	8.78527%
Whitcomb	-	.16254%
McConnell	-	.04363%
Trammell	-	.08465%
Phillips - As an interest carried by Phillips	-	.29891%
		100.00000%

Phillips by the execution hereof has assumed the burden of carrying an unleased interest owned by various parties not named herein, totalling .29891 per cent as above indicated. Phillips shall be solely responsible for any and all charges hereunder against such interest and for any accounting or settlement with the owner or owners thereof. If this agreement should become operative as provided in Section 29 below, and Phillips shall elect to assume the burden of carrying the interest of any party or parties above named who may fail to execute this agreement, as provided in Paragraph 4 below, then any such additional interest or interests so carried by Phillips shall be added to the interest of Phillips as an interest carried by Phillips and Phillips shall likewise be solely responsible for any and all charges hereunder against such interest and for any accounting or settlement with the owner or owners thereof.

4.

UNCOMMITTED INTERESTS. Should this agreement become operative as provided in Section 29 below without all parties above named as owning an unleased interest having executed this agreement, then Phillips may, if it so desires, elect to carry the interest of any one or more of the parties not so executing this agreement in like manner and upon the same terms and conditions as herein provided with respect to the aforesaid .29891 per cent unleased interest by notifying the parties hereto of such election simultaneously with the notice by it to the parties hereto that this agreement has become operative as provided in said Section 29 below.

5.

ROYALTY - OVERRIDING ROYALTIES, PRODUCTION PAYMENTS, ETC. The regular one-eighth (1/8) royalty interest in all oil and gas produced from the Unit Area (i.e., from said strata below four thousand (4000) feet in said SE/4 of Section 28), shall be allocated to the payment of the regular one-eighth (1/8) royalty (including the regular one-eighth (1/8) royalty herein assumed to exist with respect to unleased interests), due under the terms and provisions of the oil and gas lease or leases (or due hereunder with respect to unleased interests), under and pursuant to which and upon which the well or wells from which such production is encountered were drilled.

If any leasehold or unleased mineral interest contributed to the Unit Area is now or shall hereafter become burdened with any royalties, overriding royalties, payments out of production or any other payment or charges in excess of the usual one-eighth (1/8) royalty, the party contributing such interest shall bear and assume the same, unless otherwise paid and satisfied, out of the interest of such party in the seven-eighths (7/8) working interest credited to it hereunder.

6.

FAILURE OF TITLE. Any failure of title to all or any part of the interest of any of the parties hereto shall be borne and suffered by

the party whose title shall so fail and the proportionate interests of the parties remaining subject to this agreement shall be readjusted accordingly; provided, there shall be no retroactive adjustment of costs or liability incurred or income received prior to the final determination of such failure of title and the readjustment of such interests.

7.

DELAY RENTALS AND SHUT-IN WELL PAYMENTS. Each party hereto shall pay all delay rentals and shut-in well payments which may become due on the lease or leases owned by it within the Unit Area. The parties hereto shall exercise due diligence in the payment of such delay rentals and shut-in well payments, but shall not be liable in damages for failure to make proper or timely payment thereof. In the event of loss of leasehold title by failure to make payment of any delay rental or shut-in well payment, the party suffering such loss of title shall make a bona fide effort to secure a new lease covering the same interest within a reasonable time, and in the event of failure to secure a new lease, such loss of title shall fall entirely upon the party contributing such lease or leases.

8.

UNIT OPERATOR. Phillips is hereby designated as Operator of the Unit Area and of all the physical equipment of the parties hereto used, had or obtained in connection with the development and operation thereof for the purposes of and pursuant to the terms of this agreement. Subject to the provisions hereof, Operator shall have exclusive control and management of the development and operation of the Unit Area for the production of oil and gas for the joint account and benefit of the parties hereto. The Operator shall conduct all operations hereunder with reasonable diligence, and in a good and workmanlike manner, but shall have or assume no risk, responsibility or liability to Non-Operators for any mistake or error in judgment in its management and operation of the Unit Area, except for the negligence or willful misconduct of the Operator's agent, servants and employees.

At the expiration of twelve (12) months from the commencement of operations hereunder and on each anniversary date thereafter, any then non-operating party owning or representing at least twenty-five (25%) percent interest in and to the production from the Unit Area may, by giving thirty (30) days prior written notice to the then Operator, take over and assume the development and operation of the Unit Area, all with the same powers, rights and duties of the Operator designated herein.

9.

COST AND ACCOUNTING. Operator shall pay and discharge all costs and expenses incurred for the joint account and shall charge each of the parties hereto with his or its respective proportionate share upon the cost and expense basis provided in the Accounting Procedure hereto attached, marked Exhibit "A" and made a part hereof. If any provision of said Exhibit "A" conflicts with any provision hereof, then this instrument shall control. Each party hereto other than Operator will promptly pay Operator such costs as are chargeable to such party hereunder. Any exceptions to the statement of Operator shall be made within eighteen (18) months of the date thereof and if no exception be made within such time, then such statement shall be considered correct. Payment shall not prejudice the right to protest the correctness of any statement. This provision with respect to protest shall not prevent annual adjustment of physical properties to actual inventory as provided in the Accounting Procedure attached hereto.

It shall be deemed that the well heretofore drilled by Phillips to a depth of three thousand six hundred five (3605) feet, referred to in Section 10 hereof, was drilled for the joint account of the parties hereto and such cost shall be determined upon the cost and expense basis herein provided, and Phillips shall be reimbursed therefor by the parties hereto in the same proportion as other costs and expenses incurred for the joint account are required to be borne hereunder.

Operator before incurring any item of expenditure in excess of Five Thousand ($5,000.00) Dollars, except expenditures for the drilling,

completing and equipping of wells specifically authorized by the parties hereto, shall secure the written consent and approval of Non-Operators. Operator shall, upon request, furnish Non-Operators with a copy of Operator's authority for expenditures for any project costing in excess of Two Thousand Five Hundred ($2,500.00) Dollars.

Operator shall at all times keep the joint interests of the parties hereto in and to the Unit Area and the equipment thereon, free and clear of all labor and mechanic's liens and encumbrances.

10.

TEST WELL. Phillips has heretofore commenced a well and drilled the same to a depth of three thousand six hundred five (3605) feet at a location in the approximate center of the Northwest Quarter (NW/4) of the Southeast Quarter (SE/4) of said Section 28. On or before thirty (30) days after the giving of the notice provided for in Section 29 hereof, Phillips, as Operator, shall commence or cause to be commenced, for the joint account of the parties hereto, operations for the deepening of such well and thereafter shall deepen and drill said well with due diligence and in a good and workmanlike manner to a depth sufficient to test fully the Devonian Formation, the top of which is expected to be encountered at a depth of approximately eight thousand two hundred fifty (8250) feet, or to oil or gas in commercial quantities or water in excessive quantities in said Devonian Formation at a lesser depth, or to igneous or metamorphic material or other practically impenetrable formation, or to such depth at which mechanical difficulties make further drilling impractical, whichever is the lesser depth.

Provided, however, that notwithstanding the Operator has exclusive control and management of the development and operations of the Unit Area, as hereinbefore provided, it is agreed that prior to the commencement of the above mentioned test well, and any subsequent wells that may be drilled on said Unit Area, the then non-operating party owning or representing at least twenty-five (25%) percent interest in and to the production from the Unit Area, shall have the right to approve in writing (a) the Authority for Expenditure; (b) the form of drilling contract proposed to be entered into

with the drilling contractor; and, (c) the drilling program.

11.

ADDITIONAL DRILLING, DEEPENING, PLUGGING BACK, RECONDITIONING, REWORKING AND ABANDONMENT OPERATIONS. Except for the deepening of the test well provided for in Section 10 hereof, the parties hereto shall mutually agree upon the drilling, location, deepening, plugging back, reconditioning, reworking or abandonment of any well drilled pursuant hereto. Consent and approval to the drilling of a well shall include all expenditures, regardless of the amount, for the drilling, testing, completing and equipping of the same, including all necessary lines, separators and lease tankage.

12.

WELLS NOT MUTUALLY AGREED UPON. If at any time the parties cannot mutually agree upon the drilling of a particular well, the party or parties desiring to drill such well shall give the other parties written notice thereof, specifying the location, proposed depth and estimated cost. The parties receiving such notice shall have ten (10) days after receipt thereof within which to notify the party or parties desiring to drill such well whether or not such parties shall elect to participate in the cost thereof. The failure of any party to give such notice within said period of ten (10) days shall be construed that such party does not elect to participate in the cost of the proposed well. If such other parties shall elect not to participate in the cost of the proposed well, then within thirty (30) days after the expiration of said period of ten (10) days the party or parties desiring to drill such well, in order to be entitled to the benefits under this section, shall commence the same and thereafter prosecute the same with due diligence in a workmanlike manner until said well is completed. Any well drilled under the provisions of this section shall conform to the then existing well spacing program. The drilling of any well under the provisions of this section shall be conducted at the sole cost, risk and expense of the party or parties electing to drill such well. The party or parties drilling any well under this section shall, within sixty (60) days from the date of the

completion thereof, furnish the other party or parties with an inventory of the equipment in, on or about said well and with an itemized statement of the cost of drilling, equipping, testing and completing said well ready for production, and each month thereafter during the time the participating party or parties is or are being reimbursed, as hereinafter provided, with an itemized statement of the cost of the operation of said well and the quantity of minerals produced therefrom and the amount of the proceeds from the sale of the production in the preceding month. If such a well when completed results in commercial production, the participating party or parties shall be entitled to receive all the proceeds from the sale of such production from such well after deducting all royalty interests, overriding royalty interests and production payments, if any, until said participating party or parties shall have received therefrom an amount equal to one and one-half times what each nonparticipating party's share of the cost of such well (including equipment acquired or installed on account of such well), would have been had each such party participated, and one hundred per cent (100%) of each such nonparticipating party's share of the cost of operating such well during the time such payment is being made. Upon payment to the participating party or parties of the amounts aforesaid, such well shall be owned and operated and each such nonparticipating party shall be entitled to receive its or his proportionate share of the production therefrom the same as if such well had been drilled by mutual agreement of all parties hereunder. In the event the participating party or parties fail to obtain out of the proceeds from the sale of such production as aforesaid, a sufficient amount to pay to the participating party or parties the amounts aforesaid, the participating party or parties shall be entitled to so much of the nonparticipating parties' share of the net salvage value of all such material and equipment placed or installed by the participating party or parties in or on the Unit Area in connection with the drilling and operation of such well as is required to make up the deficiency; provided that if such material and equipment have a net salvage value in excess of the amounts so

payable to the participating party or parties, such excess shall be owned by all the parties hereto in proportion to their interest in the Unit Area. Nonparticipating parties shall have the right at all reasonable times to inspect and audit each participating party's books, records and invoices pertaining to any matter of accounting with respect to the drilling and operation of any well drilled pursuant to the provisions of this paragraph. If any such well should result in a dry hole or noncommercial production, the participating party or parties shall plug and abandon the well at its or their sole cost and expense. The party or parties drilling and operating any such well under this section shall hold the nonparticipating party or parties free and clear of all cost, expense and liability in connection therewith.

13.

INSURANCE. Operator shall at all times while operations are conducted hereunder, purchase or provide for the benefit of the joint account, insurance to cover all drilling, producing and other operations as follows:

(a) Workmen's Compensation Insurance in accordance with the laws of the State of New Mexico, and Employer's Liability Insurance;

(b) Public Liability Insurance covering both bodily injury and death, 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 a limit of not less than $100,000.00 per accident;

(c) Automotive Public Liability Insurance with bodily injury limits of not less than $100,000.00 as to any one person, and $300,000.00 as to any one accident, and Automotive Property Damage Insurance with a limit of not less than $100,000.00 as to any one accident.

The joint account of the parties shall be charged with an amount equal to the premium applying to the protection provided. All losses not covered by policies of insurance for the hazards set out above shall be borne by the parties hereto as their interests appear at the time of any such loss. Operator agrees to notify Non-Operators immediately of any occurrence where loss or liability may exceed $10,000.00.

14.

EMPLOYEES. The number of employees, the selection of such employees, the hours of labor and compensation for services to be paid any and

all such employees shall be determined by Operator. Such employees shall be the employees of Operator.

15.

SEVERAL LIABILITY. The liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for its obligations as herein set out, and shall be liable for its proportionate share of the cost of developing and operating the premises subject hereto. It is expressly agreed that it is not the purpose of this agreement to create, nor shall the operations of the parties hereunder be construed or considered as a joint venture, or as any kind of a partnership.

Insofar as is applicable to the parties hereto, each of such parties agrees to and does hereby elect to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, or such part thereof as may be permitted or authorized by the Secretary of the Treasury of the United States or his delegate. Likewise, each of the parties agrees to and does hereby so elect with respect to any applicable state income tax law that now or in the future contains similar provisions. Each of the parties hereto hereby authorizes and directs Operator to execute such election or elections in his or its behalf and to file the same with the proper administrative office or agency. Each of the parties hereto agrees to personally execute and join in such election or elections upon request of Operator. Operator shall furnish the other parties hereto a copy of all such elections.

16.

OPERATOR'S LIEN. Operator shall have a lien on the interest of each of the Non-Operators subject to this agreement, the production therefrom, the proceeds thereof, and the material and equipment thereon, to secure Operator in the payment of any sum due to Operator hereunder from such parties hereto. Said lien shall not apply to the regular one-eighth (1/8) royalty herein assumed to exist with respect to unleased interests.

17.

SURPLUS MATERIAL AND EQUIPMENT. Surplus material and equipment from the premises, which in the judgment of Operator is not necessary for the development and operation thereof, may, by mutual consent of the parties hereto, be sold by Operator to any party to this agreement or to others for the benefit of all parties hereto, or may be divided in kind between such parties. Proper charges and credits shall be made by Operator as provided in the Accounting Procedure, Exhibit "A", hereto attached.

18.

DRILLING CONTRACTS. All wells drilled on the premises 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 in such event, the charge therefor shall not exceed the prevailing rate in the field, and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

19.

DISPOSITION OF PRODUCTION. Each of the parties hereto shall take in kind or separately dispose of his or its proportionate share of the oil and gas produced from the premises exclusive of production which may be used in development and producing operations on said premises and in preparing and treating oil for marketing purposes and production unavoidably lost, and shall pay or cause to be paid all applicable royalties thereon. In event any party hereto shall fail to make the arrangements necessary to take in kind or separately dispose of his or its proportionate share of the oil or gas produced from said premises, Operator shall have the right, for the time being and subject to revocation at will by the party owning same, to purchase such oil or gas or sell the same to others at not less than the market price prevailing in the area and not less than the price which Operator receives for its own portion of such oil or gas. Each party hereto shall be

entitled to receive directly payment for his or its proportionate share of the proceeds from the sale of all oil and gas produced, saved and sold from said premises, and on all purchases or sales, each party shall execute any division order or contract of sale pertaining to his or its interest. Any extra expenditure incurred by the taking in kind or separate disposition by any party hereto of his or its proportionate share of the production shall be borne by such party.

20.

TRANSFERS OF INTEREST. No assignment, mortgage or other transfer affecting the interest of any party hereto, the production therefrom, or equipment thereon shall be made unless the same covers the entire working interest of the assignor, mortgagor or seller in the Unit Area, it being the intent of this provision to maintain the joint development and operation of the Unit Area; provided that the assignment, mortgage or other transfer of a lesser interest than the assignor's, mortgagor's or seller's entire working interest may be made upon securing the approval of the other parties in writing.

21.

RIGHT OF PARTIES TO INSPECT PROPERTY AND RECORDS. The following specific rights, privileges and obligations of the parties hereto are hereby expressly provided, but not by way of limitation or exclusion of any other rights, privileges and obligations of the respective parties:

(a) Any party hereto shall have access to the entire Unit Area at all reasonable times to inspect and observe operations of every kind and character upon the property.

(b) Any party hereto shall have access, at all reasonable times, to any and all information pertaining to wells drilled, production secured and marketed, and to the books, records and vouchers relating to the operation of the Unit Area.

(c) Operator shall, upon request, furnish the other parties hereto with daily drilling reports, true and complete copies of well logs, tanks tables, daily gauge and run tickets, and reports of stock on hand at the first of each month, and shall also, upon request, make available samples and cuttings from any and all wells drilled on the Unit Area.

OPTION OF PARTIES TO TAKE OVER WELLS. If any well drilled pursuant to the terms of this agreement is not productive of oil or gas in commercial quantities at a depth below four thousand (4000) feet below the surface of the ground, the party or parties owning an interest in and to the portion of the Southeast Quarter (SE/4) of said Section 28 on which the well is located shall have the option, for a period of thirty (30) days after the determination is made that such well is nonproductive of oil or gas at such depth, to take over the well upon reimbursing the other parties to this agreement for such other parties' proportionate share of the cost of drilling such well to the depth at which the party or parties electing to take over the well recomplete the same and paying to such other parties their proportionate share of the net salvage value of the recoverable material and equipment necessarily left in and about the well for the completion and operation thereof at the depth at which the well is so recompleted. Upon reimbursement as above provided, each party so reimbursed shall assign, without warranty of title, express or implied, all his or its right, title and interest in said well and equipment therein and thereon, together with his or its interest in so much of said SE/4 of Section 28 as is attributable to such well under the applicable spacing order of the Oil Conservation Commission of New Mexico, insofar only as all depths and strata down to and including four thousand (4000) feet below the surface of the earth are concerned, to the party or parties exercising such option; provided, that if any such reimbursed party be the owner of an unleased mineral interest, then such party shall execute and deliver to the party or parties so exercising such option, (1) a bill of sale, without warranty of title, express or implied, covering all his or its right, title and interest in and to said well and the equipment therein and thereon, and (2) an oil and gas lease on the form attached hereto as Exhibit "B" covering the area within said SE/4 of Section 28, which is attributable to such well under the applicable spacing order of the Oil Conservation Commission of New Mexico insofar only as all depths and strata down to and including four thousand (4000) feet below the surface of the earth are concerned.

Should more than one party exercise such option, then such parties shall share in the rights and obligations in respect thereto in proportion to their respective interests in and to the tract on which the well is located at the time of the exercise of such option.

23.

SURRENDER OF LEASES. No lease embraced within the Unit Area shall be surrendered except by the mutual agreement of the parties. If one party should desire to surrender any lease or leases and any other party is not agreeable thereto, the party desiring to surrender shall assign, without warranty of title, express or implied, to such other party or parties, all of its or his interest in such lease or leases. The party or parties receiving any such assignment shall pay the assigning party the reasonable net salvage value of the assigning party's proportionate part of the equipment in and on any well or wells drilled under the terms of this agreement on such lease or leases prior to the date of any assignment. Thereafter, the party or parties receiving such assignment shall own and hold any such lease or leases and the well or wells thereon free and clear of the terms of this agreement. If there is more than one party receiving such assignment, same shall run in favor of the parties receiving it, and the costs connected therewith shall be borne in proportion to their then respective interests herein.

24.

ABANDONMENT OF WELL. No well which is producing or has once produced shall be abandoned without the mutual consent of the parties hereto; provided, however, if the parties are unable to agree as to the abandonment of any well, then the party or parties not desiring to abandon the well shall tender to the party or parties desiring to abandon, the latter's proportionate share of the net salvage value of the material and equipment in and on said well. Upon receipt of said sum, each party desiring to abandon such well shall, without express or implied warranty of title, assign to the party or parties tendering said sum its interest in said well and the equipment

therein, together with its leasehold interest in so much of the Unit Area as is attributable to such well under the applicable spacing order of the Oil Conservation Commission of New Mexico, insofar as the same relates to the horizon from which said well is producing or last produced. In the event the assigning party shall, in lieu of such assignment of leasehold rights, execute and deliver to the non-abandoning party or parties, without warranty of title, an oil and gas lease upon such owner's unleased mineral interest in the Unit Area as will accomplish the same result and upon a form conforming to the form of lease attached hereto as Exhibit "B". If there is more than one non-abandoning party, such assignment or lease shall run in favor of the non-abandoning parties in proportion to their then respective interests herein.

25.

TAXES. Operator shall make a bona fide effort to render, for ad valorem tax purposes, the entire leasehold rights and interest covered by this contract and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to taxation under future laws, and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill Non-Operators for their proportionate share of such tax payments as provided by the provisions of the Accounting Procedure, Exhibit "A", attached hereto.

26.

TUBULAR GOODS. Notwithstanding any limitations of the Accounting Procedure, Exhibit "A" attached, during such times as tubular goods and other equipment are not available at the nearest customary supply point, Operator shall be permitted to charge the joint account for all tubular goods and other equipment transferred from Operator's warehouse or other properties to the premises covered by this agreement, with such costs and expenses as may

have been incurred in purchasing, shopping and moving the required tubular goods and other equipment to the premises covered by this agreement; provided, however, that Non-Operators shall first be given the opportunity of furnishing in kind or in tonnage, as the parties may agree, their share of such tubular goods and other equipment required.

27.

FORCE MAJEURE, LAWS AND REGULATIONS. Operator shall not be liable for any loss of property or of time caused by strikes, riots, fire, tornadoes, floods or for any other cause beyond the control of Operator through the exercise of reasonable diligence. All of the provisions of this agreement are hereby expressly made subject to all applicable federal or state laws, orders, rules and regulations, and in the event this contract or any provision hereof is found to be inconsistent with or contrary to any such law, order, rule or regulation, the latter shall be deemed to control and this contract shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

28.

NOTICES. All notices that are required or authorized to be given hereunder, except as otherwise specifically provided herein, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

Phillips Petroleum Company
Attention: Land Department
Bartlesville, Oklahoma

Woodley Petroleum Company
P. O. Box 2032
Abilene, Texas

Charles B. Wrightsman
P. O. Box 256
Houston 1, Texas

Gail Whitcomb
Commerce Building
Houston 2, Texas

John E. McConnell, Jr.
2525 Stanmore Drive
Houston 19, Texas

W. B. Trammell

The originating notice to be given under any provision hereof shall be deemed given when received by the party to whom such notice is directed, and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent notice shall be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, with postage or charges prepaid.

29.

TERMINATION - TERM. Six (6) months from the date hereof this agreement shall, with respect to all parties who have executed the same, terminate and be of no further force and effect unless within said time one or both of the following two contingencies shall have occurred:

(1) Both this agreement and a dry gas and associated liquid hydrocarbons royalty agreement covering said SE/4 Sec-28, which is being circulated for execution concurrently herewith, have been executed by a sufficient number of parties that in the judgment of Phillips it is feasible for the parties executing this agreement to assume the obligation hereof and proceed hereunder and a permit for the drilling of the initial test well herein provided for has been or in the judgment of Phillips can, within the time required to proceed hereunder, be procured and Phillips has notified the parties executing this agreement in writing of the occurrence and/or existence of such facts; or

(2) This agreement has been executed by a sufficient number of parties and the Oil Conservation Commission of New Mexico has issued an order pooling and adjusting the rights and interests of the owners of the gas rights in the Devonian Formation underlying the SE/4 of said Section 28 as a gas drilling unit of such character and of such finality that in the judgment of Phillips it is feasible for the parties executing this agreement to assume the obligations hereof and proceed hereunder and a permit for the drilling of the initial test well herein provided for has been, or in the judgment of Phillips can, within the time required to proceed hereunder, be procured and Phillips has notified the parties executing this agreement in writing of the occurrence and/or existence of such facts.

In the event either or both of said contingencies occur, then the date upon which Phillips shall give notice of the fact of the existence of either or both of such contingencies shall constitute the operative date of this agreement.

Unless so terminated, this agreement shall continue in force and effect so long after the completion of said test well as oil or gas is produced from the Unit Area or so long as drilling, reworking or other operations are being conducted thereon pursuant hereto and for such time thereafter as is reasonably necessary to plug and abandon or otherwise dispose of any unplugged well and remove all jointly owned material and equipment from the Unit Area.

30.

COUNTERPART COPIES - PARTIAL EXECUTION. This instrument has been prepared and may be executed in counterparts. The execution of any counterpart shall bind the interest and acreage of each party executing same whether or not executed by all parties owning an interest in the Unit Area.

The terms, conditions and provisions hereof shall constitute covenants running with the lands and leasehold estates covered hereby and shall be binding upon the parties hereto and their respective successors, heirs and assigns.

IN WITNESS WHEREOF, the parties hereto have signed this agreement the day and year first above written.

PHILLIPS PETROLEUM COMPANY

ATTEST:

_____
Assistant Secretary

By: _____
Vice President

WOODLEY PETROLEUM COMPANY

ATTEST:

E. J. Dossa Pixley
Secretary

By: _____
President

_____
Charles B. Wrightsman

_____
Gail Whitcomb

_____
John E. McConnell, Jr.

_____
W. B. Trammell

THE STATE OF OKLAHOMA)
)
COUNTY OF WASHINGTON)

On this _____ day of _____, 1955, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is Vice President of PHILLIPS PETROLEUM COMPANY, a Corporation, and that the seal affixed to said instrument is the corporate seal of said Corporation and that said instrument was signed and sealed in behalf of said Corporation by authority of its Board of Directors, and the said _____ acknowledged said instrument to be the free act and deed of said Corporation.

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

My Commission Expires:

_____

_____
Notary Public in and for Washington County, Oklahoma

THE STATE OF TEXAS)
)
COUNTY OF HARRIS)

On this _____ day of _____, 1955, before me appeared J. R. Parker, to me personally known, who, being by me duly sworn, did say that he is _____ President of WOODLEY PETROLEUM COMPANY, a Corporation, and that the seal affixed to said instrument is the corporate seal of said Corporation, and that said instrument was signed and sealed in behalf of said Corporation by authority of its Board of Directors, and the said J. R. Parker acknowledged said instrument to be the free act and deed of said Corporation.

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

HELEN J. JUKSAR
Notary Public, in and for Harris County, Texas
My Commission Expires:

June 1, 1957

_____
Notary Public in and for Harris County, Texas

THE STATE OF TEXAS)
)
COUNTY OF HARRIS)

On this _____ day of _____, 1955, before me personally appeared CHARLES B. WRIGHTSMAN, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

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

My Commission expires:

_____

_____
Notary Public in and for Harris County, Texas

THE STATE OF TEXAS §
§
COUNTY OF HARRIS §

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

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

My Commission expires:

_____

_____
Notary Public in and for Harris County, Texas

THE STATE OF TEXAS §
§
COUNTY OF HARRIS §

On this _____ day of _____, 1955, before me personally appeared JOHN E. McCONNELL, JR., to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

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

My Commission expires:

_____

_____
Notary Public in and for Harris COUNTY, TEXAS

THE STATE OF _____ §
§
COUNTY OF _____ §

On this _____ day of _____, 1955, before me personally appeared W. B. TRAMMELL, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

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

My Commission expires:

_____

_____
Notary Public in and for _____ County, _____

EXHIBIT "A"

Attached to and made a part of UNIT OPERATING AGREEMENT dated August 2, 1955, by and between Phillips Petroleum Company, as Operator, and Woodley Petroleum Company, Charles B. Wrightsman, Gail Whitcomb, John E. McConnell, Jr., and W. B. Trammell, as Non-Operators.

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

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

2. Statements and Billings

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

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

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

C. Statements as follows:

(1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;

(2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges and credits.

3. Payments by Non-Operator

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

4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator 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 Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

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, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. 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.

II. DEVELOPMENT AND OPERATING CHARGES

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

1. Rentals and Royalties

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

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

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, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. Material

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

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or 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 or railway receiving point where such material is available, except by special agreement with Non-Operator.

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 from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

A. Outside Services:
The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

~~11. Drilling and Producing Operations; Field Supervision and Camp Expenses~~

~~A pro rata portion of the salaries 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 suboffices (if any), maintained for the convenience of the above described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of less any revenue from these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.~~

11. Omitted.

12. Operator shall have the right to charge against the joint property the following overhead costs which shall be in lieu of any charge for any part of the compensation or salaries of managing officers, including district and division superintendents, and of any part of the expenses of division, district or field offices of the Operator of field staff salaries and expenses when such staff employees are not engaged in activities directly connected with the property.

(a) Two Hundred ($200.00) Dollars per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

(b) Seventy-five ($75.00) Dollars per well per month for first five (5) producing wells.

~~Well Depth~~	~~DRILLING WELL ACCELERATED Each Well~~	~~PRODUCING WELL (Use Completion Depth) First Five~~	~~Next Five~~	~~All Wells Over Last~~
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

~~A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.~~

B. In connection with overhead charges, the status of wells shall be as follows:

(1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.

(2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.

(3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

(4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.

(5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.

(6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.

(7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.

(8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.

C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.

D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.

E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

13. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

NONE

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

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

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")

(1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on carload basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.

(2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.

(3) Cash discount shall not be allowed.

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

(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.

(2) Material which cannot be classified as Condition "B" but which,

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

(b) Is serviceable for original function but substantially not suitable for reconditioning,

shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.

(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

(4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III 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 materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

5. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates should generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.

C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.

D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.

E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.

F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

1. Material Purchased by the Operator or Non-Operator

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

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 claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

New material (Condition "A"), being new material procured for the joint account but never used thereon, at 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 property 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. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or

B. Is serviceable for original function but substantially not suitable for reconditioning.

5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

6. Junk

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

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

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

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-Operator may be represented when any inventory is taken.

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

2. Reconciliation and Adjustment of Inventories

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

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

3. Special Inventories

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

PRODUCERS 88 Revised TEXAS
(Form 1964-010-48)

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this (to be added) day of .... 19...... between (to be added)

....

Lessor (whether one or more), and (to be added)
Lessee, WITNESSETH:

1. Lessor in consideration of One and no/100 - Dollars ($1.00) in hand paid, of the royalties herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas and all other minerals, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in Lea County, ~~Texas~~ New Mexico to-wit:

[illegible]
(To Be Added)
The Horizon below 4,000 feet below the surface of the ground from which the abandoned well is producing or last produced and under so much of the Unit Area as is attributable to such well under the applicable spacing order of the Oil Conservation Commission of New Mexico.

and containing (to be added) acres, more or less. In the event a resurvey of said lands shall reveal the existence of excess and/or vacant lands lying adjacent to the lands above described and the lessor, his heirs, or assigns, shall, by virtue of his ownership of the lands above described, have preference right to acquire said excess and/or vacant lands, then in that event this lease shall cover and include all such excess and/or vacant lands which the lessor, his heirs, or assigns, shall have the preference right to acquire by virtue of his ownership of the lands above described as and when acquired by the lessor; and the lessee shall pay the lessor for such excess and/or vacant lands at the same rate per acre as the cash consideration paid for the acreage hereinabove mentioned.

2. Subject to the other provisions herein contained, this lease shall be for a term of One years from this date (called "primary term") and as long thereafter as oil, gas or other mineral is produced from said land hereunder, from any well heretofore or hereafter drilled.

3. The royalties to be paid Lessor are: (a) on oil, one-eighth of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price thereof prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the well of one-eighth of the gas sold or used, provided that on gas sold at the wells the royalty shall be one-eighth of the amount realized from such sale; where gas from a well producing gas only is not sold or used, Lessee may pay as royalty $50.00 per well per year, and upon such payment it will be considered that gas is being produced within the meaning of Paragraph 2 hereof; and (c) all other minerals mined and marketed, one-tenth either in kind or value at the well or mine, at Lessee's election, except that on sulphur the royalty shall be fifty cents (50c) per long ton. Lessor to have gas free of cost from any such well for all stoves and all inside lights in the principal dwelling on said land during the same time, by making lessor's own connections with the well at lessor's own risk and expense. Lessee shall have free use of oil, gas, coal, wood and water from said land, except water from lessor's wells, for all operations hereunder, and the royalty on oil, gas and coal shall be computed after deducting any so used.

~~4. If operations for drilling are not commenced on said land on or before one year from this date the lease shall then terminate as to both parties, unless on or before such anniversary date Lessee shall pay or tender to Lessor or to credit of Lessor in .... Bank at .... (which bank and its successors are Lessor's agent and shall continue as the depository for all rentals payable hereunder regardless of changes in ownership of said land or the rentals) the sum of .... Dollars ($........................), (herein called rentals), which shall cover the privilege of deferring commencement of drilling operations for a period of twelve (12) months. In like manner and upon like payments or tenders annually the commencement of drilling operations may be further deferred for successive periods of twelve (12) months each during the primary term. The payment or tender of rental may be made by the check or draft of Lessee mailed or delivered to said bank on or before such date of payment. If such bank (or any successor bank) should fail, liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payment or tender of rental until thirty (30) days after Lessor shall deliver to Lessee a proper recordable instrument, naming another bank as agent to receive such payments or tenders. The down cash payment is consideration for this lease according to its terms and shall not be allocated as mere rental for a period. Lessee may at any time execute and deliver to Lessor or to the depository above named or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.~~

5. If prior to discovery of oil or gas on said land Lessee should drill a dry hole or holes thereon, or if after discovery of oil or gas the production thereof should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or re-working operations within sixty (60) days thereafter ~~or (if it be within the primary term) commences or resumes the payment or tender of rentals on or before the rental paying date next ensuing after the expiration of three months from date of completion of dry hole or cessation of production~~. If at the expiration of the primary term oil, gas or other mineral is not being produced on said land but Lessee is then engaged in drilling or re-working operations thereon, the lease shall remain in force so long as operations are prosecuted with no cessation of more than thirty (30) consecutive days, and if they result in the production of oil, gas or other minerals so long thereafter as oil, gas or other mineral is produced from said land.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing without the consent of Lessor. When required by Lessor, Lessee will bury pipe lines below ordinary plow depth.

7. The Lessee agrees to promptly pay to the owner thereof any damages to crops, or improvements, caused by or resulting from any operations of Lessee.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, successors and assigns, but no change or divisions in ownership of the land, ~~rentals~~ or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No sale or assignment by Lessor shall be binding on Lessee until Lessee shall be furnished with a certified copy of recorded instrument evidencing same. ~~In event of assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportionable as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.~~

9. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or reversion of the estate created hereby, nor be grounds for cancellation hereof, in whole or in part, save as herein expressly provided. If at any time it shall be determined by judicial ascertainment that Lessee is obligated or required to drill a well or wells upon the leased premises, Lessee shall have ninety days after such judicial determination within which to commence the drilling of such well or wells.

10. Lessor hereby ~~warrants and agrees to defend the title to said land and~~ agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply ~~rentals and~~ royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in event of failure of title, it is agreed that if Lessor owns a less interest in the above described land than the entire undivided fee simple estate therein, then the royalties ~~and rentals~~ to be paid Lessor shall be only in the proportion that his interest bears to the whole and undivided fee.

Witness our hands and seals on this .... day of ...., 19......

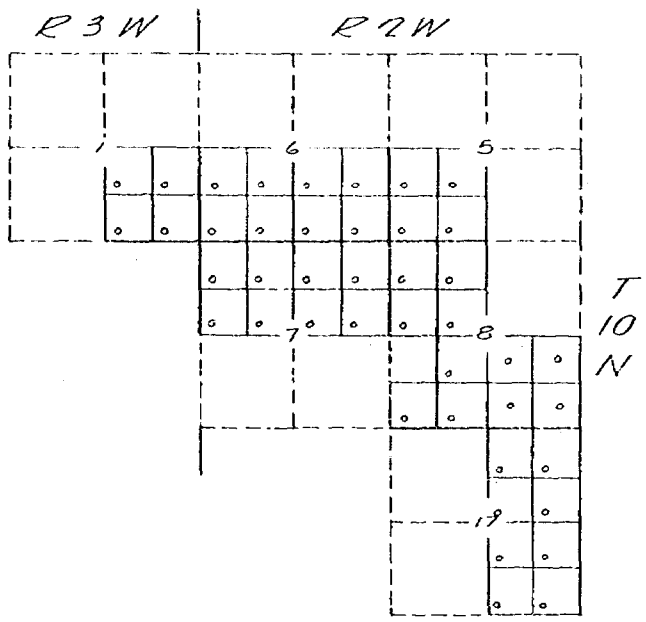
WITNESSES:

	........................(L. S.)
....	........................(L. S.)
....	........................(L. S.)
....	........................(L. S.)

C.D. 19,113

Exhibit "D"

O# 53373



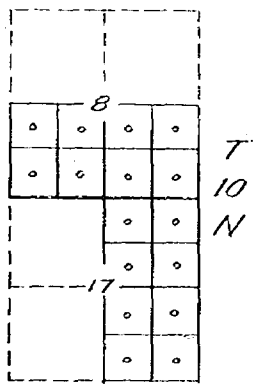
40 Acre drilling & spacing units for Oil & Gas from the Viola Limestone

Location: Center of the S.W. 10 acres EXCEPT in the S.E/4 of Sec. 8 – location in center of the unit with a tolerance of 150 feet

Tolerance: 150 feet in a N.E. quadrant

Note: The area spaced by O# 41527, as extended by O#s 43147 & 46345 is hereby extended to include the S.E/4 of Sec. 8, Twp. 10 N, Rge. 2W

Exhibit "E" "F" & "G"



40 Acre drilling & spacing units for Oil & Gas from the

Bartlesville Sand	–	Exhibit "E"
Bromide Sand	–	" "F"
Oil Creek Sand	–	" "G"

Location: Center of unit

Tolerance: 150 feet

Note: The area spaced by O# 40037 (Bartlesville Sand) & O# 43147 (Bromide & Oil Creek Sand), as extended by O# 46345 are hereby extended to include the S.E/4 of Sec. 8, Twp. 10 N, Rge. 2 W.

Cleveland County
of
Oklahoma