CASE NO.

6323

APPlication,
Transcripts,
Small Exhibits,

ETC.

ONT 30 9 OU IT THE STATE LANGING THE SANTA FE, H. M. ARTESIA. NEW MEXICO - 88210

October 25, 1973

Tenneco Oil Company 6800 Park Ten Blvd. San Antonio, Texas 78213

ATTENTION: Mr. Don Taylor

Re: SW/4 SW/4 Section 23, T17S R28E, Eddy County, New Mexico

Gentlemen:

Please find enclosed State of New Mexico Oil Conservation Division's Order R-5810 and two copies of the AFE for the drilling of the Yates Petroleum Corporation No. 1 Lucas Store "JZ" well, 1980 FNL&860'FWL of Section 23, T17S R28E. This well is projected to 10,800 feet to test the morrow series of the Pennsylvanian formation and is scheduled to start on or before December 1, 1978.

If you want to participate in the drilling of the well by paying 12.5% of the cost, please sign and return one copy of the AFE at your earliest convenience.

If you have any questions, please contact the undersigned.

Yours very truly,

YATES PETROLEUM CORPORATION

ROBERT E. BOLING, Agent

REB/bgt Enclosure

cc w/ enclosure: Oil Conservation Division

P. O. Box 21437098

Santa Fe, New Mexico 87501

CERTIFIED MAIL RETURN RECEIPT REQUESTED

STATE OF NEW MEXICO ENERGY AND MINURALS DEPARTMENT OIL CONSERVATION DIVISION

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

CASE NO. 6323 Order No. R-5810

APPLICATION OF YATES PETROLEUM CORPORATION FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on September 13, 1978, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 20th day of September, 1978, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Yates Petroleum Corporation, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 23, Township 17 South, Range 28 East, NMPM, Empire-Pennsylvanian Field, Eddy County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill its Lucas Store J2 Well No. 1 at a standard location in the W/2 of said Section 23.
- (4) That the application for approval of the unorthodox location is unnecessary pursuant to the change in pool rules made by Order No. R-5809.

- (5) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.
- (6) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.
- (7) That the applicant should be designated the operator of the subject well and unit.
- (8) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.
- (9) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.
- (10) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.
- (11) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.
- (12) That \$2500.00 per month while drilling and \$278.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

- (13) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.
- (14) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 31, 1978, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 23, Township 17 South, Range 28 East, NMPM, Empire-Pennsylvanian Field, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to the Yates Petroleum Corporation Lucas Store JZ Well No. 1 to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 31st day of December, 1978, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 31st day of December, 1978, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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

- (2) That Yates Petroleum Corporation is hereby designated the operator of the subject well and unit.
- (3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

- (4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.
- (5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.
- (6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.
- (7) That the operator is hereby authorized to withhold the following costs and charges from production:
 - (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
 - (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

-5-Case No. 6323 Order No. R-5810 (8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs. (9) That \$2500.00 per month while drilling and \$278.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest. (10)That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order. That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests. (12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date any funds are deposited with such escrow agent. (13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary. DONE at Santa Fe, New Mexico, on the day and year hereinabove designated. STATE OF NEW MEXICO OIL CONSERVATION, DIVISION JOE D. RAMEY, Director SEAL dr/

AUTHORITY FOR EXPENDITURE Yates Petroleum Corporation

Estimated Cost to Drill, Complete & Equip - 10800: Morrow Test

TOTAL LEASE EQUIPMENT

TOTAL TO DRILL, COMPLETE & EQUIP

cost of the Initial Test Well.

RECEIVED

Lucas Store "JZ" State Com #1 1930 FNL, 860 FWL Sec. 23-17S-28E Red Lake Area, Eddy Co., IM

\$ 35,000

\$360,000

	ned have hi	ca, Edd) cor,
Out 30 9 ns AM 178	Dry Hole	Completion
Staking Permit & Logal Foes STATE LAND UFFICE	\$ 1,000	\$ 1,000
Location, Right-of-Way & Surface DamageNTA FE. N. M.	\$ 5,500	\$ 6,500
Drilling: Moving in, Rigging Up & Rigging Down	\$ 25,000	\$ 25,000
40 days @ \$3850	\$154,000	\$154,000
Bits, Reamers & Subs	\$ 20,000	\$ 20,000
Water, Mud & Additives, Pit Lining	\$ 49,000	\$ 50,300
Cementing, Tools & Services, Temp. Surveys	\$ 10,500	\$ 15,200
Electric Logs & Perforating	\$ 21,600	\$ 26,000
Mud Logging Unit	\$ 6,300	\$ 6,300
Drill Stem Testing	\$ 4,400	\$ 4,400
Tool Rentals, Trucking & Welding	\$ 2,300	\$ 3,600
Supervision & Overhead	\$ 4,000	\$ 5,000
Completion Unit, 7 days @ \$700	\$ -	\$ 4,900
Stimulation	\$ -	\$ 16,000
Contingency	\$ 32,400	\$ 36,800
TOTAL INTANGIBLES	\$336,000	\$375,000
Xmas Tree	\$ 1,200	\$ 13,600
Casing: 13 3/8" 48# J-55, 45' @ \$17.93	\$ 800	\$ 800
8 5/8" 24# J-55, 2265' @ \$9.05	\$ 20,500	\$ 20,500
5 1/2" 17# N-80, 10800' @ \$8.37	\$ -	\$ 90,400
Tubing: 2 3/8" 4.7# N-80, 10500' @ \$2.47	\$ -	\$ 25,900
Packer & Special Equipment	\$ -	\$ 2,600
Contingency	\$ 1,500	\$ 11,200
TOTAL TANGIBLES	\$ 24,000	\$165,000
Tanks, 2-210 bbl welded w/stair & walk, Fibrgls Tnk.	\$ -	\$ 9,200
Heater-Separator & Flowlines, Valves & Ftgs.	· \$ -	\$ 19,400
Trucking, Fences, Construction Costs, Misc.	\$ -	\$ 6,400

'Approval of this AFE constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proporationate share in kind.

	Percent of
	Well Cost
Amoco Production Co.	5.552984
Continental Oil Co.	3.701990
Harvey E. Yates	1.314342
Coronado Exploration Co.	.228153
Inexco Oil Co.	1.480794
Southland Royalty Co.	.592318
Mark D. Wilson	1.159568
Robert E. Boling	.505940
A. J. Losee	.653730
Dalevco Oils	.493598
June Johnson	.462748
Myco Industries	17.187500
S. P. Yates	1.542495
John A. Yates	7.183500
Martin Yates, III	.303500
Abo Petroleum Corp.	6.875000
Los Chicos	3.437500
Yates Drilling Co.	17.187500
Yates Petroleum Co.	17.631740
Tenneco Oil Co.	12.500000
37.5% TOTAL	100.000000
25% of the W/2 Sec. 23, T1	100.000000 7S_R28E spacing unit dedicated to the
Initial West Well is subje	ct to the unit. The unit owners who
are participating will pay	25% of their unit ownership of the
and of the Tribial Most i	

APPROVED FOR

AUTHORITY FOR EXPENDITURE Yates Petroleum Corporation

Estimated Cost to Drill, Complete & Equip - 10800' Morrow Test

Lucas Store "JZ" State Com #1 1990 FML, 860 FWL Sec. 23-17S-28E Red Lake Area, Eddy Co., NM

•		
	Dry Hole	Completion
Staking Permit & Legal Fees	\$ 1,000	\$ 1,000
Location, Right-of-Way & Surface Damages	\$ 5,500	\$ 6,500
Drilling: Moving in, Rigging Up & Rigging Down	\$ 25,000	\$ 25,000
40 days @ \$3850	\$154,000	\$154,000
Bits, Reamers & Subs	\$ 20,000	\$ 20,000
Water, Mud & Additives, Pit Lining	\$ 49,000	\$ 50,300
Cementing, Tools & Services, Temp. Surveys	\$ 10,500	\$ 15,200
Electric Logs & Perforating	\$ 21,600	\$ 26,000
Mud Logging Unit	\$ 6,300	\$ 6,300
Drill Stem Testing	\$ 4,400	\$ 4,400
Tool Rentals, Trucking & Welding	\$ 2,300	\$ 3,600
Supervision & Overhead	\$ 4,000	\$ 5,000
Completion Unit, 7 days @ \$700	\$ -	\$ 4,900
Stimulation	\$ -	\$ 16,000 ·
Contingency	\$ 32,400	\$ 36,800
TOTAL INTANGIBLES	\$336,000	\$375,000
Xmas Tree	\$ 1,200	\$ 13,600
Casing: 13 3/8" 48# J-55, 45' @ \$17.98	\$ 800	\$ 800
8 5/8" 24# J-55, 2265' @ \$9.05	\$ 20,500	\$ 20,50 <mark>0</mark>
5 1/2" 17# N-80, 10800' @ \$8.37	\$ ~	\$ 90,400
Tubing: 2 3/8" 4.7# N-80, 10500' @ \$2.47	, \$	\$ 25,900
Packer & Special Equipment	\$ -	\$ 2,600
Contingency	\$ 1,500	\$ 11,200
TOTAL TANGIBLES	\$ 24,000	\$165,000
Tanks, 2-210 bbl welded w/stair & walk, Fibrgls Tnk.	\$ ~	\$ 9,200
Heater-Separator & Flowlines, Valves & Ftgs.	. ș -	\$ 19,400
Trucking, Fences, Construction Costs, Misc.	\$ -	\$ 6,400
TOTAL LEASE EQUIPMENT	\$ -	\$ 35,000
TOTAL TO DRILL, COMPLETE & EQUIP	\$360,000	\$575,000

'Approval of this AFE constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proporationate share in kind.

	Percent of Well Cost
Amoco Production Co.	5.552984
Continental Oil Co.	3.701990
Harvey E. Yates	1.314342
Coronado Exploration	Jo228153
Inexco Oil Co.	1,430794
Southland Royalty Co.	.592318
Mark D. Wilson	1.159668
Robert E. Boling	.505940
A. J. Losee	.653730
Dalevco Oils	.493598
June Johnson	.462748
Myco Industries	17.187500
S. P. Yates	1.5-2495
John A. Yates	7.133500
Martin Yates, III	.303500
Abo Petroleum Corp.	6.875000
Los Chicos	3.437500
Yates Drilling Co.	17.197500
Yates Petroleum Co.	17.631740
Tenneco Oil Co.	12.500000
37.5% TOTAL .25% of the W/2 Sec. 2	100.000000 3, T17S_R28E spacing unit dedicated to the
Initial Test Well is	subject to the unit. The unit owners who
are participating wil	1 pay 25% of their unit ownership of the
cost of the Initial T	COUNCTY,

APPROVED FOR

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
13 September 1978

EXAMINER HEARING

IN THE MATTER OF:

Application of Yates Petroleum Corpor-)

ation for compulsory pooling and an) 6323

unorthodox gas well location, Eddy)

County, New Mexico.

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

APPEARANCES

For the Oil Conservation Division:

Lynn Teschendorf, Esq. Legal Counsel for the Division State Land Office Bldg. Santa Fe, New Mexico 87501

For the Applicant:

Jcel Carson, Esq. LOSEE, CARSON & DICKERSON Artesia, New Mexico 88201 Exhibits 1 through 3 complete Set

INDEX

ROBERT E. BOLING

Direct Examination by Mr. Carson	,
Cross Examination by Mr. Stamets	•

EXHIBITS

Applicant	Exhibit One,	Plat	9
Applicant	Exhibit Two,	Document	9
annlicant	Exhibit Thre	e. AFE	9

MR. STAMETS: Call next Case 6323.

MS. TESCHENDORF: Case 6323. Application of Yates Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Eddy County, New Mexico.

MR. CARSON: Mr. Examiner, my name is Joel
Carson, Losee, Carson and Dickerson, P. A., Artesia, New
Maxico, appearing on behalf of the applicant. I have one
witness, Mr. Robert Boling, who was previously sworn in the
last cause. I assume that that will continue.

MR. STAMETS: The witness is considered qualified and will be shown as sworn.

ROBERT E. BOLING

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

DIRECT EXAMINATION

BY MR. CARSON:

- Q. Mr. Boling, are you the same person that testified on behalf of Yates Petroleum Corporation in Cause Number 6322?
 - A. I am.
 - Q You're acting in the same capacity?
 - A. I am.

MR. CARSON: Are his qualifications still ac-

ceptable?

MR. STAMETS: Yes, they certainly are.

- Q (Mr. Carson continuing.) Mr. Boling, let me refer you to Applicant's Exhibit Number One, and ask if that was prepared by you or under your supervision?
 - A It was prepared by me.
- Q Would you explain to the Examiner what that purports to show?

Or perhaps, let me -- before we go into that exhibit maybe I should, before I get ahead of myself, ask what the purpose of this application is?

- The purpose of this application is to force pool Tenneco Oil Company who has a 40-acre lease interest in the west half of Section 23, and their lease covers the southwest southwest -- southwest quarter of the southwest quarter of Section 23.
- And Yates Petroleum has -- proposes to drill its Lucas Store JG -- JZ State Com Well in the Wolfcamp and Fernarions at a point which is 1980 feet from the north line and 860 feet from the west line of Section 23, Township 17 South, Range 28 East, do they not?
 - A Yes, sir.
- Q. And they also propose to dedicate the west half of that section to that well, is that correct?
 - A That is correct.

- Q And they also ask to be designated the operator of the well?
 - A This is correct.
- Now, referring you back to Applicant's Exhibit
 Number One, would you please explain what that shows?
- A Well, in addition to showing the limits of the Empire-Penn Gas Pool, it shows the spacing unit that has been dedicated to the Lucas Store JZ State, and outlined in red the location of that well, with a red circle. The acreage owned by Tenneco colored in yellow, which is south-west/southwest quarter, and it shows all the wells that have penetrated the Morrow Formation on this land plat, with the wells that a completion attempt was made on shown in green, and the wells that were dry holes shown in red.
- Q Okay. Well, will you, just so the Commission doesn't have to count, will you tell them how many of those were dry holes, how many were completed?
- A Well, there were -- there are seventeen wells shown on this map and of the seventeen wells, seven -- there was a completion made on seven of them, including the attempt on the No. 19 Empire South Deep Unit Well down there in Section 36 of 17, 28, or 44 percent of the people tried it and out of the seventeen three wells on this map have paid out or look like they'll pay out, and that made money.

So you have three out of seventeen that made

money, which is seventeen percent.

Now, Mr Boiling, I'll refer you to Applicant's Exhibit Number Two. You've previously said that the entity to be force pooled is Tenneco. Would you explain to the Commission what your -- or to the Examiner, what efforts you've made to seek their participation in this venture?

A. Well, on October 21st, 1977 we sent out a letter proposing a working unit interest covering acreage in Section 14, 15, 22, 23, and 24 of 17, 28, for the purpose of drilling a Morrow well.

This area included the Tenneco acreage, which we are now force pooling in the southwest/southwest of 23, and we -- it's rather standard deal, the difference between the available revenue interest and 75 percent is allocated to people who want to farmout during the payout period, and we drill the well and at payout they have the option to back in for a half, and all the details are in that October 21st letter.

On November the 22nd, 1977 we got a letter back from Tenneco which says, we have looked over the captioned proposal and have decided not to do anything at this time, which is a rather typical answer from those folks.

So on April the 12th, 1978 we again made a proposal to -- a farmout proposal to Tenneco, which included only the rights below 3500 feet on the southwest/southwest

of 23. In other words, under this proposal they would not be spread in the unit but would participate only under the spacing unit.

And then on a note on this November 22nd, '77 letter I called Tenneco on May the 24th, '78 and talked to them about this April 12th farmout proposal and they turned that down, so I said, well, how would you like to participate with us, and they said well, they didn't want to do that, either.

So, I told them that they only left us one choice, we'd have to force pool them, and they says come on ahead; not going to make us mad, and that's the last time we talked to them.

- Q You have sent them a copy of this application for forced pooling, though, have you not?
 - A No, sir.
 - Q You have not?
 - A No, sir.
- But they've been -- they have been notified, haven't they?
 - A I presume.
- Q And, Mr. Boling, referring to Applicant's Exhibit
 Number Three, would you explain to the Commission what that -the Examiner what that is?
 - A. This is an AFE on the proposed well, the Lucas

Store JZ State Com No. 1, and it shows the total dry hole cost of \$360,000 and a total completed cost of \$575,000.

Tenneco, if they participated, would have a 12-1/2 percent working interest, which equates to \$45,000 their share for a dry hole and \$71,250 for their share of a producer.

- Q And, Mr. Boling, you -- do you have any recommendation as to drilling well supervisory cost and producing well supervisory cost?
- A. We have this operating agreement covering the unit, and the unit has a 25 percent interest in this first well, and the operating agreement provides for \$2500 per month for drilling overhead and \$278 a month for production -- producing well overhead per month.
- Q. Mr. Boling, you asked the Commission to establish a penalty or risk factor for the drilling of this well, and what is that? What do you feel would be reasonable?
- A Well, based on the evidence, it looks like it ought to be about 500 percent, but I don't think they're giving that these days, so we'll go for 200.
- A In other words, you feel like you should get back your cost plus 200 percent, is that right?
 - A Yes, sir.

MR. CARSON: Mr. Examiner, I'd like to move the admission of Applicant's Exhibits One through Three.

MR. STAMETS: These exhibits will be admitted.

MR. CARSON: I have no further questions of the witness.

CROSS EXAMINATION

BY MR. STAMETS:

- Q Mr. Boling, is Tenneco the only operator being pooled under this 320-acre drilling unit?
- A Yes, sir. Everyone else is either participating or farming-out only under the spacing unit.
- Q Okay. It seems to be a rather odd shaped unit there. Is that a full 320?
- A. Yes, sir, but the section lines don't run east and west. There's some sort of a correction there and the best of my knowledge, it's a full 320. I believe there are lots along the north line, I believe, which -- or are lease lots along the west line? I don't guess they're -- I don't know how it got that way, but that's what -- all the maps show it that way.
- Q Okay, but you are confident this is 320 acres unit -
 - n. Yes, sir.
 - a -- or a 320-acre unit?
 - A. Yes, sir.
 - Q Okay. Now, the unit that you've been talking

about, this Lucas Store.

- A. Yes, uh-huh.
- Q Is that strictly a voluntary working interest unit?
- A Yes, it's a working interest unit, yes, sir.

 It covers rights below 3500 feet, from 3500 feet to the top of the Mississippian.
- Q Okay. Now, I would assume that you're letter of April the 12th, '78, if I read this correctly, that is your request to Tenneco for them to join the drilling of this well.
- A. Well, this was a request for a farmout, you know, we offered them -- there is no burden on Tenneco's lease, so what in effect we were doing, we said, okay, we'll give you an 1/8th override to pay out with an option to back in for half proportionately reduced on -- on this well that we're going to drill in the west half of 23.

pretty soon quit writing letters and started talking to you on the phone, and so I called them up and asked them, I kept getting answers, and so I kept going up the line until I finally got to a guy that could do something about it if he wanted to, and he said, well, they didn't want to do anything now. And I asked him — they didn't want to farmout — and I asked him if he'd like to participate with 12-1/2 percent

interest. He said no, they didn't want to do that, either.

But we had some other time problems that couldn't let us wait for a couple years for Tenneco to get ready to do something.

- O So they have been asked if they would like to participate in the drilling of the well?
- A. Yes, as indicated on the note on that November the 22nd letter. See down there in the corner, outlined in red, offered to farmout; offered to let them participate, turned down?
 - Q Okay.
- A. And even before that I tried to buy it; they wouldn't sell it, either.

MR. STAMETS: Are there any questions of the witness? He may be excused.

Anything further in this case?

Take the case under advisement.

(Hearing concluded.)

REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill from my notes taken at the time of the hearing.

Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6323 heard by me on 4-13

Examiner

Oll Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
13 September 1978

EXAMINER HEARING

IN THE MATTER OF:

Application of Yates Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Eddy County, New Mexico.

CASE 6323

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

APPEARANCES

For the Oil Conservation Division:

Lynn Teschendorf, Esq. Legal Counsel for the Division State Land Office Bldg. Santa Fe, New Mexico 87501

For the Applicant:

Joel Carson, Esq.

LOSEE, CARSON & DICKERSON Artesia, New Mexico 88201

INDEX

ROBERT E. BOLING

Direct	t Examination	ı by	Mr	. Carson	1.7
Cross	Examination	bу	Mr.	Stamets	9

EXHIBITS

Applicant	Exhibit	One,	Plat :	9
Applicant	Exhibit	Two,	Document	9
Applicant	Exhibit	Three	e. AFE	q

MR. STAMETS: Call next Case 6323.

MS. TESCHENDORF: Case 6323. Application of Yates Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Eddy County, New Mexico.

MR. CARSON: Mr. Examiner, my name is Joel
Carson, Losee, Carson and Dickerson, P. A., Artesia, New
Mexico, appearing on behalf of the applicant. I have one
witness, Mr. Robert Boling, who was previously sworn in the
last cause. I assume that that will continue.

MR. STAMETS: The witness is considered qualified and will be shown as sworn.

ROBERT E. BOLING

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

DIRECT EXAMINATION

BY MR. CARSON:

- Q. Mr. Boling, are you the same person that testified on behalf of Yates Petroleum Corporation in Cause Number 6322?
 - A. I am.
 - You're acting in the same capacity?
 - A. I am.

MR. CARSON: Are his qualifications still ac-

ceptable?

MR. STAMETS: Yes, they certainly are.

- Q (Mr. Carson continuing.) Mr. Boling, let me refer you to Applicant's Exhibit Number One, and ask if that was prepared by you or under your supervision?
 - A. It was prepared by me.
- Q. Would you explain to the Examiner what that purports to show?

Or perhaps, let me -- before we go into that exhibit maybe I should, before I get ahead of myself, ask what the purpose of this application is?

- A The purpose of this application is to force pool Tenneco Oil Company who has a 40-acre lease interest in the west half of Section 23, and their lease covers the southwest southwest -- southwest quarter of the southwest quarter of Section 23.
- And Yates Petroleum has -- proposes to drill its Lucas Store JG -- JZ State Com Well in the Wolfcamp and Pennsylvanian formations at a point which is 1980 feet from the north line and 860 feet from the west line of Section 23, Township 17 South, Range 28 East, do they not?
 - A. Yes, sir.
- Q. And they also propose to dedicate the west half of that section to that well, is that correct?
 - A. That is correct.

- Q And they also ask to be designated the operator of the well?
 - A. This is correct.
- Q Now, referring you back to Applicant's Exhibit
 Number One, would you please explain what that shows?
- A. Well, in addition to showing the limits of the Empire-Penn Gas Pool, it shows the spacing unit that has been dedicated to the Lucas Store JZ State, and outlined in red the location of that well, with a red circle. The acreage owned by Tenneco colored in yellow, which is south-west/southwest quarter, and it shows all the wells that have penetrated the Morrow Formation on this land plat, with the wells that a completion attempt was made on shown in green, and the wells that were dry holes shown in red.
- Q Okay. Well, will you, just so the Commission doesn't have to count, will you tell them how many of those were dry holes, how many were completed?
- shown on this map and of the seventeen wells, seven -- there was a completion made on seven of them, including the attempt on the No. 19 Empire South Deep Unit Well down there in Section 36 of 17, 28, or 44 percent of the people tried it and out of the seventeen three wells on this map have paid out or look like they'll pay out, and that made money.

So you have three out of seventeen that made

money, which is seventeen percent.

Q Now, Mr. Boling, I'll refer you to Applicant's Exhibit Number Two. You've previously said that the entity to be force pooled is Tenneco. Would you explain to the Commission what your -- or to the Examiner, what efforts you've made to seek their participation in this venture?

A. Well, on October 21st, 1977 we sent out a letter proposing a working unit interest covering acreage in Section 14, 15, 22, 23, and 24 of 17, 28, for the purpose of drilling a Morrow well.

This area included the Tenneco acreage, which we are now force pooling in the southwest/southwest of 23, and we -- it's rather standard deal, the difference between the available revenue interest and 75 percent is allocated to people who want to farmout during the payout period, and we drill the well and at payout they have the option to back in for a half, and all the details are in that October 21st letter.

On November the 22nd, 1977 we got a letter back from Tenneco which says, we have looked over the captioned proposal and have decided not to do anything at this time, which is a rather typical answer from those folks.

So on April the 12th, 1978 we again made a proposal to -- a farmout proposal to Tenneco, which included only the rights below 3500 feet on the southwest/southwest

of 23. In other words, under this proposal they would not be spread in the unit but would participate only under the spacing unit.

And then on a note on this November 22nd, '77 letter I called Tenneco on May the 24th, '78 and talked to them about this April 12th farmout proposal and they turned that down, so I said, well, how would you like to participate with us, and they said well, they didn't want to do that, either.

So, I told them that they only left us one choice, we'd have to force pool them, and they says come on ahead; not going to make us mad, and that's the last time we talked to them.

- Q You have sent them a copy of this application for forced pooling, though, have you not?
 - A No, sir.
 - Q You have not?
 - Mo, sir.
- Q But they've been -- they have been notified, haven't they?
 - A. I presume.
- Q And, Mr. Boling, referring to Applicant's Exhibit
 Number Three, would you explain to the Commission what that -the Examiner what that is?
 - This is an AFE on the proposed well, the Lucas

Store JZ State Com No. 1, and it shows the total dry hole cost of \$360,000 and a total completed cost of \$575,000.

Tenneco, if they participated, would have a 12-1/2 percent working interest, which equates to \$45,000 their share for a dry hole and \$71,250 for their share of a producer.

- Q And, Mr. Boling, you -- do you have any recommendation as to drilling well supervisory cost and producing well supervisory cost?
- A. We have this operating agreement covering the unit, and the unit has a 25 percent interest in this first well, and the operating agreement provides for \$2500 per month for drilling overhead and \$278 a month for production -- producing well overhead per month.
- Q Mr. Boling, you asked the Commission to establish a penalty or risk factor for the drilling of this well, and what is that? What do you feel would be reasonable?
- Mell, based on the evidence, it looks like it ought to be about 500 percent, but I don't think they're giving that these days, so we'll go for 200.
- Q In other words, you feel like you should get back your cost plus 200 percent, is that right?
 - A. Yes, sir.

MR. CARSON: Mr. Examiner, I'd like to move the admission of Applicant's Exhibits One through Three.

MR. STAMETS: These exhibits will be admitted.

MR. CARSON: I have no further questions of the witness.

CROSS EXAMINATION

BY MR. STAMETS:

- Q Mr. Boling, is Tenneco the only operator being pooled under this 320-acre drilling unit?
- A Yes, sir. Everyone else is either participating or farming-out only under the spacing unit.
- Q Okay. It seems to be a rather odd shaped unit there. Is that a full 320?
- A Yes, sir, but the section lines don't run east and west. There's some sort of a correction there and the best of my knowledge, it's a full 320. I believe there are lots along the north line, I believe, which -- or are lease lots along the west line? I don't guess they're -- I don't know now it got that way, but that's what -- all the maps show it that way.
- Q Okay, but you are confident this is 320 acres
 - A. Yes, sir.
 - @ or a 320-agre unit?
 - A. Yes, sir.
 - Q. Okay. Now, the unit that you've been talking

about, this Lucas Store.

- A. Yes, uh-huh.
- Q Is that strictly a voluntary working interest unit?
- A. Yes, it's a working interest unit, yes, sir.

 It covers rights below 3500 feet, from 3500 feet to the top of the Mississippian.
- Q Okay. Now, I would assume that you're letter of April the 12th, '78, if I read this correctly, that is your request to Tenneco for them to join the drilling of this well.
- A. Well, this was a request for a farmout, you know, we offered them -- there is no burden on Tenneco's lease, so what in effect we were doing, we said, okay, we'll give you an 1/8th override to pay out with an option to back in for half proportionately reduced on -- on this well that we're going to drill in the west half of 23.

They would not do that. They, you know, they pretty soon quit writing letters and started talking to you on the phone, and so I called them up and asked them, I kept getting answers, and so I kept going up the line until I finally got to a guy that could do something about it if he wanted to, and he said, well, they didn't want to do anything now. And I asked him -- they didn't want to farmout -- and I asked him if he'd like to participate with 12-1/2 percent

interest. He said no, they didn't want to do that, either.

But we had some other time problems that couldn't let us wait for a couple years for Tenneco to get ready to do something.

- Q So they have been asked if they would like to participate in the drilling of the well?
- A Yes, as indicated on the note on that November the 22nd letter. See down there in the corner, outlined in red, offered to farmout; offered to let them participate, turned down?
 - Q Okay.
- A And even before that I tried to buy it; they wouldn't sell it, either.

MR. STAMETS: Are there any questions of the witness? He may be excused.

Anything further in this case?

Take the case under advisement.

(Hearing concluded.)

REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill from my notes taken at the time of the hearing.

Sally W Boyd, C.S.R.

do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6323 heard by me on 913 heard by

Oil Conservation Division



STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

JERRY APODACA

NICK FRANKLIN GEORETARY

September 22, 1978

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

Mr. Joel Carson Losee, Carson & Dickerson	CASE NO. 6323 ORDER NO. R-5810
Attorneys at Law P. O. Drawer 239 Artesia, New Mexico 88210	Applicant:
	Yates Petroleum Corporation
Dear Sir:	
Yours very truly,	opies of the above-referenced ered in the subject case.
JOE D. RAMEY Director	
JDR/fd	
Copy of order also sent to:	
Hobbs OCC x Artesia OCC x Aztec OCC	
û k k a m	

STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

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

CASE NO. 6323 Order No. R-5810

APPLICATION OF YATES PETROLEUM CORPORATION FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on September 13, 1978, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 20th day of September, 1978, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Yates Petroleum Corporation, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 23, Township 17 South, Range 28 East, NMPM, Empire-Pennsylvanian Field, Eddy County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill its Lucas Store J2 Well No. 1 at a standard location in the W/2 of said Section 23.
- (4) That the application for approval of the unorthodox location is unnecessary pursuant to the change in pool rules made by Order No. R-5809.

-2-Case No. 6323 Order No. R-5810

- (5) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.
- (6) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.
- (7) That the applicant should be designated the operator of the subject well and unit.
- (8) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.
- (9) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.
- (10) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.
- (11) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.
- (12) That \$2500.00 per month while drilling and \$273.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

-3-Case No. 6323 Order No. R-5810

- (13) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.
- (14) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 31, 1978, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 23, Township 17 South, Range 28 East, NMPM, Empire-Pennsylvanian Field, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to the Yates Petroleum Corporation Lucas Store JZ Well No. 1 to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 31st day of December, 1978, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 31st day of December, 1978, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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

- (2) That Yates Petroleum Corporation is hereby designated the operator of the subject well and unit.
- (3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

-4-Case No. 6323 Order No. R-5810

- (4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.
- (5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.
- (6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.
- (7) That the operator is hereby authorized to withhold the following costs and charges from production:
 - (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
 - (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

-5-Case No. 6323 Order No. R-5810

- (8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.
- (9) That \$2500.00 per month while drilling and \$278.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.
- (10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.
- (11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.
- (12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date any funds are deposited with such escrow agent.
- (13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

> STATE OF NEW MEXICO OLL CONSERVATION DIVISION

JOE D. RAMEY,

Director

dr/

CE PHONE 746.9336

ROBERT E. BOLING

EXPLORATION CONSULTANT

202 AMERICAN HOME BUILDING DELICAL

OIL COL ARTESIA, NEW MEXIC

October 21, 1977CASENO. 6323

Hearing Dell

Submitted for Applicant

WORKING INTEREST OWNERS IN THE PROPOSED LUCAS STORE UNIT, EDDY

COUNTY, NEW MEXICO

(See attached mailing list)

RE:

Proposed Lucas Store Unit W/2 Section 14, all of Sections 15 and 22, E/2NW/4, SM/4NE/4, N/2SW/4, SW/4SW/4 Section 23 and S/2 Section 24, T17S R28E, Eddy County, New Mexico, containing 2070 acres, more or less. (See Exhibit "A")

Gentlemen:

Reference is made to our letter of May 6, 1977 in which we proposed a unit in the captioned area covering a slightly different outline. As you probably all know the IRS 7?-176 ruling came out on May 9, 1977. We did not pursue this prospect until most of the major owners had decided how to avoid the additional taxes that could be assessed under the terms of the ruling on farmout deals such as we had proposed. We now believe that the best thing to do is form a tax partnership to cover the time the interests are being earned. For those who may not be familiar with a tax partnership, we have prepared an outline of what we think the most important features are. This outline is attached as Exhibit "C" to this farmout request.

Nearly all of the owners responded to our May oth letter and advised that they would either farmout as requested or participate by paying their share of the cost. Exxon was the largest exception. Exxon advised that they would not join any unit with H.B.P. Acreage. You will note that the present outline does not include Exxon's acreage nor does it include Gulf's new loase covering the SE/4 of Section 14. We have requested a farmout from Exxon which does not involve their interest being spread throughout the unit.

To: Working Interest Owners in the Proposed Lucas Store Unit, Eddy County, New Mexico October 21, 1977

Mark D. Wilson and the undersigned now respectfully request a farmout from the present lease owners, the "Owners", to test the Morrow in the captioned area, under the following terms and conditions:

1. We propose to form a working interest unit, the "Unit", covering the captioned area, except the E/2SW/4 of Section 14 and a 3.125% interest under the S/2 of Section 24, containing a total of 2070 net acres. This area is outlined on Exhibit "A" of this letter. We propose that the Unit cover depth rights from 3,500 feet to 10,896 feet, the "Unitized Rights". This interval was selected due to the depth rights owned by Amoco and Continental in Section 22 and Pennzoil, et al in the S/2 Section 24. The E/2SW/4 Section 14 is excluded from the Unit, but included in the outline because it is unleased KGS minerals. It has been requested that this tract be offered for leasing at the next KGS sale. This tract shall be considered an area of mutual interest. If anyone in the Unit buys a lease on this land then all other owners shall have the option of taking their proportionate share of the lease. The 3.125% interest under S/2 Section 24 is owned by Exxon.

It is believed that the present ownership of the Unitized Rights is as shown in Exhibit "B" of this letter. You will note that all of the leases except two, covering 80 acres, are H.B.P. You will also note from the exhibits that there are twenty one tracts owned by twenty eight different owners. It is believed all owners will agree that everyone must cooperate in order to every get a deep test drilled in this area.

- 2. Within 45 days after receipt of an acceptable, fully executed operating agreement, the "Agreement" and subject to the availability of drilling equipment and pipe, we will commence, or cause to be commenced, the drilling of a test well at a lawful location in the SW/4NW/4 of Section 23, Township 178 South, Range 28 East, the "Initial Test Well", with the W/2 of Section 23 being the dedicated spacing unit. The Initial Test Well will be drilled to a depth sufficient to ponetrate 50 feet into the Chester Mississippian Limestone, which depth is estimated to be 10,750 feet, to test the Morrow series of the Pennsylvanian System, the "Objective Depth". The Initial Test Well shall be drilled and completed at no cost to the Owners.
- 3. In the event the Initial Test Well is completed as a producer from the Unitized Rights, then we shall earn all of the Cwner's interest in these rights in the largest spacing unit assigned to the well by the New Mexico Oil Conservation Commission, until payout, subject to the Owner's retained overriding royalty hereinafter provided for, plus an undivided one-half of Owner's interest in the Unitized Rights in the remainder of the Unit. During the payout period of the Initial Test Well, the

To: Working Interest Owners in the Proposed Lucas Store Unit, Eddy County, New Mexico October 21, 1977

Owners shall retain their proportionate part of a total overriding royalty of 1/8 of 8/8ths. Column 7 of Exhibit "B-2" shows each Owner's share of the retained override assuming the W/2 of Section 23, T17S R28E is the spacing unit of the Initial Test Well. At payout of the Initial Test Well, the Owners shall have the option for 30 days after notice, to convert to their proportionate part of one-half of the working interest or continue with their retained override. The interest in the Unit (a) at present, (b) during the drilling and payout of the Initial Test Well, (c) in the remainder of the Unit and in the Initial Test Well after payout, assuming all Owners convert to a working interest and (d) Owner's retained overriding royalty during the payout period are shown in Exhibit "B-2" to this letter. The calculation of the Owner's present percentage interest in the Unit is shown in Exhibit "3-1" to this letter. Since Unit acreage only composes five-eights of the spacing unit of the Initial Test Well, assuming a gas well with 320 acre spacing, all Unit interests will be proportionately reduced to five-eights of the interests shown in Exhibit "B-2" for the Initial Test Well.

4. As previously mentioned we have requested a farmout from Exxon covering their interest in sections 23 and 24. The requested farmout provides for a 90 day continuous development and only the productive wells earn acreage. Since the Owners will only have an interest under five-eights of the spacing unit of the Initial Test Well, we will agree to give the present owners an option to participate in one-half of the Exxon farmout insofar as it covers the E/2 of Section 24 in accordance with their after payout unit ownership as set out in Column 5 of Exhibit "B-2"

The Exxon acreage will be a 75% revenue interest with an optional one-half back-in after payout. We feel that this is an attractive incentive since the Owners can farmout on the wildcat and then decide if they want to participate in an offset well.

- 5. The present burdens on the leases in the Unit vary from nothing to 26.5%. In order for the proceeds from production to be distributed equitably a beneficial interest distribution is necessary. The calculation of all Owner's beneficial interest is shown in Exhibit "B-1" of this letter.
- 6. In the event production is established in the Unit, then all future wells shall be drilled under the terms of a Model Form Operating Agreement Form 610, proviously designated nerein, the "Agreement". The Agreement shall provide that (a) Wilson and Boling or our assigns shall be the Operator, (b) a 300% non-consent penalty, (c) no preferential right to purchase, (d) individual title loss, (e) all Owners shall have

Working Interest Owners in the Proposed Lucas Store Unit, Eddy County, New Mexico October 21, 1977

the right to take their share of the production in kind, (f) a gas balancing agreement, and (g) a tax partnership. The charges in the accounting procedure and the terms of the Agreement shall be agreed upon and the Agreement shall be executed by all parties prior to commencement of the Initial Test Well. The charges agreed upon in the accounting procedure of the Agreement shall govern the charges against the first producing well in the Unit during the drilling, completion and payout period.

- 7. The estimated cost of drilling the Initial Test Well to the Objective Depth and plugging it as a dry hole or completing it as a single zone producer is \$350,000.00 and \$550,000.00, respectively.
- 8. If mechanical or other difficulties render further drilling of the Initial Test Well impractical, in our opinion, prior to the time the Initial Test Well reaches the Objective Depth, then we shall have the option for 30 days after the completion of the Initial Test Well to commence the drilling of another test well, the "Substitute Test Well". The Substitute Test Well, if drilled, shall be drilled at a lawful location of our selection in the Unit, to the Objective Depth, under the same terms, except a recalculation of the Owner's retained override may be necessary, to earn the same interests as herein provided for the Initial Test Well.
- 9. In the event the Initial Test Well or Substitute Test Well, if drilled, is completed as a dry hole, we shall earn nothing except the option for 90 days after the completion of the last of these wells, to start another test well, the "Option Well". The Option Well, if drilled, shall be drilled at a location of our selection, to the Objective Depth, under the same terms, except recalculation of Owner's retained royalty, to earn the same interest as herein provided for the Initial Test Well.

.

10. If production is not obtained by any of the wellsoprovided for herein, then the Agreement shall terminate and we shall earn none of Owners' interest in the Unit.

Upon receipt of acceptance of our proposal from the Owners, we will prepare the Agreement which will also provide for the farmouts from each Owner and forward it to all parties for their approval and execution.

Respectfully requested,

Which E. Boling

Robert E. Boling

REB/bw enclosures MAILING LIST LUCAS STORE UNIT

PENNZOIL COMPANY
P. O. Box 1828
Midland, Texas 79701
Attn: Mr. Cecil B. Ellis

INEXCO OIL COMPANY 1100 Milam Building; Suite 1900 Houston, Texas 77002 Attn: Mr. Sam Reeves, Jr.

S. P. YATES
MARTIN YATES III
JOHN A. YATES
207 South 4th Street
Artesia, New Mexico 88210
Attn: Mr. Jack McCaw

HARVEY E. YATES COMPANY
Suite 1000, Security National
Bank Building
Roswell, New Mexico 88201
Attn: Mr. George Yates

TENNECO OIL COMPANY 1200 Lincoln Tower Building Denver, Colorado 80203 Attn: Mr. N. B. Venus

M. RALPH LOWE. INC.
MARALO. INC.
ERMA LOWE
2200 West Loop South
Suite 130
Houston, Texas 77027
Attn: Mr. John R. Burke

CONTINENTAL OIL COMPANY
P. O. Box 431
Midland, Texas 79701
Attn: Mr. Gary R. Baily

COWATCO OILS 800 N. Richardson Roswell, New Mexico 88201

MS. NANCY KING
P. O. Box 385
Artesia, New Mexico 88210

WAINOCO, INC. 1100 Milam Bldg., Suite 600 Houston, Texas 77002

SUPRON ENERGY CORPORATION
8350 North Central Expressway
Suite 1700
Dallas, Texas 75206
Attn: Mr. Frank Lawson

AZTEC OIL & GAS CO. c/o Southland Royalty Company 1100 Wall Towers West Midland, Texas 79701 Attn: Mr. George Mauzy

HANSON OIL CO.
BOX 1515
Roswell, New Mexico 88201
Attn: Mr. Reagan S. Sweet

MS. JUNE JOHNSON c/o Mr. Viggo Boserup 2049 Century Park East 18th Floor Los Angeles, California 90067

HAROLD KERSEY Box 316 Artesia, New Mexico 88210 MAILING LIST LUCAS STORE UNIT

AMOCO PRODUCTION COMPANY BOX 3092 Houston, Texas 77001 Attn: Mr. Joe Durkee

GULF OIL CORPORATION BOX 1150 Midland, Texas 79701 Attn: Mr. Robert E. Griffith

KINCAID & WATSON DRILLING CO.
VAN LANNING
LYNN LANNING
Box 498
Artesia, New Mexico 88210

DURHAM DRILLING CO.
Drawer 273
Midland, Texas 79701
Attn: Mr. Lynn Durham

DALEVCO, INC. P. O. Box 2227 Roswell, New Mexico 88201

LONNIE KEMPER
P. O. Box 1105
Artesia, New Mexico 88210

MS. JONELL R. GILMORE
P. O. Box 217
Artesia, New Mexico 88210

<u> </u>	(19) Care (1	EASTREO LAKE UNIT		Tel Encos	P ~,	184 SAGW 1184 B	1
\$	Kongoid, et al	C Salzing	Property of water				
-	1999 1999 200 1992 1	11121 11214 11214 11211 1	But an old the	· 27.84 41.24.47 21.35.4	1,332		112.0
(אפריים: מיביסה. ב	Service of the servic	Arrenies its	the state of the s	TOURSE !	, V.	E PER TIME TOWN	1112
OSSETE SU DUISU	Tenneca-Carrill	test Van Sungtun 6	Courses burgering	19. 16. 15. 10. 10. 10. 10. 10. 10. 10. 10. 10. 10	n Bisk	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	19701
5 %		Fed		THE REST OF THE PARTY OF	Mareta H 21	in the same	199
* * * * * * * * * * * * * * * * * * *	1. 96 13222 238 - 50	Smith Suprama	erret, #3P	5 1765		g Variation	\$ (3nt) 22 (47)
ووں	1 1 44350 1120	THE COUNTY OF THE STATE OF THE		A. 人名斯特特 人名		The second second second	210 a 21 a
्राच्या इत्या	95 to e E 1935		113 1 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	*45 3			.35
114 . 4 " 115. 2777114	(She 50,880,000)	A STATE OF THE PARTY OF THE PAR	**************************************		. !	الا الواجد الله الله	102 3: 5
675 Chemical East 153 5:1113	4 46	1 A 7 FFM . 152702 L1	concerned the per-	12		515.474	Conseignation (
	TO 19 miles come	* 150 150 150 150 150 150 150 150 150 150	Specifier Oral House Passes	12		3 7 Fac -	
Original Section	72547	See		Assertary Programmes	Maralas	LIMONE CAVE LINET.	29 24 3
O 1000 55	X 43451 8 3 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4	Services Assess	HESOIL ETTS HER	10 1 157 40 16 1951 3.55 395 3.55 395 3.55 300 3.55 300		4 TNC (OSEE)	San
Serie veg tates	WDD-1 4 - 1 - 1 - 7	eh? , sim	The second Services		2120		
*135 4 16 1934	B: 65(7 261)	Se ship (se apart	rensentil 1953	生二岁到了在8日	r:> (-3630 or:oil/a	3 Sent Amen	
GS OU Tailey	18601	A S A William	Terren-Cod)	1 1123	repla France	12:1: 8:	0:-13
s 17 ∌ito>rat,	5 . 7 YATES Later Contract	Sour - 15 - 15		13-13-13-13-13-13-13-13-13-13-13-13-13-1	risi risi	y.,	
ណ៍ វរ ស		OS STORY WAS COLOR	A THE	Prontelle Congolitie	1000 F	19 (00777879) 3-7677 [*37 2-444]	Steefelk 1
	Taring of Far Turner	1 02 15 4 5 15 4 5 15 15 4 5 15 15 15 15 15 15 15 15 15 15 15 15 1	THE PARTY SECTION			3-11-1-11-1-1	777
-co 11794 6 577	Amer. Petro.	19516 US.	er Ger Karl	3157	SESSE .	A 11.5.	3- 874 (-142)
77 (1. public)		Siere - Tradition, But Said	The state of the s	1.541	(A) = 1	Senden Sent Amer	4 (64)
CASTES SEE SA	with the second	State as a state of the state o	Concession of the second secon			G Said	FRIENDS
720	\$ 10 mm	22 (1216)	20 AT 1 AT 2	Territ Zarietskiller		M. trosswam.	E-742 - 1 35
	Period temps 1 4 1 1935 y 1 Co (Person decate 2000 1 Store (Sun) Person	Red Loise St.	interior end	12 (2) (1) (1) (1) (2) (1) (1) (1) (1) (1) (1) (1) (1) (1) (1	3 35 10	Salar Contr.	es num l'errer.
491	Control of the second s	्राक्ताब्य हिंहिती	970 pt 200	taven Herring		That took	"Comple Se"
See of see	Marchide Emplea	See Lake	N. 6. 0. 0. 0. 0. 0. 0. 0. 0. 0. 0. 0. 0. 0.	70 821 A SI A SI		. 4530. 30 4	752 15 15 15 15 15 15 15
Compa Sile and	to toeses listing the	eral control	Signit Collier Signit	Total	ig ^{2세} 위 ps.elal) 메스	(enlimental), 214 cos	Gent. Amer.
** ** Airoes		Maryon Toward	To B	Desca e outre a lasta		Tra Shenondan d	3-1 mere 3
30.511.0			26	25		Conti Conty	Tables 12 Tables
(Con)	636		Tre The	1 9 5	- 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1		29 "7,c ©
	- Carrego		71.0	of the same		Contract 1	373.15
	Tr E Meson	Carry of Course of The Action	711. O 11. El 20 11.	291 . 6933			5 7 8 8 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7
举行"	ASPATES IN	an i ne	Pint E Generalis	Desco versi in A	*200 E	Sent American	Serge Signal
	A.R.Co. (Labort)		73 638 141 635 446 63	1375	The Con-	Gent American herencean tom feel 3535562 Amoco	The state of the s
	Tr.F 33 North 12	347	# 35 B	ARTESIA 35 ST	J 🔭	EMPIA- SO I	111 Pro- 1 1250
	NW CARESA TWO	And Colored to the Co	,,,DEPG	(0) (2) (3)	- E-	Hais I Kareidavey	alliege Tuelle general
2	2644	milje Hi Justinia i gra	1	con Sungrama		The second secon	The state of the s
NAMES OF BRIDE					· verm	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	3-64
[C] 20 27 0 1.		T.V.	HIBIT "A"		7	Amon Translation	100000
July Harris		<u> </u>	MIDII A			San Lawren	Signatura de la companya della companya della companya de la companya de la companya della compa
	Eric on mark (no sum)	LUCAS	STORE UNIT		\$ **		San Silve
	"是一个"						
1-2-3m (1-1-1-2) 1	amen from the second	W/2 Sec. 14,	All Sec's: 1	5 & 22,			The Parties of the Pa
Trains Burney		E/2MM/4, SW	/4NE/4, N/2S	#/4,		70 15 70 15 75 75 75 75 75 75 75 75 75 75 75 75 75	The David Later
	Usersinos 181 Final	SW/#SW/# Se	c. 23, S/2 S	ec. 24,		Emperor or a life	tole tramely
7:10/2 35 7		स्पर :	7S R28E			มีที่ "การเกาะ เมื่ออากออกเกรียงได้ย	6 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
क्षितिनामुक्तिर्गोते राह्य क्षत्रसम्बद्धाः	TERNE 2001 Ne 2003				(CA)	ADAFKO 100 EF	O
Call Him	Terror 2, 10, 201	Eddy County,	ning 2070 ac	res W Maxico	(Sec. 20)	310(1) 32(1)	3
,			**************************************	ar - Sersa Se J	3 3 3 4 1 4 5	to distance to	स्त्री के विकास

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, SW/4NE/4, N/2BW/4, SW/4SW/4 Section 23 and 3/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

H	·, ······ω · ·	· · · · · · · · · · · · · · · · · · ·		NO.
B-8617 Sec. 15: NY/4, NY/4SW/4 Sec. 23: SY/4ME/4 S. P. YATES INRVEY E. YATES CO. MARTIN YATES III JOHN A. YATES TR. NO. 4 TOTALS	Sec. 14: E/2S/4/4 (UNLEASED FEDERAL KGS_LAND)	IC 068712 & A Sec. 14: NII/45W/4, NW/4 IIAMSON OIL CO. HAROLD KERBEY TR. NO. 2 TOTALS	LC 067739 Sec. 14: SW/4SW/4 KINCAID & WATSON DRILLING CO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)
240.00	80.00 (We	200.00	40:00	GROSS ACRES IN LEASE
41.66667 41.66667 8.33333 8.33333	80 have requested	75.00000 25.00000 100.00000	100.00000	PFRCENT INTEREST FACJI OWNER EACH I.FASE
100.00000 100.00000 20.00000 240.00000	80.00000	150.00000 50.00000 200.00000	40.00000	NET ACRES EACH OWNER EACH LEASE
н.в.г.	is tract be	н.в.р.	н.в.р.	EXPIRATION DATE
7.29167 7.29167 1.45833 1.45833	included in the	(1) 18.75000 6.25000	12.50000	FERCENT FOYALTY 8: BURDENS FORNE BY ALL, OWNERS IN TRACT
-0- -0- -0- -0- -0- -0- -0- -0- -0- -0-	the next KGS	0000		PERCENT BURLEN BORNE BY INDIVIDUAL OWNERS
34.37500 34.37500 6.87500 6.87500	sale)	56.25000 18.75000 75.00000	87.50000	PERCENT REVENUE INTEREST TO EACH OWNER
100.00000		100.00000	100.00000	BURDENS PLUS REVENUE INTEREST FOR TRACT
82.50000 82.50000 82.50000 82.50000		75.00000 75.00000	87.50000	PERCENT A REVENUE A INTEREST ON 100% COST

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2MW/4, SW/4NE/4, N/2SW/4, SW/4SW/4, Section 23 and 5/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHES FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

,			. 7		(·0					(NO.
TYNN LANNING TYN LANNING TR. NO. 7 TOTALS	JONELL R. GILMORE NANCY KING LONNIF KEMPER	KINCAID & WATSON DRILLING DURINM DRILLING CO. DALEYCO OILS	NM 080268 Sec. 15: SE/4	TR. NC. 5 TOTALS	WAINOCO, INC.	OIL CO.	Corporation AZTEC OII, & GAS CO.	Supron Energy	NM 012 896 Sec. 15: NF/4	TR. NO. 5 TOTALS	JUNE JOINSON	ZC II.	b, B-21.78	a. B-1969 Sec. 15: S/2SW/4		LEASE NO., OWNERS & DESCRIPTION (All T178 R28E)
160.00		CO.	160.00	160.00		-			160.00	1.20.00	-	• • • • •	40.00	80.00	LEASE	ORCSS ACEES
1.00.00000	7.50000 2.50000	16.66667 16.66667		100.00000	16.40625 6.25000	27.34375	20.00000)))		100.00000	32.81250 12.50000	54.68750			OVNER EACH LFASE	PERCENT INTEREST EACH
160,00000	12.00000 12.00000	42.66666 26.66667 26.66667		160.00000	26.25000		48.00000 32.00000			120.00000	39.37500 15.00000	65.62500			EACH LEASE	NET ACRES
			H.B. P.	-					н.в.р.			± + + + + + + + + + + + + + + + + + + +	디	н.в.Р.		EXPIRATION DATE
12,50000 (2	1.37500 2.37500 2.375000	2.0333 2.0333 4.033 4.033 4.0333 4.03		12,50000(2)	2.05078		2.75000 2.50000			20.00000	6.56250 2.50000	•		٠.	BORNE BY ALL CWNERS IN TRACT	PERCENT ROYALTY
				10:		-0;	- -			0	00	101			INDIVIDUAL OWNERS	PERCENT BURDEN BORNE BY
87.50000	1327500 1327500 1327500	28.00.4 14.0033.4 28.00.4 28.00.4 28.00.4 29.00.4 20.0		87.50000	14.35547	87.586				80.00000	26,25000	113.75000			TO FACH	PERCENT REVENUE
1,00,0000				100.00000						100.00000					INTEREST FOR TRACT	BURDENS PLUS
່ວ່າ	87.50000 87.50000	. ~ . ~ . ~		ť	87.50000	 	 הוה				80.00000	80.00000				PFRCENT TRIPETERS

LEASE CWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, SW/HNE/4, N/2SW/4, SW/HSW/4 Section 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTÁINING 2070 ACRES, DEPTH RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

	(10.		.	(, , ,	TER.
AMOCO PRODUCTION CO. CONFINENTAL OIL CO. TR. NO. 11 TOTAL		Sec. 22: SE/4SE/4 OULF OIL CORPORATION	Sec. 22: NW/4NE/4: GULF OIL CORPORATION	^	E-135 Sec. 22: SE/4SW/4 TENNECO OIL CO. CONTINENTAL OIL CO. TR. NO. 8 TOT/L	LEASE NO., OWNERS & DESCRIPTION (All T178 R28E)
80.00	40.00	00.01	00.08	40.00	00.00	dross aches in Lease
75.00000 25.00000		100.00000	100.00000		50.00000 50.00000	PERCENT INTEREST EACH OVNER EACH LEASE
60.00000 20.00000 80.00000		40.0000	80.00000		20.00000 20.00000 /10.00000	NET ACRES EACH OWNER EACH LEASE
	н н в р	н.в.р.	н.в.Р.	H.B.P.	н.в.Р.	EXPIRATION DEFICENT DATE & BURDE EORNE B ALL OWN IN TRAC
19.87500 6.62500 26.50000(5)		15.50000 (4)	25.00000 25.00000 (3)		6.25000 6.25000 12.50000	PERCENT ROYALIY & BURDENS EORNE BY ALL OWNERS IN TRACT
9:37500 (6)		• 0	-0-	01	1 0 0	PERMICENT BORNE BY INDIVIDUAL
55.12500 18.37500 73.50000		84.50000	75.00000	·	43.75000 43.75000 87.50000	PERCENT REVENUE INTEREST TO FACII OWNER
100.00000		100.00000	100.000000		100.00000	BURDENS PLUS REVENUE REVERUE INTEREST FOR THACT
73.50000		84.50000	75.00000		87.50000 87.50000	PEFCENT REVENUE INTEREST ON 100% COST BASIS

EXIIIBI' "U"

'TR. LEASE NO., OWNERS & GROSS

ភ	14.	•)	12. NO.
TENNIECO OIL CO.	a. B-1959 Sec. 22: NW/4NW/4 NE/4SW/4 b. B-1111 Sec. 22: S/2NE/4 AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 14 TOTALS	sec. 22: SW/4SE/4 b. 636 Sec. 22: NW/4SW/4 AMOCO PRODUCTION CO. CONTINEWTAL OIL CO. TR. NO. 13 TOTALS	Sec. 22: N/2SE/1: AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 12 TOTALS	DESCRIPTION (A11 T17S R28E) a. B-1111 Sec. 22: SE/4NW/4
00.00	80.00	00.08	20.00	GROSS ACIRES IN LEASE
100,00000	50.00000 50.00000 100.00000	50.00000 50.00000 100.00000	75.00000 25.00000	PERCENT INTEREST EACH OWNER EACH EACH EACH
110.00000	80.00000 80.00000	00000 00000 00000 00000	120.00000 160.00000	NET ACRES EACH OWNER EACH LEASE
п.в.р.	н.в.р.	н.в.р.	н.в.р.	
21,87500	12.50000 12.50000 25.00000 (9)	12.50000 12.50000 25.00000 (8	19.87500 6.62500 26.50000 (7	EXPIRATION PERCENT DATE ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT
101	101	6.25000 (6) 6.25000	-0-	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS
78.12500	37.50000 37.50000 75.00000	37.50000 37.50000 75.00000	55.12500 18.37500 73.50000	PERCENT REVENUE INTEREST TO FACH OWNER
100 0000	100,00000	100.00000	100,00000	BURDENS PLUS REVENUE INTEREST FOR TRACT
	75.00000 75.00000	75.00000 75.00000	73.50000 73.50000	PERCENT REVENUE INTEREST ON 100% COST BASIS

21,87500

78.12500 100.00000

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22. E/2NW/H, SW/HNE/H, N/2SW/H, SW/HSW/H Section 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 3500 FEET TO 10896 HEET BELOW THE SURFACE

• ,	18.	17.	16.	TR.
TR. NO. 18 TOTALS	B-6251 (10) Sec. 24: SE/4 PENNZOIL COMPANY INEXCO CIL COMPANY M. RALPE LOWE, INC. ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL CO.	NM 01510 Sec. 23: E/2NW/4, NF/1:SW/4 PENNZOIL COMPANY INEXCO CIL CO. TR. NO.17 TOTALS	L-2762 Sec. 23: NW/HSW/H PENNZOII COMPANY INEXCO CIL CO. TR. NO. 16 TOTALS	LEASE NO., OWNERS & DESCRIPTION (All T178 R28E)
160.00	160.00	120.00	00.00	OROSS ACHES IN LEASE
96.87500	50.0000 42.18750 1.56250 .78125 .78125 .78130	50.00000 50.00000	50.00000 50.00000	PERCENT INTEREST EACH OWNER EACH LRASE
.152.00000	80.00000 67.50000 2.50000 1.25000 1.25000 1.25000	60.00000 60.00000 120.00000	20.00000 20.00000 40.00000	NET' ACRES EACH OWNER EACH EACH LEASE
	រ ដ ម ម	Г. Љ. Р.	-15-79	EXPIRATION DATE
24.21875	12.50000 10.54688 19531 19531 19531	6.25000 6.25000 1.2.50000	6.25000 6.25000	N PERCENT ROYALTY &: DURDENS DORNE DY ALL, OWNERS LIL TRACT
	J. 00000	3.56250 3.56250	3.56250 3.56250	PERCEYT BURDEY S BORNE BY INDIVIDUAL RS OWNERS
71.65625	36.50000 31.64062 1.17188 .58594 .58589 .58589	40.18750 43.75000 83.93750	40,18750 43,75000 83,93750	PERCENT REVENUE X INTEREST UAL TO EACH OWNER
96.87500		100.00000	100.00000	THACT
	73.00000 75.00000 75.00000 75.00000 75.00000	80.37500 87.50000	80.37500 87.50000	PRECENT REVENUE INTEREST ON 100% COST BASIS

LEASE OWNERSHIF AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, F/2NW/4, SW/4NE/4, N/2SW/4, SW/4SW/4 Section 23 and S/2 SECTION 24, TI7S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 350C FEET TO 10896 FEET BELOW THE SURFACE

			19.	NO
TR. NO. 20 TOTALS	PENNZOIL COMPANY INEXCO OIL COMPANY M. RAIPH LOWE, INC. ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL COMPANY		B-5862 (10) Sec. 24: NE/4SW/4 PENNZCIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC. ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL COMPANY	LEASE NO., OWNERS & DESCRIPTION (All T178 R28E)
40.00		40.00	110,00	GROSS ACRES IN LEASE
96.87500	50.00000 42.18750 1.56250 .78125 .78125 .78120	96.8750. (11.)	50.00000 12.18750 1.56250 .78125 .78125 .78120	PERCENT INTEREST EACH OWNER EACH IFASE
38.75000	20.0000 16.87500 .62500 .31250 .31250 .31250	38.75000	20.0000 16.87500 .62500 .31250 .31250 .31250	NET ACRES EACH OWNER EACH LEASE
		4-15-79	н.в. р.	EXPIRATION DATE
12.10937	5.27344 5.27344 .09765 .09765 .09766	23.46191	12.10937 10.21729 10.37841 .18921 .18921 .18921 .18921	CN PERCENT ROYALTY & BURDENS DORNE BY ALL OWNERS IN TRACT
11.58000	4.5a000	1,00000	1.00000	PERCENT BURDEN S BORNE 3Y INDIVIOUAL RS OWNERS
80:18563	36.90.1 20.0000 20.000 20.000 20.000 20.000 20.000 20.000 20.000 20.000 20.000 20.000	72.41.309	36.89063 31.97021 1.18/109 .5920/1 .5920/1	PERCENT REVENUE X INTEREST UAL TO EACH OWNER
96.87500		96.87500		T BURDIENS E PLUS ST REVENUE INTEREST FOR TRACT
•	87.50000 87.50000 87.50000 87.50000	N 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	73.78125 75.78125 75.78125 75.78125 75.78125 75.78125	PERCENT REVENUE INTEREST OH 100% COST BASIS

EXHIBIT "IB"

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, 8/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, SW/HME/4, SW/HSW/4 Section 23 and S/2 SECTION 24, T17S R28E, EDDY COJNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHES FROM TO 10896 FEEL DELOW THE SURFACE DEPTH RIGHES FROM 3500 FEET

(-								(no.
() ; ; ; ; ; ; ; ; ; ; ; ; ; ; ; ; ; ;	Unit Sub-Total Less unlessed That motal	TR. NO. 21 TOTALS	TENNECO OIL COMPANY	MARALO, INC.	ERMA LOWE	M. RALPH LOWE, ENC.	INEXCO OIL COMPANY	PENNZOIL COMPANY	E-9'134 (10) Sec. 24: S/2SH/4	DESCRIPTION (All TI7S R2BE)
.000	2160.00	80.00			:				80.00	dhoss acres in lease
	1 1	96.87500	.78120 .78130	.78125	.781.25	1.56250	42.18750	50.00000		PERCINT INTEREST EACH EACH EACH
NO. 00.000		77.50000	. 62500	.62500	.62500	1.25000	33.75000	00000		NET ACRES EACH OWNER EACH LEASE
									н.в.р.	EXPIRATION DATE
		12.10937	.09766	.09765	.09765	.19531	5.273/14	5.25000		FIGHCENT FOYALTY S. BURDENS EORNE DY ALL OWNERS IN TRACT
		4.58000						4.58000	-	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS
		80.18563	.68354	.68360	.68360	1.36719	36.91/106	39.17000		PERCENT REVENUE INTEREST TO EACH OWNER
		96.87500								BURPENS PLUS REVENUE REVEREST FOR FOR TRACT
			87.5000	87.5000	87.5000	87.5000	87.5(00)	73.34000		PERCENT' REVINUS INTEREST OOST OOST OOST OOST

⁽¹⁾ The lease also covers the NW/4 of Section 14. The lease has two shallow wells on it. It is subject to the following override on oil when the average daily production per well on a monthly besis is 0 - 15 BOPD, 3% of 8/8ths, 15-50 BOPD, 5% and over 50 BOPD, 12 1/2% of 8/8ths. The override on gas is 5% of 8/8ths when the production is from above 3000 feet and 18/3ths when production is from below 3000 feet. A 12 1/2% of 8/8ths override was assumed for this schedule. 3000 feet and 12 1,2% of 15-50 BOPD, 5% of 8/3ths

⁽²⁾ Schedule "B" Gov. Royalty. Rate assumed to be 12.5% for this schedule.

⁽³⁾ NE/NW/N & NW/NE/4 Sec. 22 is subject to the remainder of a production payment in the original amount of \$4,000.00 payable out of 12 1/2% of 8/8ths. These lands are also subject to a production payment in the amount of \$8,000.00 payable out of 3% of 8/3ths which becomes effective when the \$4,000.00 production payment is retired. 8/8tha which becomes effective when the \$4,000.00 production

^(±) This tract is subject to a production payment in the amount of \$12,000.00 payable out of 3% of 8/8ths.

ထ

EXHIBIT "B"

- S 1/2% of 8/8ths plus an overriding royalty equal to 2% of the net revenue interest. These lands are subject to the remainder of a production payment in the original amount of \$546,000.00 payable out of \$26 of 8/8ths plus an overriding royalty equal to 2% of the net revenue interest. Under present conditions the override
- (6) These lands are subject to a production payment in the amount of $$23^{\text{h}}$, COO.00 payable out of 12.1/2% of 8/8ths which becomes effective when the production payment described under Note No. 5 pays off.
- rerride equal to 2% of the net revenue interest. These lands are subject to a production payment in the amount of \$250,000.00 payable out of 12.5% of 8/8ths plus an ride equal to 2% of the net revenue interest. Under present conditions the override is 1.5%.
- in Note No. 5. (B) These lands are subject to the production payment described in Note No. 5. They are not subject c O the override described
- In Note No. 7. These lands are subject to the production payment described in Note No. 7. They are not aubject ;; the override described
- (10) Depth rights from 2300 feet to 10896 feet subject to working interest unit under derms of operating agreement November 9, 1970 as amended by agreement dated February 8, 1971, Pennzoil Company, Operator. dated
- Exxon's 3.125% interest, total of 10 acres, under \$/2 Section 24 is not subject to the unit. Total acres subject

THE PROPERTY OF

CARCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, w/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/4, SW/4NE/4, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, T175 R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

AMOCO PRODUCTION CO. AMOCO TOTAL	PENNZOIL CO.	OWNERS
11 12 13 14 14 30	16 a & b 6 17 18 19 20 20 20 20 20 20 20 20 20 20 20 20 20	TRACT NET NO. ACRE: EACH OWNED
60.00000 120.00000 40.00000 80.00000 14.49275	65.62500 43.75000 20.00000 80.00000 20.00000 40.00000 349.37500 16.87802	NET PERCENT ACRES OWNER-EACH SHIP IN UNIT
26.50000 26.50000 25.00000 25.00000	20.0000 12.50000 19.62500 27.00000 26.21875 21.66000	FERCENT EOYALTY FLUS FURDEN ON 100% CWNER- SHIF PASIS
44.10000 88.20000 30.00000 60.00000	52.50000 38.281.25 16.07500 48.22500 48.22500 58.40000 14.75625 15.66800 275.24150	BENEFICIAL AGRES EACH OWNER
13.52118	16.7/129	PERCENT BENEFICIAL INTEREST IN UNIT

(

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/H, SW/HNE/H, N/2SW/H, SW/HSW/H SECTION 24 and S/2 Section 24, TI7S R2BE, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

CONTINENTAL TOTAL	CONTINENTAL OIL CC.	INEXCO TOTAL	GULF OIL CORPORATION GULF TOTAL	OWNERS
	•• • • • • • • • • • • • • • • • • • •			
	112 143 144 150 150 151	177 180 200	9 a & b	TRACT
202.50000	20.00000 20.00000 40.00000 40.00000 80.00000 1.25000 .31250 .62500	60.00000 67.50000 16.87500 16.87500 33.75000	80.00000 120.00000	NET ACIRES EACH OWNER
9.78261		10.38647	5.79710	PERCENT OWNER- SHIP IN UNIT
	12.50000 26.50000 25.50000 25.00000 25.00000 24.21875 12.50000	12.50000 25.00000 24.21875 12.50000	25.00000	PERCENT ROYALTY PLUS PLUS BURDEN ON 100% OWNER- SHIP BASIS
153.59453	17.50000 14.70000 29.40000 30.00000 60.00000 .93750 .23682 .27343	52.50000 50.62500 12.78808 14.76563 29.53125 177.70596	60.00000 33.80000 93.80000	BENEFICIAL ACRES EACH OWNER
9.34224		1.0.80003	5.70529	PERCENÇ BENEFICIAL INCERESE IN UNIT

CALCULATION OF FERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/4, SW/NNE/4, N/2SW/4, SW/NSW/4 SECTION 24 and S/2 Section 24, T178 R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

OWNERS	TRACT NO.	NEY ACRES EACH OWNER	PERCENT OWNER- SHIP IN UNIT	PERCENT FOXALTY FIJUS FIJUS FIJEN ON 100% CHNER- SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT	
S. P. YATES TOTAL	4	100.00000	71.83092	17.50000	82.50000 82.50000	5.01798	
HARVEY E. YATES CO. HARVEY E. YATES TOTAL	4	100.00000	4.83052	17.50000	82.50000 82.50000	5.01.798	1
KINCAID & WATSON DRILLING CO.	7.1	40.00000 12.66656 82.66656	3.99356	25.00000 12.50000	30.00000 37.33333 67.333333	1.09548	!
WAINOCO, INC. WAINOCO TOTAL	5 a &b	39.37500 26.25000 65.62500	3.17029	20.00000	31.50000 22.96875 54.46875	3.31301	
TENNECO OIL CO.	15 19 20 20 8	20.00000 40.00000 1.25000 .31250 .62500 62.50000	3.01932	12.50000 21.87500 25.00000 24.21875 12.50000 12.50000	17.50000 31.25000 .93750 .23682 .27343 .54688 50.74463	3.08649	
Supron Energy Corp. Supron Total	o, .	48.00000	2.31884	12.50000	42.00000	2.55/161	1

: : :

CALCULATION OF TERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS SHORE UNIT; W/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/4, SW/4NE/4, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, T17s R28E, EDEX COLNEY, NEW MEXICO, CONTAINING 2070 ACRES.

1.00360	16.50000	1.7.50000	.96618	20.00000	4	•	JOHN A. YATES JOHN A. YATES TOTAL
1.00360	16.50000	17.50000	. 96618	20.00000	4	·	MARTIN YATES III MARTIN YATES TOTAL
1.27730	21.00000	1.2.50000	1.15942	24.00000	7	. · · •	LONNIE KENPER KEMPER TOTAL
1.23169	12.00000 8.25000 20.25000	20.00000	1.20773	15.00000 10.00000 25.00000	5 a & b		JUNE JOHNSON TOTAL
1.41923	23.33333 23.33333		1.28825	26.66667 26.66667	7.		DALEVOO, INC. DALEVOC TOTAL
1.41923	23.33333 23.333333	12.50000	1.28825	26.66667 26.66667	7		DURHAM DRILLING CO. DURHAM TOTAL
0.81870	112.50000	25.00000	7.24638	150.00000	,		HANSON DOIL CC.
1.79307	28.00000 28.00000	12.50000	1.54589	32.00000	Q		AZTEC OIL & CAS CO. AZTEC TOTAL
 PERGENT BENEFICIAL INTEREST IN UNIT	BENDFICIAL ACRDS EACH OWNER	PERCENT ROYALTY PLUS PLUS BURDEN ON 100% OWNER- SHIP BASIS	PERCENT OWNER- SHIP IN UNIT	NET AGRES EAGH OWNER	TRACTI		OWNERS

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 and 22, SECTION 14, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

FRMA LOWE TOTAL	M. RALFH LOWE, INC. M. RALPH LOWE TOTAL	COWATCO TOTAL	TANNING TOTAL	VAN LANNING TOTAL	HAROLD KERSEY KERSEY TOTAL	JONELL R. GILMORE GILMORE TOTAL	OWNERS
· · · · · · · · · · · · · · · · · · ·							Z H
21 20 19	21 21 8	8	7	7	N	7	TRACT No.
1.25000 .31250 .31250 .62500	2.50000 .62500 1.25000 5.00000	8.00000	8.00000	8.00000	50,00000	12.00000	NET ACRES EACH OWNER
.1.2077	.24156	.38647	.38647	.38647	2.41546	.57971	PERCENT OWNER- SHIF IN UNIT
24.21875 12.50000 12.50000	25.00000 24.21875 12.50000 12.50000	12.50000	12.50000	12.50000	25.00000	12;50000	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER- SHIP BASIS
. 93750 . 23682 . 27343 . 54688	1.87500 .47363 .54688 3.98926	7.00000	7.00000	7.00000	50000	10.50000	BEHEFTCIAL ACHES EACH OWNER
.12132	. 2/1264	12576	.42576	.42576	2.28090	.63865	PERCENT BENEFICIAL INTEREST IN UNIT

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/4, SW/HNE/4, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, T17S R2BE, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

1.1.1						\
OWNERS	MARALO, INC.	MARALO TOTAL	NANCY KENG KING TOTAL	TOTAL SUBJECT TO UNIT	UNIEASED GOV. KGS LANDS	Exxon's 3.125% Int. under S/2 24 TOTAL IN UNIT OUTLINE
		10 10 10 12 12 12 12 12 12 12 12 12 12 12 12 12			· · · · · · · · · · · · · · · · · · ·	ю !?-
TRACT NO.	18	51 50	7			
NET ACRES EACH OWNER	1.25000	.31250 .62500 2.50000	4.00000	2070.00000	80.00000	10,00000
PERCENT OWNER- SHIP IN UNIT		(120//	·.1932 ^L	100.00000		
PERCENT ROYALTY PLUS PLUS BURDEN ON 100% OWNER- SHIP BASIS	25.00000	12.50000	12.50000			
BENETICIAL AGRES EACH OWNER		.27343 .54688 1.99463	3,50000	.16.44.08798		
PERCENT BENEFICIAL INSTEREST IN UNIT		.12132	.21289	100.0000		
	:	- general series	Ì			

. (

SHOWING THERENESIS COSTRIBUTED, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNTIL PAYOUR, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM THE FAYOUR FERTON IN THE LUCAS STOKE UNIT, TITS RESE, CONTAINING 2070 ACRES.

LONNIE KEMPER MARTIN YATES III JONELL R. GILMORE	DURHAM DRILLING CO. DALEVCO, INC.	ATION GAS	HARVEY E. YATES CC. KINCAID & WATSON DRILLING CC. WALNOCO, INC. TENNIECO OIL CO.	2000	OWNERS
1.159/i2 .96618 %.96618 %.57971		< 2.31881 < 1.54589 < 7.24638	4.83092 40 CC 3.99356 3.17029 3.01932	16.87802 411.49275 40.38647 4 9.78261	Contributions Intibal Test Column 1 Co Percent Per Owner- Ber ship Int
1.27730 1.00360 1.00360	1.41923 1.41923 1.23169	2.55461 1.70307 6.84270	5.01798 4.09548 3.31301 3.08649	16.7/129 13.52118 5.70529 10.80903 9.3/123/1	ons for st Wcll Column 2 Percent Beneficial Interest
000		0000	00000		Initial Until Pa Costs Column 3 Percent Costs
000	: 	,			Payout Payout Column: 4 Percent Beneficial Interest
.5797.0 .483090 .483090	503500° 501110° 501110°	1.159420 .772945 3.623190	2.415460 1.996780 1.585145 1.509660	8.439010 7.246375 2.898550 5.193235 4.891305	Subsequent W Initial Test After Payout Costs Column 5 Percent Costs
.638650 .501800 .501800	.709615 .709615	1.277305 .851535 3.421350	2.508990 2.5047740 1.536505 1.533245		Wells and st Well Production Column 6 Percent Beneficial Interest
.06127 .04814 .04863	. 05308 808308	.12254	.24071 .19646 .15892	.80306 .64859 .27368 .51850	Percent Owners Retained Overridit Royalty Urtil Fay of First Froducin Well Column 7

SHOWLEG INTERESTS CONTRIBUTED, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNTIL PAYOUT, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, OVERRIDING ROYALTY DURING THE PAYOUT PERTOD IN THE LUCAS STOKE UNIT, TITS R28E, CONTAINING 2070 ACRES.

UNIT TOTALS	OPERATOR	NANCY KENG	MARALO, INC.	ERMA LOVE	M. RALPH LOWE, INC.		LYNN LANNING	VAN LANNING	HAROLD KERSEY	The state of the state of states and states and states and states and states are somewhat a state of the states				CANERC				
100.00000	-0-	人,19324	112077	. 12077	3 /1156	1479884.Z	¢ •386/17	₹ .38647	个 2.41546		ship	Owner-	Percent	Co Linun 1	Intral Teat Voll	Contributions for		•
100.00000	-0-	.21289	.12132	.12132	.2/126/1	.112576	.12576	.12576	2.28090		Interest	Fencficial	Percent	Column 2	Peat Vell	clons for	•	
100.00000	100,00000	0	0-	0	0,) ()	0	0	0		Costs	Percent	Column 3	Costs	-	Initial '	!	
100.00000	100.00000	-0-	10-	-0-	-0-	- O-		-01	101	Interest	Beneficial	Percent	Column 4	Production	Payout	Initial Test Well		
100.000000	50.000000	• 096620	.060335	, 060335	.120730	.193235	.193235	. 1.93235	1.207730		Conta	Percent	Column 5	Costs	After Payout	Initial Test Well	Subsequen	
1.00,000000	50.000000	.106445	.060660	.060660	.121320	.212880	.212880	.212880	1.140450	Interest:	Beneficial	Percent	Column 6	Production	out	est Well	Subsequent Wolls and	
4.79688	-0-	.01021	,00582	.00582	.0116/	, 020/12	. ୦୫୦/୮୬	・020/12	.109/11	(1)	•		Column 7	We J 1	of First Producing	Royalty Until Pay	Retained Overridi:	Percent Owners

beneficial ownership as set out in column 2 hereof. The W/2 of Section 23 is designated the spacing unit to the Initial Test Well. The communitized overriding burden on the W/2 of Section 23 is 7.70312%. 12.5% - 7.70312% = 4.79688% to be divided among the owners in accordance with their

EXHIBIT "C"

TAX PARTNERSHIP

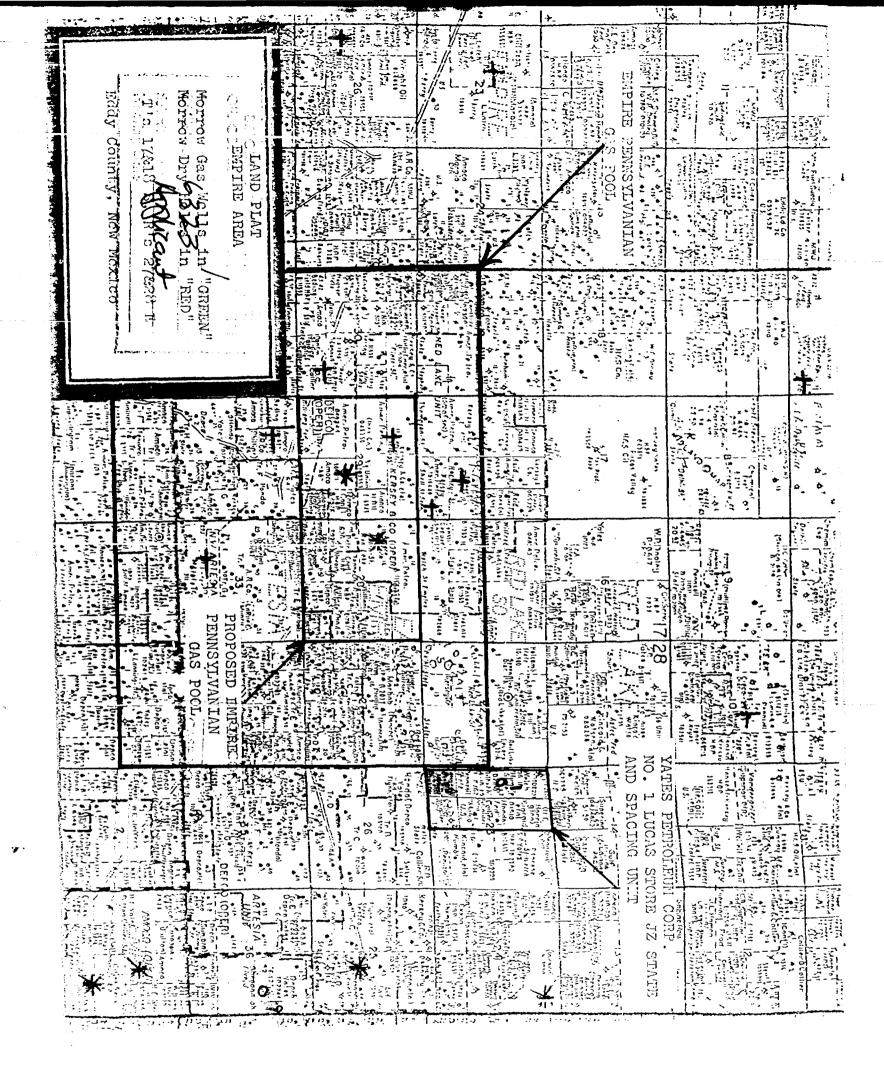
We believe that a tax partnership is the best way to avoid undesirable tax consequences which can result from IRS Ruling 77-176, dated May 9, 1977. We understand that a tax partnership has the following features:

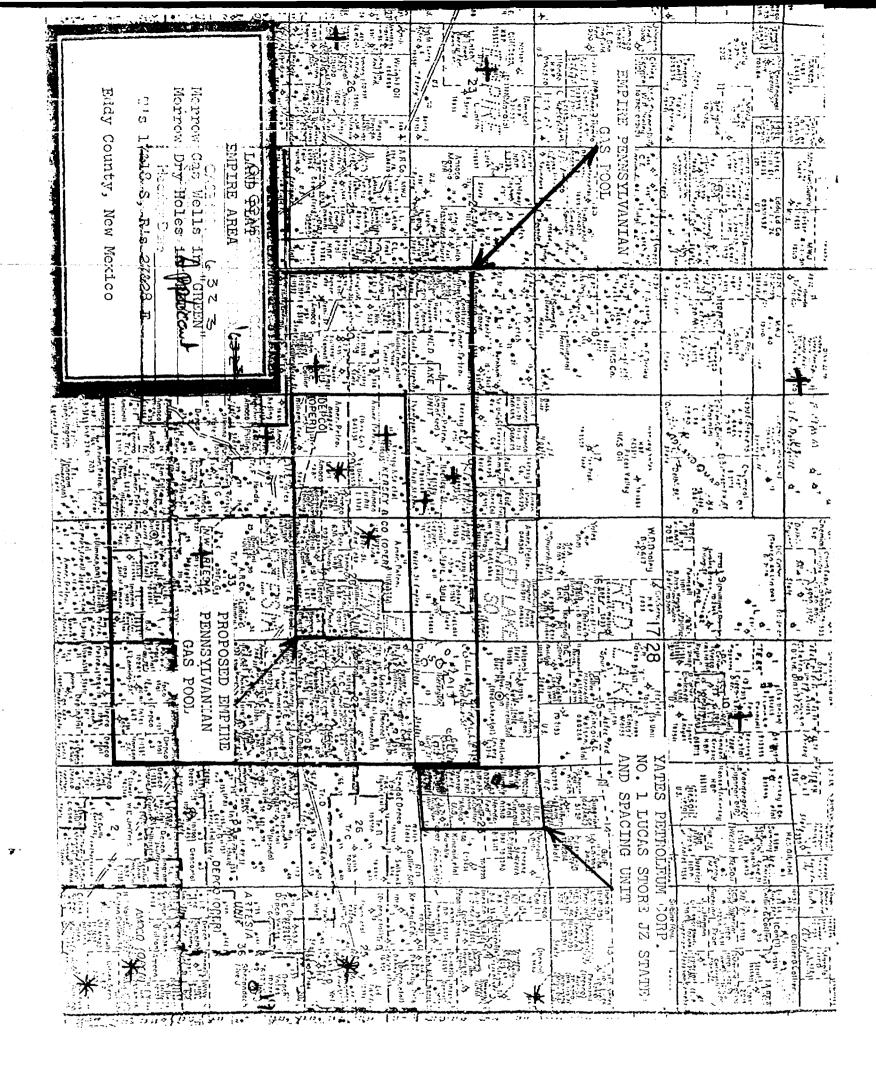
- 1. It is a partnership for income tax purposes only.
- 2. A partner in a tax partnership can not bind any other partner as is the case in a partnership or a limited partnership.
- 3. Only the income from the property in the tax partnership is involved.
- 4. The operator of the property must file a tax partnership tax return each calander year for the partnership. This return is an information return in which the income is allocated to each tax partner in accordance with his ownership. The allocated income is then taxable to the individual owners as though the partnership did not exist.
- 5. It is possible to elect to be in or out of a partnership each year.
- 6. A tax partnership can be formed by a few changes in the standard AAPL-610 operating agreement.

AUTHORITY FOR EXPENDITURE Yates Petroleum Corporation

	Estimated Cost to Drill,	Pregna	Lucas Store	"JZ" State Com #1	
	Complete & Equip - 10800'	OF BEFORE DEAMINE	1980 FNL, 860	FWL Sec. 23-17S-	-28E
	Morrow Test .	OIL COMSERVATION	Red Lake Are	a, Eddy Co., NM	
		4 Miles 2 4 4	S 1838		
		2 0147247	Dry Hole	Completion	
	Staking Permit & Legal Fees	CASE NO. 6323	\$ 1,000	\$ 1,000	
	Location, Right-of-Way & Surface	Dasses Asset to Asset	\$, 5,500	\$ 6,500	
	Drilling: Moving in, Rigging Up &	Rigging Down Rigging Down	\$, 5,500	\$ 25,000	
	40 days @ \$3850	rearing Date	\$154,000	\$154,000	
	Bits, Reamers & Subs	The state of the s	\$ 20,000-	\$ 20,000	
	Water, Mud & Additives, Pit Lining	g	\$ 49,000	\$ 50,300	
	Cementing, Tools & Services, Temp	. Surveys	\$ 10,500	\$ 15,200	
	Electric Logs & Perforating		\$ 21,600	\$ 26,000	
	Mud Logging Unit		\$ 6,300	\$ 6,300	
	Drill Stem Testing		\$ 4,400	\$ 4,400	
	Tool Rentals, Trucking & Welding	and the second s	\$ 2,300	\$3,600	
	Supervision & Overhead		\$ 4,000	\$ 5,000	
	Completion Unit, 7 days @ \$700		\$ -	\$ 4,900	
	Stimulation		\$ -	\$ 16,000	
	Contingency	•	\$ 32,400	\$ 36,800	
	TOTAL INTANGIBLES		\$336,000	\$375,000	
	Xmas Tree		\$ 1,200	\$ 13,600	•
	Casing: 13 3/8" 48# J-55, 45' @ \$	17.98	\$ 800	\$ 800	
	8 5/8" 24# J-55, 2265' @	\$9.05	\$ 20,500	\$ 20,500	
	5 1/2" 17# N-80, 10800' (@ \$8.37	\$ -	\$ 90,400	
	Tubing: 2 3/8" 4.7# N-80, 10500'	@ \$2.47	\$	\$ 25,900	
	Packer & Special Equipment		\$ -	\$ 2,600	
	Contingency	·	\$ 1,500	\$ 11,200	
	TOTAL TANGIBLES	•	\$ 24,000	\$165,000	
	Tanks, 2-210 bbl welded w/stair &	walk, Fibrgls Tnk.	\$ -	\$ 9,200	
	Heater-Separator & Flowlines, Val		\$ -	\$ 19,400	
	Trucking, Fences, Construction Co.	sts, Misc.	\$ -	\$ 6,400	
	TOTAL LEASE EQUIPMENT	•	\$ -	\$ 35,000	·
	TOTAL TO DRILL, COMPLETE	& EQUIP	\$360,000	\$575,000	
•					

Approval of this AFE constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proporationate share in kind.





OF PE PHONE 746-9336

ROBERT E. BOLING
EXPLORATION CONSULTANT
202 AMERICAN HOME BUILDING

ARTESIA, NEW MEXICO - 88210

October 21, 1977

6323 applicant

TO: WORKING INTEREST OWNERS IN THE PROPOSED LUCAS STORE UNIT, EDDY COUNTY, NEW MEXICO (See attached mailing list)

RE: Proposed Lucas Store Unit
W/2 Section 14, all of
Sections 15 and 22, E/2NW/4,
SW/4NE/4, N/2SW/4, SW/4SW/4
Section 23 and S/2 Section 24,
T17S R28E, Eddy County,
New Mexico, containing 2070
acres, more or less. (See
Exhibit "A")

Gentlemen:

Reference is made to our letter of May 6, 1977 in which we proposed a unit in the captioned area covering a slightly different outline. As you probably all know the IRS 77-176 ruling came out on May 9, 1977. We did not pursue this prospect until most of the major owners had decided how to avoid the additional taxes that could be assessed under the terms of the ruling on farmout deals such as we had proposed. We now believe that the best thing to do is form a tax partnership to cover the time the interests are being earned. For those who may not be familiar with a tax partnership, we have prepared an outline of what we think the most important features are. This outline is attached as Exhibit "C" to this farmout request.

Nearly all of the owners responded to our May 6th letter and advised that they would either farmout as requested or participate by paying their share of the cost. Exxon was the largest exception. Exxon advised that they would not join any unit with H.B.P. Acreage. You will note that the present outline does not include Exxon's acreage nor does it include Gulf's new lease covering the SE/4 of Section 14. We have requested a farmout from Exxon which does not involve their interest being spread throughout the unit.

To: Working Interest Owners in the Proposed Lucas Store Unit, Eddy County, New Mexico October 21, 1977

Mark D. Wilson and the undersigned now respectfully request a farmout from the present lease owners, the "Owners", to test the Morrow in the captioned area, under the following terms and conditions:

1. We propose to form a working interest unit, the "Unit", covering the captioned area, except the E/2SW/4 of Section 14 and a 3.125% interest under the S/2 of Section 24, containing a total of 2070 net acres. This area is outlined on Exhibit "A" of this letter. We propose that the Unit cover depth rights from 3,500 feet to 10,896 feet, the "Unitized Rights". This interval was selected due to the depth rights owned by Amoco and Continental in Section 22 and Pennzoil, et al in the S/2 Section 24. The E/2SW/4 Section 14 is excluded from the Unit, but included in the outline because it is unleased KGS minerals. It has been requested that this tract be offered for leasing at the next KGS sale. This tract shall be considered an area of mutual interest. If anyone in the Unit buys a lease on this land then all other owners shall have the option of taking their proportionate share of the lease. The 3.125% interest under S/2 Section 24 is owned by Exxon.

It is believed that the present ownership of the Unitized Rights is as shown in Exhibit "B" of this letter. You will note that all of the leases except two, covering 80 acres, are H.B.P. You will also note from the exhibits that there are twenty one tracts owned by twenty eight different owners. It is believed all owners will agree that everyone must cooperate in order to every get a deep test drilled in this area.

- 2. Within 45 days after receipt of an acceptable, fully executed operating agreement, the "Agreement" and subject to the availability of drilling equipment and pipe, we will commence, or cause to be commenced, the drilling of a test well at a lawful location in the SW/4NW/4 of Section 23, Township 17S South, Range 28 East, the "Initial Test Well", with the W/2 of Section 23 being the dedicated spacing unit. The Initial Test Well will be drilled to a depth sufficient to penetrate 50 feet into the Chester Mississippian Limestone, which depth is estimated to be 10,750 feet, to test the Morrow series of the Pennsylvanian System, the "Objective Depth". The Initial Test Well shall be drilled and completed at no cost to the Owners.
- 3. In the event the Initial Test Well is completed as a producer from the Unitized Rights, then we shall earn all of the Owner's interest in these rights in the largest spacing unit assigned to the well by the New Mexico Oil Conservation Commission, until payout, subject to the Owner's retained overriding royalty hereinafter provided for, plus an undivided one-half of Owner's interest in the Unitized Rights in the remainder of the Unit. During the payout period of the Initial Test Well, the

To: Working Interest Owners in the Proposed Lucas Store Unit, Eddy County, New Mexico October 21, 1977

Owners shall retain their proportionate part of a total overriding royalty of 1/8 of 8/8ths. Column 7 of Exhibit "B-2" shows each Owner's share of the retained override assuming the W/2 of Section 23, T17S R28E is the spacing unit of the Initial Test Well. At payout of the Initial Test Well, the Owners shall have the option for 30 days after notice, to convert to their proportionate part of one-half of the working interest or continue with their retained override. The interest in the Unit (a) at present, (b) during the drilling and payout of the Initial Test Well, (c) in the remainder of the Unit and in the Initial Test Well after payout, assuming all Gwners convert to a working interest and (d) Owner's retained overriding royalty during the payout period are shown in Exhibit "B=2" to this letter. The calculation of the Cwner's present percentage interest in the Unit is shown in Exhibit "B-1" to this letter. Since Unit acreage only composes five-eights of the spacing unit of the Initial Test Well, assuming a gas well with 320 acre spacing, all Unit interests will be proportionately reduced to five-eights of the interests shown in Exhibit "B-2" for the Initial Test Well.

4. As previously mentioned we have requested a farmout from Exxon covering their interest in sections 23 and 24. The requested farmout provides for a 90 day continuous development and only the productive wells earn acreage. Since the Owners will only have an interest under five-eights of the spacing unit of the Initial Test Well, we will agree to give the present owners an option to participate in one-half of the Exxon farmout insofar as it covers the E/2 of Section 24 in accordance with their after payout unit ownership as set out in Column 5 of Exhibit "B-2"

The Exxon acreage will be a 75% revenue interest with an optional one-half back-in after payout. We feel that this is an attractive incentive since the Owners can farmout on the wildcat and then decide if they want to participate in an offset well.

- 5. The present burdens on the leases in the Unit vary from nothing to 26.5%. In order for the proceeds from production to be distributed equitably a beneficial interest distribution is necessary. The calculation of all Owner's beneficial interest is shown in Exhibit "B-1" of this letter.
- 6. In the event production is established in the Unit, then all future wells shall be drilled under the terms of a Model Form Operating Agreement Form 610, previously designated herein, the "Agreement". The Agreement shall provide that (a) Wilson and Boling or our assigns shall be the Operator, (b) a 300% non-consent penalty, (c) no preferential right to purchase, (d) individual title loss, (e) all Cwners shall have

Po: Working Interest Owners in the Proposed Lucas Store Unit, Eddy County, New Mexico October 21, 1977

the right to take their share of the production in kind, (f) a gas balancing agreement, and (g) a tax partnership. The charges in the accounting procedure and the terms of the Agreement shall be agreed upon and the Agreement shall be executed by all parties prior to commencement of the Initial Test Well. The charges agreed upon in the accounting procedure of the Agreement shall govern the charges against the first producing well in the Unit during the drilling, completion and payout period.

- 7. The estimated cost of drilling the Initial Test Well to the Objective Depth and plugging it as a dry hole or completing it as a single zone producer is \$350,000.00 and \$550,000.00, respectively.
- 8. If mechanical or other difficulties render further drilling of the Initial Test Well impractical, in our opinion, prior to the time the Initial Test Well reaches the Objective Depth, then we shall have the option for 30 days after the completion of the Initial Test Well to commence the drilling of another test well, the "Substitute Test Well". The Substitute Test Well, if drilled, shall be drilled at a lawful location of our selection in the Unit, to the Objective Depth, under the same terms, except a recalculation of the Owner's retained override may be necessary, to earn the same interests as herein provided for the Initial Test Well.
- 9. In the event the Initial Test Well or Substitute Test Well, if drilled, is completed as a dry hole, we shall earn nothing except the option for 90 days after the completion of the last of these wells, to start another test well, the "Option Well". The Option Well, if drilled, shall be drilled at a location of our selection, to the Objective Depth, under the same terms, except recalculation of Owner's retained royalty, to earn the same interest as herein provided for the Initial Test Well.
- 10. If production is not obtained by any of the wells provided for herein, then the Agreement shall terminate and we shall earn none of Owners' interest in the Unit.

Upon receipt of acceptance of our proposal from the Owners, we will prepare the Agreement which will also provide for the farmouts from each Owner and forward it to all parties for their approval and execution.

Respectfully requested,

Robert E. Boling

REB/bw enclosures MATLING LIST LUCAS STORE UNIT

PENNZOIL COMPANY
P. O. Box 1828
Midland, Texas 79701
Attn: Mr. Cecil B. Ellis

INEXCO OIL COMPANY 1100 Milam Building, Suite 1900 Houston, Texas 77002 Attn: Mr. Sam Reeves, Jr.

S. P. YATES
MARTIN YATES III
JOHN A. YATES
207 South 4th Street
Artesia, New Mexico 88210
Attn: Mr. Jack McCaw

HARVEY E. YATES COMPANY Suite 1000, Security National Bank Building Roswell, New Mexico 88201 Attn: Mr. George Yates

TENNECO OIL COMPANY 1200 Lincoln Tower Building Denver, Colorado 80203 Attn: Mr. N. B. Venus

M. RALPH LOWE, INC.
MARALO, INC.
ERMA LOWE
2200 West Loop South
Suite 130
Houston, Texas 77027
Attn: Mr. John R. Burke

CONTINENTAL OIL COMPANY
P. O. Box 431
Midland, Texas 79701
Attn: Mr. Gary R. Baily

COWATCO OILS 800 N. Richardson Roswell, New Mexico 88201

MS. NANCY KING P. O. Box 385 Artesia, New Mexico 88210

WAINOCO, INC. 1100 Milam Bldg., Suite 600 Houston, Texas 77002

SUPRON ENERGY CORPORATION ... 8350 North Central Expressway Suite 1700 Dallas, Texas 75206 Attn: Mr. Frank Lawson

AZTEC OIL & GAS CO. c/o Southland Royalty Company 1100 Wall Towers West Midland, Texas 79701 Attn: Mr. George Mauzy

HANSON OIL CO. BOX 1515 Roswell, New Mexico 88201 Attn: Mr. Reagan S. Sweet

MS. JUNE JOHNSON c/o Mr. Viggo Boserup 2049 Century Park East 18th Floor Los Angeles, California 90067

HAROLD KERSEY Box 316 Artesia, New Mexico 88210 MAILING LIST LUCAS STORE UNIT

ANOCO PRODUCTION COMPANY BOX 3092 Houston, Texas 77001 Attn: Mr. Joe Durkee

GULF OIL CORPORATION
BOX 1150
Midland, Texas 79701
Attn: Mr. Robert E. Griffith

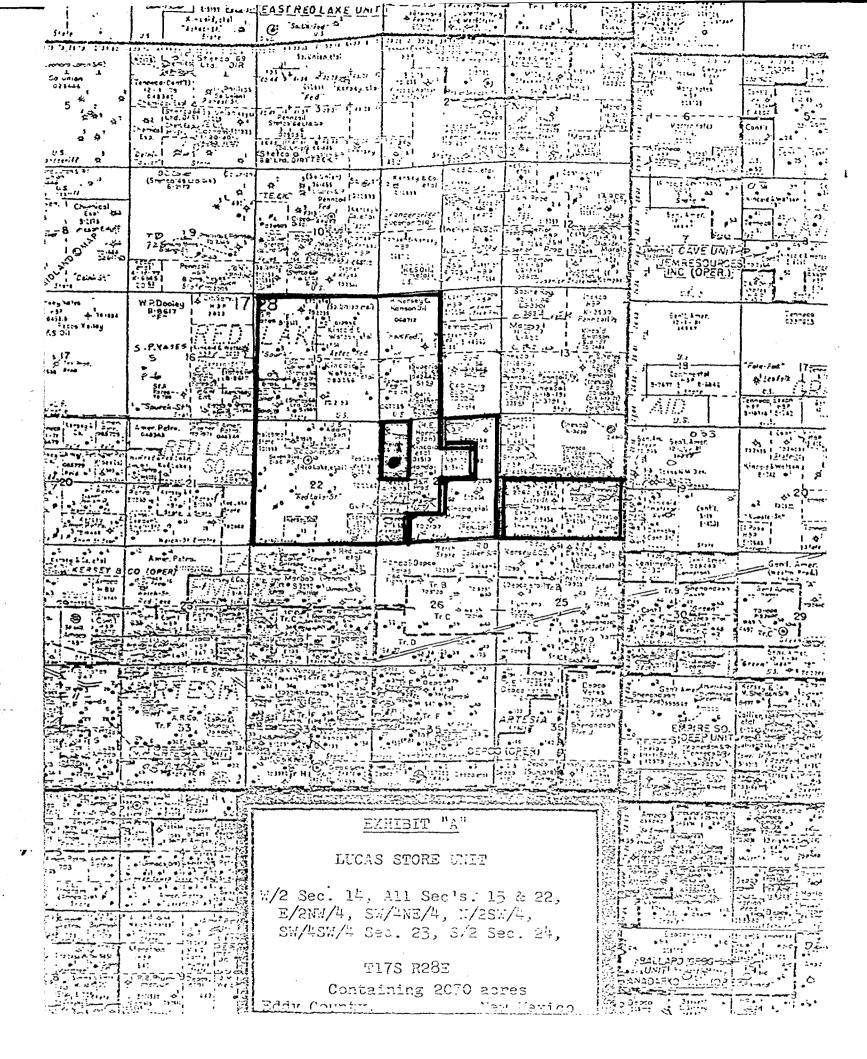
KINCAID & WATSON DRILLING CO.
VAN LANNING
LYNN LANNING
Box 498
Artesia, New Mexico 88210

DURHAM DRILLING CO.
Drawer 273
Midland, Texas 79701
Attn: Mr. Lynn Durham

DALEVCO, INC. P. O. Box 2227 Roswell, New Mexico 88201

LONNIE KEMPER
P. O. Box 1105
Artesia, New Mexico 88210

MS. JONELL R. GILMORE
P. O. Box 217
Artesia, New Mexico 88210



LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, SW/4NE/4, N/2SW/4, SW/4SW/4, SW/4SW/A, SW/4SW/4, SW/4SW/A, SW/ASW/A, SW/ASW/A, SW/ASW/A, SW/ASW/A, SW/ASW/A, SW/4SW/A, SW/ASW/A, SW/4SW/A,

	+(•	·	٠	, N		:C	NO.	
Sec. 15: NW/4, NW/4SW/4 Sec. 23: SW/4NE/4 S. P. YATES FARVEY E. YATES CO. MARTIN YATES III JOHN A. YATES TR. NO. 4 TOTALS		FEDERAL KGS_LAND)	Sec. 14: E/2SW/4		Sec. 14: NW/4SW/4, NW/4 HAROLD KERSEY	KINCAIL & WATSON DRILLING CO.	<u>LC 067739</u> Sec. 14: Sw/4SW/4	LEAST NO., OWNERS & DESCRIPTION (All T178 R28E)	
240.00		(We	80.00	200.00	200.00		40.00	GROSS ACRES IN LEASE	
41.66667 41.66667 8.33333 8.33333 100.00000	•	e have requested		100.00000	75 • 00000 25 • 00000	100.00000		PFRCENT INTEREST EACH OWNER EACH LFASE	
100.00000 100.00000 20.00000 20.00000 240.00000		that t	80.00000	200.00000	150,00000 50,00000	110.00000		EACH OWNER EACH LEASE	
H.B.P.		his tract be	. ·		H.B.P.	•	н.в.г.	DATE	
7.29167 7.29167 1.45833 1.45833		included in the		25.00000	(1) 18.75000 6.25000	12.50000		ROYALTY & BURDENS BORNE BY ALL, OWNERS IN TRACT	שויים מהאוש
		the next KGS		0	! . O	10		BURDEN BORNE BY INDIVIDUAL OWNERS	שואקרסקקס
34.37500 34.37500 6.87500 6.87500	:	sale)		75.00000	56.25000 18.75000	87.50000		REVENUE INTEREST TO EACH OWNER	תיאים
100.00000				100,00000		100.00000		PLUS REVENUE INTEREST FOR TRACT	PINNENS
50000 50000 50000 50000 50000 50000					75.00000	67.50000		REVENUE INTEREST ON 100% COST BASIS	PERCENT

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 1.5 & 22, E/2NW/4, SH/4NE/4, N/2SW/4, SW/4SW/4 Section 23 and 5/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 5500 FEET TO 10896 FEET BELOW THE SURFACE

	*,	7.	C	, O		Ċ	TIR.
TR. NO. 7 TOTALS	NO E		PENNZOIL GO. WAINOGO INC. JUNE JOHNSON TR. NO. 6 TOTALS	15: NF/4	Sec. 15: NE/4SW/4 FENNIZOIL CO. WAINDCO, INC. JUNE JOHNSON TR. NO. 5 TOTALS		LEASE NO., OWNERS & DESCRIPTION (All TITS R28E)
160.00		160.00	160.00	160.00	120.00	80.00	OROSS ACRES IN LEASE
100.00000	5.00000 5.00000	26.66666 16.666667 16.666667	27.34375 16.40625 6.25000	30.00000	54.68750 32.81250 12.50000		PERCENT INTEREST EACH OVNER EACH INCH
160,00000	8.00000 8.00000 4.00000 12.00000	42.66666 26.66667 26.666667	160.00000 160.00000	48.00000 00000	65.62500 39.37500 15.00000		NET ACRES EACH OWNER EACH LEASE
		н. в. Р.		н.в.р.	н.в.р.	H.B.P.	EXPIRATION DATE
12.50000 (2	. 93750 . 93750 . 31250 . 62500 . 62500	0000 0000 00000 00000 00000 00000 00000	2.50000 3.41797 2.05078 .78125		10.93750 6.56250 2.50000 20.00000		PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT
)-0-							PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS
87.50000	4.37500 6.56250 13.12500 13.12500 13.37500	14.3 .5.53 .5.53 .5.33	17.50000 23.92578 14.35517 5.46875	26.25000	413.75070 26.25070 10.00070 80.00070		PERCENT REVENUS INTEREST TO EACH OWNER
100.00000			100.00000		100.00000		BURDENS PLUS REVENUE INTEREST FOR FOR
•	ノインシー	37.50000 37.50000	87.50000 87.50000 87.50000		30.00000 30.00000		PRRCENT REVENUE INTEREST ON 100% COST GASIS

LEASE OWNERSHIP AND IMPORMATION IN THE LUCAS STORE UNIT, w/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2Nw/4, SW/4NE/4, N/2SW/4, SW/4SW/4, SW/4SW/4, Section 23 and S/2 SECTION 24, T17S R28E, EDBY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPHH RIGHTS FROM 3500 FEET TO 10896 FEET DELOW THE SURFACE

Sec. 22: SE/ TENNIECO OIL CONTINENTAL TH. NO. 8 a. B-1969 Sec. 22: SE/ GULF OIL COR GULF OIL COR GULF OIL COR AMOCO PRODUC CONTINENTAL TR. NO. 1	LEASE NO., OWNE DESCRIPTION (All T178 R23E)
Sec. 22: SE/4SW/4 TENNECO OIL CO. CONTINENTAL OIL CO. TR. NO. 8 TOTAL a. B-1969 Scc. 22: NE/4NE/4 GULF OIL CORPORATION 2029 Scc. 22: SE/4SE/4 GULF OIL CORPORATION a. B-1111 Sec. 22: SW/4SW/4 b. B-1969 Sec. 22: SW/4NW/4 AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 11 TOTAL	JEASE NO., OWNERS & DESCRIPTION (All T17S R28E)
00.00 00.00 00.00 00.00 00.00 00.00 00.00	GROSS ACRES IN LEASE
50.00000 100.00000 100.00000 100.00000	PERCENT INTEREST EACH OWNER EACH LEASE
20.00000 10.00000 10.00000 40.00000 60.00000 60.00000	NET ACR'AS EACH OWNER EACH LEASE
н.в.р. н.в.р. н.в.р.	EXPIRATION DATE
6.25000 6.25000 12.50000 25.00000 (3) 15.50000 (4) 15.50000 (4)	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT
-0- -0- -0- -0- -0- -0- -0- -0- -0- -0-	PERCENT BURDEN BORNE BY CINDIVIDUAL OWNERS
43.7500c 43.7500c 87.5000c 87.5000c 75.0000c 84.5000c	PERCENT REVENUE INTEREST TO BACH OWNER
100.00000	BURDENS PLUS REVIENUE LNTEREST FOR THACT
87.50000 87.50000 84.50000	PERCENT REVENUE INTEREST ON 100% COST BASIS

"מ" עונונונו

Page 4.

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/H, SW/HNE/H, N/2SW/H, SW/HSW/H, SW/HSW/H, SW/HNE/H, N/2SW/H, SW/HSW/H, N/2SW/H, N/2SW/H

b. B-11 Sec. 22 AMOCO FI CONTINEI	14. a. B-1969 Sec. 22: 1 NE/4SW/4	Sec. 22: AMOCO PI CONTINEN	13. a. B-1969 Sec. 22:	12. a. B-1111 Sec. 22: 1 NE/4NE/4 b. B-1969 Sec. 22: 1 AMOCO PROCONTINENT. CONTINENT. NO	TR. LEASE NO., NO. DESCRIPTION (All T17S R
b. B-1111 Sec. 22: S/2NE/4 AMOCO FRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 14 TOTALS	1 NM/t/MM/t	Sec. 22: NW/NSW/4 AMOCO PRODUCTION CO. CONTINENTAL OIL CO.	1969 22: SW/4SE/4	a. 3-1111 Sec. 22: SE/4NW/4 NE/4NE/4 b. B-1969 Sec. 22: N/2SE/4 AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 12 TOTALS	LEASE NO., OWNERS & GRO DESCRIPTION (All T17S R28E) IN LEA
80.00	80.00	40.00	40.00	80.00	dross Achrs IN LEASE
50.00000 50.00000		50.00000 50.00000		75.00000 25.00000 100.00000	PERCENT INTEREST EACH OWNER EACH LEASE
80.00000 80.00000 160.00000		40.00000		120.00000 40.00000	NET ACRES EACH OWNER EACH LEASE
H.B.P.	н.в.р.	н.в.р.	н.в.р.	H.B.P.	4.1
12.50000 12.50000 25.00000		12.50000 12.50000	-	19.87500 6.62500 26.50000	EXPIRATION PERCENT DATE ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT
(9) -0-		6,25000 (6) 6,25000		(7) -01	PERCENT BURDEN BURDEN BORNE BY INDIVIDUAL SOWNIERS
37.50000 37.50000 75.00000		37.50000 37.50000 75.00000		55.12500 18.37500 73.50000	PERCENT REVENUE INTEREST L TO EACH OWNER
100,00000		100.00000		100.00000	BURDENS PLUS REVENUE INTEREST FOR TRACT
75.00000		75.00000 75.00000	** ***	73.50000 73.50000	PERCENT REVENUE INTEREST ON 100% COST

FEE Sec. 23: SW/4SW/4 TENNECO OIL CO.

40.00

100.00000

110.00000

H.B.P.

21.87500

-0-

73.12500 100.00000 78.12500

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, SW/4NE/4, M/2SW/4, SW/4SW/4, SW/4SW/4,

.	18.	17.	16.	PR.
TR. NO. 18 TOTALS	B-6251 (10) Sec. 24: SE/4 PENNZOIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC. ERWA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL CO.	NM 01510 Sec. 23: E/2NW/4, NF//1SW/4, PENNZOIL COMPANY INEXCO OIL CO. TR. NO.17 TOTALS	L-2762 Sec. 23: NW/HSW/H PENNZOII COMPANY INEXCO OIL CO. TR. NO. 16 TOTALS	LEASE NO., OWNERS & DESCRIPTION (All TYS R28E)
160.00	160.00	120.00	40.00	dross Achrs IN LEAST
96.87500	50.00000 42.18750 1.56250 .78125 .78125 .78130	50.00000 100.00000	50.00000 50.00000	PPERCENT INTERREST EACH EACH EACH
7155.00000	H 80.00000 67.50000 2.50000 1.25000 1.25000 1.25000	10.00000 60.00000 120.00000	20.00000 20.00000 40.00000	NET ACRES EACH EACH EACH EACH EACH
	ម ម	.B.P.	4-15-79	EXPIRATION DATE
27.815.	12.50000 10.54688 .19531 .19531 .19532	6.25000 6.25000 12.50000	6.25000 6.25000	N PERCENT RCYALTY & BURDENS BOUNDERS TOURNE BY ALL OWNERS
	1.0000	3.56250 3.56250	3.56250 3.55250	PERGE SAUROH ATGINI SAUROH DARINI SAUROH SAU
71.65625	36.50000 31.64062 1.17188 .58594 .58594 .58589	40.18750 43.75000 83.93750	110.18750 113.75000 83.93750	NT PERCENT NT PERCENT N REVEL EST N REVEL EST N OWNER
96,87500	.•	100.00000	100.00000	PLUS REVISHUE THE TOR FOR THE THE TOR
Valenty Principal	73.00000 75.00000 75.00000 75.00000	80.37500 87.50000	80.37500 87.50000	PERCIENT REVENUE INFEREST OH LOOK COST BASIS

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/H, SW/HNE/H, N/2SW/H, SW/HSW/H Section 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, HEPTH RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

,			Ċ		• ·		19.	. (no.
TR. NO. 20 TOTALS	ERMA LOWE MARALO, INC. TENNECO OIL COMFANY CONTINENTAL OIL COMPANY	PENNZOIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC.	L-2762 Sec. 24: NW/4SW/4	TR. NO. 19 TOTALS	ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL COMPANY	PENNZOIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC.			LEASE NO., OWNERS & DESCRIPTION (All T17s R2SE)
40.00			40.00	40.00			40.00		OROSS ACRES IN LEASR
96.87500	.78125 .78125 .78120	50.00000 42.18750 1.56250	(11)	96.8750	.78125 .78120 .78130	42.18750 1.56250		·	PERCENT INTEREST EACH OWNER EACH LEASE
38.75000	.31250	16.87500		38.75000	.31250 .31250	16.87500			NET ACRES EACH OWNER EACH LEASE
		•	4-15-79		. .		н.в.р.		EXPIRATION DATE
ĭ2.10937	.09765	5.27344 5.27344 .19531		23.46191	.18921	10.21729			DN PERCENT ROYALTY & BURDENS DORNE BY ALL OWNERS IN TRACT
4.58000		4.58000	•	1.00000		+ · CO			PTRCENT BURDEN BORNE BY INDIVIDUAL RS OWNIES
80:18563		39.17000 36.91406 1.36709		72.41309	60266 60166 70266	31.97021	20 20 20 20 20 20 20 20 20 20 20 20 20 2		PERCENT REVINUE Y INTEREST UAL TO FACH OWNER
96.87500				96.87500	÷	·			T BURDENS E PLUS ST REVENUE H INTEREST FOR TEACT
	87.50000	າບໍ່າຕໍ່	,	4. B	75.78125	75.78125	2		PERCENT REVENUE INCEREST ON 100% COST BASIS

(11)

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, 8/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, SW/NHE/H, SW/HSW/H Section 23 and S/2 SECTION 24, T17s R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 10896 FEET BELOW THE SURFACE DEPTH RIGHTS FROM 3500 FEET

	C	wo.
TR. NO. 21 TOTALS Unit Sub-Total Less unicased Unit Total	E-9434 (10) Sec. 24: S/2SW/4 PENNZOIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC. ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL COMPANY	LEASE NO., OWNERS & DESCRIPTION (All Tlys R28E)
80.00 2160.00 80.00 2080.00	80.00	dross Acres IN LEASE
96.87500	50.00000 42.18750 1.56250 .78125 .78125 .78130	PERCENT INTEREST EACH OWNER EACH LEASE
77.50000	#0.00000 33.75000 1.25000 .62500 .62500	NET ACRES EACH CWNEIR EACH LEASE
	н.в.р.	EXPIRATION DATE
12.10937	6.25000 5.27344 1.9531 .09765 .09766	PERCENT ROYALITY 8: BURDENS BORNE BY ALL OWNERS IN TRACT
J. 58000	4.5,8000	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS
80.18563	39.17000 36.91406 1.36719 .(8360 .(8354 .(8364	PERCENT REVENUE INTEREST TO EACH OWNER
96.87500		BURDENS PLUS REVENUE INTEREST FOR FOR THRACE
	78.34000 87.50000 87.50000 87.50000 87.50000	PERCENT' REVERUE INTEREST ON 100% COST EASIS

⁽¹⁾ The lease also covers the NW/4 of Section 14. The lease has two shallow wells on it. It is subject to the following override on oil when the average daily production per well on a monthly basis is 0 - 15 BOPD, 3% of 8/8ths, 15-50 BOPD, 5% of 8/8ths and cver 50 BOPD, 12 1/2% of 8/8ths. The override on gas is 5% of 8/8ths when the production is from above 3000 fect and 12 1/2% of 8/8ths when production is from below 3000 fect. A 12 1/2% of 8/8ths override was assumed for this schedule. 15-50 BCPD, 5% of 8/8ths

<u>છ</u> Schedule "B" Gov. Royalty. Rate assumed to be 12.5% for this schedule.

^{8/8}ths which becomes effective when the \$4,000.00 production payment is retired. (3) NE/4NW/4 & NW/4NE/4 Sec. 22 is subject to the remainder of a production payment in the original amount of \$4,000.00 payable out of 12 1/2% of 8/8ths. These lands are also subject to a production payment in the amount of \$8,000.00 payable out of 3% of

This tract is subject to a production payment in the amount of \$12,000.00 payable out of 3% of 8/8ths

EXHIBIT "B"

- 10 (5) 1/2% of 8/8ths plus an overriding royalty equal to 2% of the net revenue interest. Under present conditions the override These lands are subject to the remainder of a production payment in the original smount of \$5/16,000.00 payable out of
- becomes effective when the production payment described under Note No. 5 pays off. (6) These lands are subject to a production payment in the amount of \$234,000.00 payable out of 12 1/2% of 8/8ths which
- (7) These lands are subject to a production payment in the amount of \$260,000.00 payable out of 12.5% of 8/8ths plus an erride equal to 2% of the net revenue interest. Under present conditions the override is 1.5%.
- ir Note No. 5. (8) These lands are subject to the production payment described in Note No. 5. They are not subject to the override described
- (9) These lands are subject to the production payment described in Note No. 7. They are not subject to the override described
- (10) Depth rights from 2300 feet to 10896 feet subject to working interest unit under terms of operating agreement dated November 9, 1970 as amended by agreement dated February 8, 1971, Pennzoil Company, Operator.
- Exxon's 3.125% interest, total of 10 acres, under S/2 Section 2^{4} is not subject to the unit. Unit is 2070. Total acres subject to

CALCULACION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/4, SW/NNE/4, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

AMOCO PRODUCTION CO. AMOCO TOTAL	PENNZOIL TOTAL	PENNZOIL CO.	OWNERS
12 13 14	16 18 19 20 21	B	TRACT
60.00000 120.00000 40.00000 80.00000	rist	& b 65.625.00	NET ACRES EACH OWNER
14_49275	16.87802		PERCENT OWNER- SHIP IN UNIT
26.50000 26.50000 25.00000 25.00000	12.50000 19.62500 19.62500 27.00000 26.21875 21.66000	20.00000	PERCENT ROYALTY PLUS PLUS PURDEN ON 100% OWNER- SHIP BASIS
44.10000 88.20000 30.00000 60.00000 222.30000	33.28125 16.07500 48.22500 58.40000 14.75625 15.66800 31.33600 275.24150	52,50000	BENEFICIAL ACFES EACH OWNER
3.52118	J6.771129		PERCENT BENETICIAL INTEREST IN UNIT

(

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, 11/2 SECTION 14, ALL OF SECTIONS 15 and 22/2 E/2NW/N, SW/NNE/N, N/2SW/N, SW/NSW/N SECTION 24 and S/2 Section 24, T175 R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES

OWNERS	TRACT	NET ACKES EACH OWNER	PERCENT OWNER- SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER- SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT DENSFICIAL INCEREST IN JULY	
GULF OIL CORPORATION			The second secon		•		-
	្រ ១១% ១០	40.00000		25.00000	60.00000 33.80000		
GULF TOTAL		120.00000	5.79710		93.80000	5.70529	i
INEXCO OIL CO.	17	20.00000		12.50000	17.50000 52.50000		
	19	67.50000		24.21875	50.62500 12.78808		
	51 50 50	33.75000	-	12.50000	29.53125		
INEXCO TOTAL		5	10.38647		177.70996	10.80903	•
CONTINENTAL OIL CO.	11 8	20.00000		12.50000 26.50000	17.50000		
	12 13	40.00000			30.40000		
	1.4 1.8	80.00000 1.25000		25.00000	60.0000		
	19 20	.31250 .31250		N F	.23682 .273 ⁴ 3		
COMPARAT TOTAL	21	.62500	2, 150,54	_	1.		1
CONTINENTAL TOTAL		606.00000	A. (0.201.		105.09400	、いまななも、	

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/H, SW/HNE/H, N/2SW/H, SW/HSW/H SECTION 24 and S/2 Section 24, T17s R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER- SHIP IN UNIT	PERCENT ROYALTY PLUS PLUS BURDEN ON 100% ON 100% OWNER- SHIP BASIS	BENIFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT	
S. P. YATES S. P. YATES TOTAL	4	100.00000	1.83092	17.50000	82 50000 82 50000	5.01798	
HARVEY E. YATES CO.	4	100.00000	4.83092	17.50000	82 50000 82 50000	5.01798	
KINCAID % WATSON DRILLING CO.	7.1	40.00000 42.66666 82.66666	3.99356	25.00000 12.50000	30,00000 37,33333 67,33333	4.03548	
WAINOCO, INC. WAINOCO TOTAL	98 to 50	39.37500 26.25000 65.62500	3.17029	20.00000	31.50000 22.96875 54.46875	3.31301	
TENNECO OIL TOTAL	20 20 10 15 8	20.00000 40.00000 1.25000 .31250 .62500 62.50000	3.01932	12.50000 21.87500 25.00000 24.21875 12.50000	17.50000 31.25000 .93750 .23682 .27343 .54688 50.74463	3.0136419	
Supron Energy Corp. Supron Total	σ	48.00000	2.31884	12.50000	42.00000	2.5/5461	

EXHIBIT "B-1"

Page 4:

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT; 1/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/4, SW/NNE/4, N/2SW/4, SW/NSW/4 SECTION 24 and S/2 Section 24, Ti7s R28E, EDL; COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

JOHN A. YATES JOHN A. YATES TOTAL	MARTIN YATES III MARTIN YATES TOTAL	LONNIE KEMPER KEMPER TOTAL	JUNE JOHNSON TOTAL	DALEVCO, INC. DALEVCO TOTAL	DURIMM DRILLING CO. DURIMM TOTAL	HANSON OIL CO. HANSON TOTAL	AZTEC OIL & GAS CO.	OWNERS
-								
4	4	7	5 a &b	7	7	N	Q	TRACT
20.00000	20.00000	24.00000 24.00000	15.00000 10.00000 25.00000	26.66667 26.66667	26,66667 26,66667	150.00000 150.00000	32.00000	NET ACRES EACH OWNER
.96618	.96618	1.15942	1.20773	1.28825	1.28825	7.24638	1.54589	PERCENT OWNER- SHIP IN UNIT
17.50000	17.50000	12.50000	20.00000 17.50000	12.50000	12.50000	25.00000	12.50000	PERCENT ROYALTY PLUS PLUS DURDEN ON 100% OWNER- SHIP EASIS
16.50000 16.50000	16.50000 16.50000	21.00000	12.00000 8.25000 20.25000	23.33333 23.333333333333333333333333333	23.33333 23.333333 23.33333	112.50000 112.50000	28.00,000 28.00,000	BENEET CIAL ACRES EACH OWNER
1.00560	1.00260	1.27730	1.23169	1.41023	1.41023	6.84270	1,70307	PERCFNT BENEFICIAL INCEREST IN UNIT
	7	}						

E/2NW/H, SW/HNE/H, N/2SW/H, SW/HSW/H SECTION 24 and S/2 Section 24, T17S R28E; EDDY COUNTY, NEW MEXICO. CONTAINING 2070 ACRES.

ERMA LOWE TOTAL	ERMA LOWE	M. RALPH LOWE TOTAL	M. RALPH LOWE, INC.	COWATCO TOTAL	LYNN LANNING LANNING TOTAL	VAN LANNING TOTAL	HAROLD KERSEY KERSEY TOTAL	JONELL R. GILMORE GILMORE TOTAL	OWNERS
	18 20 21	<u>, , , , , , , , , , , , , , , , , , , </u>	1000 1000 1000	ω	7	7	N	7	TRACT NO.
2.50000	1.25000 .31250 .31250 .62500	5.00000	2.50000 .62500 1.25000	8.00000	8.00000	8.00000	50.00000	12.00000	NET ACRES EACH OWNER
11081.		.24156		.38647	7,198	.38647	2.41546	.57971	PERCENT OWNER- SHIP IN UNIT
	25.00000 24.21875 12.50000 12.50000		25.00000 24.21875 12.50000 12.50000	12.50000	12.50000	12.50000	25.00000	12:50000	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER- SHIF BASIS
T•99463	. 93750 , 23682 . 54688	3.98526	1.875.00 .473.53 .546.88 1.09375	7.00000	7.00000	7.00000	7.50000	10.50000	BENEFICIAL ACRES EACH OWNER
. 16134		.24264		42576	. 42576	,42576	2.28090	.63865	PERCENT BENEFICIAL INTEREST IN UNIT
			•	A			a management		

(

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/4, SW/4NE/4, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

•						,
Exxon's 3.125% Int. under 8/2 24	TOTAL SUBJECT TO UNIT	NANCY KING KING TOTAL	MARALO TOTAL	MARALO, ENG.		OWNERS
+		7	15 08 19	18		TRACT
2160.00000	2070,00000	00000 tr	.31250 .62500 2.50000	1.25000	OWNER	NET ACRES EACH
	100.00000	·.19324	(1207)		UNIT	PERCENT OWNER- SHIP IN
٠		12.50000	12.50000	25.00000	ON 100% OWNEA- SHIF BASIS	PERCENT ROYALTY PLUS
	.1644.08798	3.50000 3.50000	.273/13 .54688 1.99/163	.93750	OWNER	BENEFICIAL ACRES EACH
	100.00000	6/3212	. 12132	•	IN UNITS	PERCENC DENEFICIAL INTEREST
	-	İ		-		

COSTS AND PRODUCTION PROGESIAL PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM ENITIAL PEST WELL, UNTIL PAYOUT, PERCENTÁGE SHARE OF COSTS AND PRODUCTION PROTECTION PERCENTÁGE SHARE OF THE PAYOUT PERTOD IN THE LUCAS STOKE UNIT, TITS R28E, CONTAINING 2070 ACRES.

OTHERS	- - <u>-</u>	Column 2 Col	tial 11 Pa	1 Test Well	Subsequent W Initial Test	Wells and st Well ut	Percent Owners Retained Overaid: Royalty Until Pay of First Producing
OWNERS	Column 1 Percent Owner- ship	Column 2 Percent Beneficial Interest	Costs Percent Costs	Production Column 4 Percent Beneficial Interest	Conts Conts Conts	Percent Percent Beneficial Interest	Well Column 7
	(16.87802	16.74129	-0-	-0-		8.37064.5	.80306
AMOCO PRODUCTION CO.	≃ ∝	13.52118	0 1	1 1 0 C	7.846375	6.760590	.64859
OIL CORPORAT	** 5.79710	5.70529	0	1 0	_		.27368
\mathbf{H}	₹ 10.386 [/] 17		0-	Į,		5.404515	.51850
CONTINENTAL OIL CO.	(3. 9./8261	9.3/234	01	01			1,181,11
YATES	4.83092	5.01.798) o	- C		2.508900	・21071
E. YATES C		5,017,08 017,08	,				・バン・ド
WAINCALD & WAINCH DELLING CO. O	0807.1.8 ×	3.01.01 1.00.00 1.00.0	0 0	101	1.585145	1.050505	. 15892 . 158040
E4 (C)	φ°3.01932	3.08649	0	01	1.509660	1.543245	.1/1806
	< 2.3188 ^t	2.55461	0-	! 0	1.159420	1.277305	.12254
AZTEC OIL & GAS CO.	> 1.54589		٥	-0-	.772945	.851535	.08169
HANSON OIL CO.	× 7.24638	6.84270	0	· ()	3.623190	3.421350	.30824
DURHAM DRILLING CO.	√ 1.28825	1.41923	Ö	:0-	58T4119.	.7006:5	.06808
DALEVCO, INC.	√ 1.28825	1.41923	-0-	0	.644125	.7096.5	.06808
JUNE JOHNSON	ત્ર 1.20773	1.23169	0	Ö	.603865	.6158//5	.05908
LONNIE KEMPER	¢`1.15942	1.27730	-0-	O-	.579710	.638650	.06127
MARTIN YATES III	9.96618	1.00360	-0-	O-	.483090	.501800	.04814
. YA	y .96618	1.00360	0-	Ö	• 483090 • 883090	.501800	11840
JONELL R. GILMORE	\$.57971	.63865			6.48682	•819825	.03063

SHOWLING THEERESTS CONTRIBUTED, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNTIL PAYOUT, PERCENTÁGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL AFTER PAYOUT, AND ALL SUBSEQUENT WELLS AND OWNER'S RETAINED OVERRIDING ROYALTY DURING THE PAYOUT PERCOD IN THE LUCAS STOKE UNIT, TITS RESE, CONTAINING 2070 ACRES.

UNIT TOTALS	OPERATOR	NANCY KING	MARALO, INC.	BEMA LOWE	M. RALPH LOWE, INC.	COWATCO OILS	LYNN LANNING	TAN LANNING	HAROLD KERSEY					OWNERS					
100.00000	-0-	人,19324	112077	12077	96Ti	B8647	.38647	, .386 ¹ 17	P 2.41546	سارحي والقار والمقاردة والمساورة والمتعارض القاروا المتعارض القاروا المتعارض المتعار	ship	Owner-	Percent	Column 1	Initial Test Vell	Contributions for		-	
100.00000	-0-	.21289	.12132	.12132	.24264	112576	.42576	.42576	2,28090	film der fifte eine erren beitem fagen fam in fa un jagen bei falle.	Interest	Beneficial	Percent	Column 2	Pest Vell	clong for			•
100.00000	100,00000	0	0-	0	0-	0-	01	0,	-0-		Costs	Percent	Column 3	Costs.	<u> </u>	12			
100,00000	100,00000	; O:	; O!	; O!	; O,	;-O-	O	i 0 1	-0-	Interest	Beneficial	Percent	Column 4	Production	Payout	Test Well			
100,000000	50.000000	.096620	.060385	, 0605,85	.120780	.193235	.193235	.193235	1.207730		Coats	Percent	Column 5	Coata	After Payout	Initial Test Well	Subsequent Wells		
100,000000	50.000000	.10(7)4/5	.060660	.060660	.12.320	.212880	.212880	.212880	1.140/150	Interest	Beneficial	Percent	Column 6	Production	out	est Well	t Wells and		
4.79688	-0-	.01021	.00582	.00582	.011.64	.020/12	.020/12	24,020.	.109/11	(1)			Column 7	We 1.1	of First Freducing	Royalty Unbil Payo	Retained Overridin	Percent Owners	

the W/2 of Scation 23 is 7.70312%. 12.5% - 7.7031 beneficial ownership as set out in column 2 hereof. The W/2 of Section 23 is designated the spacing unit to the Initial Test Well. The communitized everyiding burden on W/2 of Section 23 is 7.70312%. 12.5% - 7.70312% = 4.79688% to be divided among the owners in accordance with their

EXHIBIT "C"

TAX PARTNERSHIP

We believe that a tax partnership is the best way to avoid undesirable tax consequences which can result from IRS Ruling 77-176, dated May 9, 1977. We understand that a tax partnership has the following features:

- 1. It is a partnership for income tax purposes only.
- 2. A partner in a tax partnership can not bind any other partner as is the case in a partnership or a limited partnership.
- 3. Only the income from the property in the tax partnership is involved.
- 4. The operator of the property must file a tax partnership tax return each calander year for the partnership. This return is an information return in which the income is allocated to each tax partner in accordance with his ownership. The allocated income is then taxable to the individual owners as though the partnership did not exist.
- 5. It is possible to elect to be in or out of a partnership each year.
- 6. A tax partnership can be formed by a few changes in the standard AAPL-610 operating agreement.

AUTHORITY FOR EXPENDITURE

- Yates Petroleum Corporation

Estimated Cost to Drill, Complete & Equip - 10800' Morrow Test

BEFORE EXAMINER STAMETS
OIL CONSERVATION COLLABORATE Store "JZ" State Com #1
1980 FNL, 860 FWL Sec. 23-175-288
EXHIEF NO. 3 Red Lake Area, Eddy Co., NM

LOTTOM IGSC	0.10	<u> </u>	ad riake	Area, Eddy Co.,
	CASE NO. 632	.3		
	Subscited that and a fine	Di Di	cy Hole	Completion
Staking Permit & Legal F		cean, s	1,000	
Location, Right-of-Way &		\$	5,500	\$ 6,500
Drilling: Moving in, Rig			25,000	-
40 days @ \$3850		\$	1 54,000	· · ·
Bits, Reamers		\$	20,000	\$ 20,000
Water, Mud & Additives, 1	· —	\$	49,000	\$ 50,300
Cementing, Tools & Service		\$	10,500	\$ 15,200
.Electric Logs & Perforat	ing	\$	21,600	\$ 26,000
Mud Logging Unit		\$	6,300	\$ 6,300
Drill Stem Testing		\$	4,400	\$ 4,400
Tool Rentals, Trucking &	Welding	\$	2,300	\$ 3,600
Supervision & Overhead		\$	4,000	\$ 5,000
Completion Unit, 7 days	\$700	\$	-	\$ 4,900
Stimulation		\$	-	\$ 16,000
Contingency		Ş	32,400	\$ 36,800
TOTAL INTANGIBLE	<u>ES</u>	\$	336,000	\$375,000
Xmas Tree		\$	1,200	\$ 13,600
Casing: 13 3/8" 48# J-55	, 45' @ \$17.9 8	\$	800	\$ 800
8 5/8" 24# J-55	, 2265' @ \$9.05	. \$	20,500	\$ 20,500
5 1/2" 17# N-80	, 10800' @ \$8.37	\$	-	\$ 90,400
Tubing: 2 3/8" 4.7# N-8), 10500' @ \$2.47	\$	-	\$ 25,900
Packer & Special Equipmen	nt	\$	-	\$ 2,600
Contingency		\$	1,500	\$ 11,200
TOTAL TANGIBLES		\$	24,000	\$165,000
Tanks, 2-210 bbl welded	v/stair & walk, Fibrgls	Tnk. \$		\$ 9,200
Heater-Separator & Flowl	ines, Valves & Ftgs.	\$	_	\$ 19,400
Trucking, Fences, Constr	uction Costs, Misc.	\$	-	\$ 6,400
TOTAL LEASE EQU	IPMENT	\$	-	\$ 35,000
TOTAL TO DRILL,	COMPLETE & EQUIP	\$	360,000	\$575,000
				

'Approval of this AFE constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proporationate share in kind.

TENNECO OIL COMPANY

12.5%

\$45,000.00 \$71,250.00

To 17410 S. RIS 2760 E. Eddy Jounty, New Hextoo		** 1 ** 1 ** 1 ** 1 ** 1 ** 1 ** 1 **
TIG 1/416 S. Fis 2786% E. Eddy Country, New Poordice		
ALTON PLAN (S. RIS 27668 B E ENGLIS) AND SENTICO TO THE SENTICO TO		
TAND PLAY TOTAL PROPERTY OF THE AREA TOTAL PROPERTY OF T	Edo	
STURMANN NO. 10.000 TO STATE OF THE STATE OF	****	
STURMANN NO. 10.000 TO STATE OF THE STATE OF	17&	日 日 日 日 日 日 日 日 日 日 日 日 日 日 日 日 日 日 日
THE PROPOSED IN THE PROPOSED I	nty	PAN TO THE THE PAN THE
TANDON STORE TO STATE OF STATE	(2)	- () () [[[[[[[[[] [[[] [[] [[] [[] [[] [
The state of the s	R'	O IS APA
TO AND SENCE CHILD AND SENCE C		《
TOTAL PRINCE CONT. THE PRINCE STATE OF THE PRI	782 X1c	
** The state of th	a !	
THE PENNSTANNIA MARKET BEINSTANNIA MARKET BEINSTANN		
THE PENNSTANNIA MARKET BEINSTANNIA MARKET BEINSTANN		
THE PENNSTANNIA MARKET BEINSTANNIA MARKET BEINSTANN		
THE PENNSTANNIA MARKET BEINSTANNIA MARKET BEINSTANN	Aminos Company	
THE PENNSTANNIA MARKET BEINSTANNIA MARKET BEINSTANN	Amos and a second	
MEDICAL PROPOSED IMITHE PROPOS		
MEDICAL PROPOSED IMITHE PROPOS		1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
PROPOSED EMTIRE PROPOSED EMTIR		
AND SPACING UNIT AND SPACING	9.0	
AND SPACING UNIT AND SPACING		
AND SPACING UNIT AND SPACING		
AND SPACING UNIT AND SPACING		PER TOTAL TO
AND SPACING UNIT AND SPACING		D N C C C C C C C C C C C C C C C C C C
AND SPACING UNIT AND SPACING		
AND SPACING UNIT AND SPACING		
AATES PETROLEUM CORIS NO 1 LUCAS STORE JZ STAPE AND SPACING UNIT		
THE PETROLEUM CORE JZ STATE NO I LUCAS STORE JZ STATE NO SPACING UNIT STATES PETROLEUM CORES NO SPACING UNIT OF THE STATE STATE NO SPACING UNIT OF THE STATE STATE OF THE STATE STATE NO SPACING UNIT OF THE STATE STATE OF THE	25 - 25 - 25 - 25 - 25 - 25 - 25 - 25 -	
ES PETROLEUM CORIS LUCAS STORE JZ STARE SPACING UNIT LUCAS STORE JZ STARE SPACING UNIT SALES STARE S		ANK STATES OF ST
PETROLEUM CONTO LANGE CONTO LA		到一点相见 医皮肤性皮肤皮肤 1/2 1000 6000000 1000 1000 1000 1000 1000
THE CORP OF THE STATE OF THE ST		(4) 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
THE CORP OF THE STATE OF THE ST		THOUSE THE PROPERTY OF THE PRO
	19 W 3 19 19 19 19 19 19 19 19 19 19 19 19 19	네. 요. [17] [4] [6] [6] [4] 2일 [7] [4] 2일 [7] [4] 2] 20 20 20 20 20 20 20 20 20 20 20 20 20
		The second secon
		ALEGAN AND AND AND AND AND AND AND AND AND A
1 17 1 1 1 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1		
1 17 1 1 1 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1	*	THE STATE OF THE PARTY OF THE P
The state of the s	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	09 (90) (10) (10) (10) (10) (10)

OF DE PHONE 746-9336

ROBERT E. BOLING

EXPLORATION CONSULTANT 202 AMERICAN HOME BUILDING

STEMATE REMINER STAMES

NOISBULLO MOTOR VARIENCE ARE

ARTESIA, NEW MEXICO - 89210

October 21, 1977

0.4.10. 6323

MIRG NO. Z-

TO: WORKING INTEREST OWNERS IN THE PROPOSED LUCAS STORE UNIT, EDDY COUNTY, NEW MEXICO

(See attached mailing list)

RE: Proposed Lucas Store Unit
W/2 Section 14, all of
Sections 15 and 22, E/2NW/4,
SW/4NE/4, N/2SW/4, SW/4SW/4
Section 23 and S/2 Section 24,
T17S R28E, Eddy County,
New Mexico, containing 2070
acres, more or less. (See
Exhibit "A")

Properties David

Gentlemen:

Reference is made to our letter of May 6, 1977 in which we proposed a unit in the captioned area covering a slightly different outline. As you probably all know the IRS 77-176 ruling came out on May 9, 1977. We did not pursue this prospect until most of the major owners had decided how to avoid the additional taxes that could be assessed under the terms of the ruling on farmout deals such as we had proposed. We now believe that the best thing to do is form a tax partnership to cover the time the interests are being earned. For those who may not be familiar with a tax partnership, we have prepared an outline of what we think the most important features are. This outline is attached as Exhibit "C" to this farmout request.

Nearly all of the owners responded to our May oth letter and advised that they would either farmout as requested or participate by paying their share of the cost. Exxon was the largest exception. Exxon advised that they would not join any unit with H.B.P. Acreage. You will note that the present outline does not include Exxon's acreage nor does it include Gulf's new lease covering the SE/4 of Section 14. We have requested a farmout from Exxon which does not involve their interest being spread throughout the unit.

To: Working Interest Owners in the Proposed Lucas Store Unit, Eddy County, New Mexico October 21, 1977

Mark D. Wilson and the undersigned now respectfully request a farmout from the present lease owners, the "Owners", to test the Morrow in the captioned area, under the following terms and conditions:

1. We propose to form a working interest unit, the "Unit", covering the captioned area, except the E/2SW/4 of Section 14 and a 3.125% interest under the S/2 of Section 24, containing a total of 2070 net acres. This area is outlined on Exhibit "A" of this letter. We propose that the Unit cover depth rights from 3,500 feet to 10,896 feet, the "Unitized Rights". This interval was selected due to the depth rights owned by Amoco and Continental in Section 22 and Pennzoil, et al in the S/2 Section 24. The E/2SW/4 Section 14 is excluded from the Unit, but included in the outline because it is unleased KGS minerals. It has been requested that this tract be offered for leasing at the next KGS sale. This tract shall be considered an area of mutual interest. If anyone in the Unit buys a lease on this land then all other owners shall have the option of taking their proportionate share of the lease. The 3.125% interest under S/2 Section 24 is owned by Exxon.

It is believed that the present ownership of the Unitized Rights is as shown in Exhibit "B" of this letter. You will note that all of the leases except two, covering 80 acres, are H.B.P. You will also note from the exhibits that there are twenty one tracts owned by twenty eight different owners. It is believed all owners will agree that everyone must cooperate in order to everyget a deep test drilled in this area.

- 2. Within 45 days after receipt of an acceptable, fully executed operating agreement, the "Agreement" and subject to the availability of drilling equipment and pipe, we will commence, or cause to be commenced, the drilling of a test well at a lawful location in the SW/4NW/4 of Section 23, Township 17S South, Range 28 East, the "Initial Test Well", with the W/2 of Section 23 being the dedicated spacing unit. The Initial Test Well will be drilled to a depth sufficient to penetrate 50 feet into the Chester Mississippian Limestone, which depth is estimated to be 10,750 feet, to test the Morrow series of the Pennsylvanian System, the "Objective Depth". The Initial Test Well shall be drilled and completed at no cost to the Owners.
- 3. In the event the Initial Test Well is completed as a producer from the Unitized Rights, then we shall earn all of the Owner's interest in these rights in the largest spacing unit assigned to the well by the New Mexico Oil Conservation Commission, until payout, subject to the Owner's retained overriding royalty hereinafter provided for, plus an undivided one-half of Owner's interest in the Unitized Rights in the remainder of the Unit. During the payout period of the Thitial Test Well, the

To: Working Interest Owners in the Proposed Lucas Store Unit, Eddy County, New Mexico October 21, 1977

Owners shall retain their proportionate part of a total overriding royalty of 1/8 of 8/8ths. Column 7 of Exhibit "B-2" shows each Owner's share of the retained override assuming the W/2 of Section 23, T1/S R28E is the spacing unit of the Initial Test Well. At payout of the Initial Test Well, the Owners shall have the option for 30 days after notice, to convert to their proportionate part of one-half of the working interest or continue with their retained override. The interest in the Unit (a) at present, (b) during the drilling and payout of the Initial Test Well, (c) in the remainder of the Unit and in the Initial Test Well after payout, assuming all Owners convert to a working interest and (d) Owner's retained overriding royalty during the payout period are shown in Exhibit "B-2" to this letter. The calculation of the Cwner's present percentage interest in the Unit is shown in Exhibit "B-1" to this letter. Since Unit acreage only composes five-eights of the spacing unit of the Initial Test Well, assuming a gas well with 320 acre spacing, all Unit interests will be proportionately reduced to five-eights of the interests shown in Exhibit "B-2" for the Initial Test Well.

4. As previously mentioned we have requested a farmout from Excon covering their interest in sections 23 and 24. The requested farmout provides for a 90 day continuous development and only the productive wells earn acreage. Since the Owners will only have an interest under five-eights of the spacing unit of the Initial Test Well, we will agree to give the present owners an option to participate in one-half of the Exxon farmout insofar as it covers the E/2 of Section 24 in accordance with their after payout unit ownership as set out in Column 5 of Exhibit "B-2"

The Exxon acreage will be a 75% revenue interest with an optional one-half back-in after payout. We feel that this is an attractive incentive since the Owners can farmout on the wildcat and then decide if they want to participate in an offset well.

- 5. The present burdens on the leases in the Unit vary from nothing to 26.5%. In order for the proceeds from production to be distributed equitably a beneficial interest distribution is necessary. The calculation of all Owner's beneficial interest is shown in Exhibit "B-1" of this letter.
- 6. In the event production is established in the Unit, then all future wells-shall be deliled under the terms of a Model Form Operating Agreement Form 610, previously designated herein, the "Agreement". The Agreement shall provide that (a) Wilson and Boling or our assigns shall be the Operator, (b) a 300% non-consent penalty, (c) no preferential right to purchase, (d) individual title loss, (e) all Owners shall have

To: Working Interest Owners in the Proposed Lucas Store Unit, Eddy County, New Mexico October 21, 1977

the right to take their share of the production in kind, (f) a gas balancing agreement, and (g) a tax partnership. The charges in the accounting procedure and the terms of the Agreement shall be agreed upon and the Agreement shall be executed by all parties prior to commencement of the Initial Test Well. The charges agreed upon in the accounting procedure of the Agreement shall govern the charges against the first producing well in the Unit during the drilling, completion and payout period.

- 7. The estimated cost of drilling the Initial Test Well to the Objective Depth and plugging it as a dry hole or completing it as a single zone producer is \$350,000.00 and \$550,000.00, respectively.
- 8. If mechanical or other difficulties render further drilling of the Initial Test Well impractical, in our opinion, prior to the time the Initial Test Well reaches the Objective Depth, then we shall have the option for 30 days after the completion of the Initial Test Well to commence the drilling of another test well, the "Substitute Test Well". The Substitute Test Well, if drilled, shall be drilled at a lawful location of our selection in the Unit, to the Objective Depth, under the same terms, except a recalculation of the Owner's retained override may be necessary, to earn the same interests as herein provided for the Initial Test Well.
- 9. In the event the Initial Test Well or Substitute Test Well, if drilled, is completed as a dry hole, we shall earn nothing except the option for 90 days after the completion of the last of these wells, to start another test well, the "Option Well". The Option Well, if drilled, shall be drilled at a location of our selection, to the Objective Depth, under the same terms, except recalculation of Owner's retained royalty, to earn the same interest as herein provided for the Initial Test Well.
- 10. If production is not obtained by any of the wellspprovided for herein, then the Agreement shall terminate and we shall earn none of Owners' interest in the Unit.

Upon receipt of acceptance of our proposal from the Owners, we will prepare the Agreement which will also provide for the farmouts from each Owner and forward it to all parties for their approval and execution.

Respectfully requested

Robert E. Boling

REB/ow enclosures MAILING LIST LUCAS STORE UNIT

PENNZOIL COMPANY
P. O. Box 1828
Midland, Texas 79701
Attn: Mr. Cecil B. Ellis

INEXCO OIL COMPANY 1100 Milam Building, Suite 1900 Houston, Texas 77002 Attn: Mr. Sam Reeves, Jr.

S. P. YATES
MARTIN YATES III
JOHN A. YATES
207 South 4th Street
Artesia, New Mexico 88210
Attn: Mr. Jack McCaw

HARVEY E. YATES COMPANY
Suite 1000, Security National
Bank Building
Roswell, New Mexico 88201
Attn: Mr. George Yates

TENNECO OIL COMPANY 1200 Lincoln Tower Building Denver, Colorado 80203 Attn: Mr. N. B. Venus

M. RALPH LOWE, INC.
MARALO, INC.
ERMA LOWE
2200 West Loop South
Suite 130
Houston, Texas 77027
Attn: Mr. John R. Burke

CONTINENTAL OIL COMPANY P. O. Box 431 Midland, Texas 79701 Attn: Mr. Gary R. Baily

COWATCO OILS 8CO N. Richardson Roswell, New Mexico 88201

MS. NANCY KING P. O. Box 385 Artesia, New Mexico 88210

WAINOCO, INC. 11CO Milam Bldg., Suite 600 Houston, Texas 77002

SUPRON EMERGY CORPORATION 8350 North Central Expressway Suite 1700 Dallas, Texas 75206 Attn: Mr. Frank Lawson

AZTEC OTT. & GAS CO. c/o Southland Royalty Company 1100 Will Towers West Midland, Texas 79701 Attn: Mr. George Mauzy

HANSON OIL CO.

EOX 1515

Roswell, New Mexico 88201

Attn: Mr. Reagan S. Sweet

MS. JUNE JOHNSON c/o Mr. Viggo Boserup 2049 Century Park East 18th Floor Los Angeles, California 90067

HAROLD KERSEY Box 316 Artesia, New Mexico 88210 MAILING LIST LUCAS STORE UNIT

AMOCO PRODUCTION COMPANY BOX 3092 Houston, Texas 77001 Attn: Mr. Joe Durkee

GULF OIL CORPORATION
BOX 1150
Midland, Texas 79701
Attn: Mr. Robert E. Griffith

KINCAID & WATSON DRILLING CO.
VAN LANNING
LYNN LANNING
Box 498
Artesia, New Mexico 88210

DURHAM DRILLING CO.
Drawer 273
Midland, Texas 79701
Attn: Mr. Lynn Durham

DALEVCO, INC.
P. O. Box 2227
Roswell, New Mexico 88201

P.O. Box 1105
Artesia, New Mexico 88210

MS. JONELL R. GILMORE P. O. Box 217 Artesia, New Mexico 88210

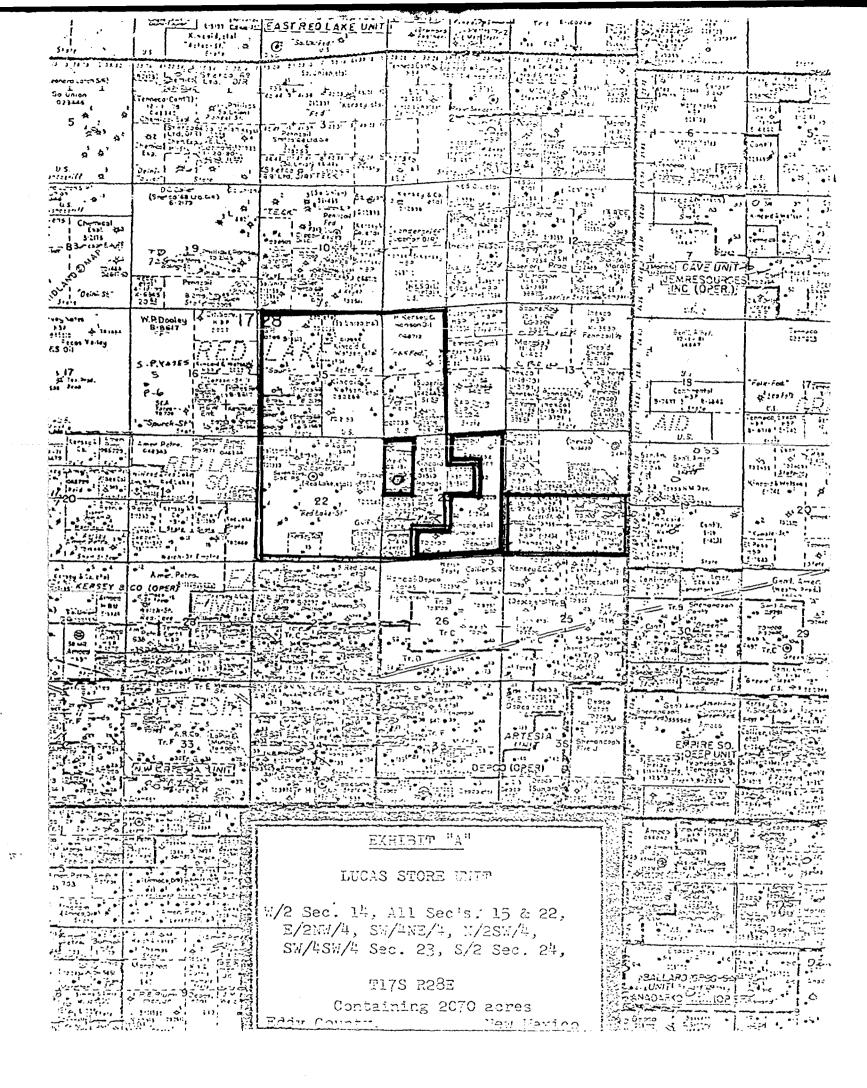


EXHIBIT "B"

LEASE OWNERSHIF AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, SW/4NE/4, N/2SW/4 SW/4SW/4 Section 23 and 3/2 SECTION 24, T175 R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

	=	ω		'n	H	NO NO
NO YAT	B-3617 Sec. 15: NW/4. NW/4SW/4	Sec. 14: E/2SH/4 (UNIEASED	HANSON OIL CO. HAROLD KERSEY TR. NO. 2 TOTALS		Sec. 14: SW/4SW/4 KINCAID & WATSON	
240.00	(We	80.00	200.00		00.00	ACRES IN LEASE
4:.66667 4:.66667 8.33333 8.33333	have		75.00000 25.00000 100.00000	100.00000		PERCENT INTEREST EACH OWNER EACH EACH EACH
100.00000 100.00000 20.00000 20.00000	requested that th	80.00000	150.00000 50.00000	40.0000		NET ACRES EACH OWNER EACH LEACH
н.в.р.	his tract be i		H.B.P.		H.B.F.	EXPIRATION DATE
7.29167 7.29167 1.45833 1.45833	included in the next	• 00000	18.75000 6.25000	12.50000		PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT
99999	ine next KGS	I C I	00	0 -		PRICENT BURDEN BORNE BY INDIVIDUAL, DWNERS
34.37500 34.37500 6.87500 82.50000	anle)	75.00000	56.25000 18.75000	87.50000		PERCINT REVENUE INTEREST TO EACH OWNER
100,0000		100.00000	·	100.00000		BURDENS FLUS REVENUE INTEREST FOR FOR
82.50000 82.50000 82.50000			75.000c0 75.000c0	87.50000		PENCENT REVIEWUE INTEREST ON LOOS COST BASES

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, SW/4NE/4, N/2SW/4, SW/4NE/4, N/2SW/4, SW/4NE/4, N/2SW/4, SW/4NE/4, N/2SW/4, TO 10896 FEET DELOW THE SURFACE

	7	<i>C</i> :	o		(2H
Hellman	1. •.		va kalimi			TR.
JONELL R. GILMORE NANCY KING LONNIE KEMPER VAN LANNING LYNN LANNING TR. NO. 7 TOTALS	E SI DRII	Corporation AZTEC OIL & GAS CO. PENNZOIL CO. WAINCCO, INC. JUNE JOHNSON TR. NO. 6 TOTALS	NM 012 896 Sec. 15: NF/4 Supron Encity	PENHZOIL CO. WAINOCO, INC. JUNE JOHNSON TR. NO. 5 TOTALS	a. B-1969 Sec. 15: S/2SW/4 b. B-2178	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)
160.00	160.00 co.	160.00	160.00	120.00	80.00	OROSS ACIRES IN LEASE
7.50000 15.00000 5.00000 100.00000	26.66666 16.66667 16.66667	30.00000 20.00000 27.34375 16.40625 6.25000		54.68750 32.81250 12.50000 100.00000	:	PERCIENT INTEREST EACH OWNER EACH LEASE
	42.66666 26.66667 26.66667	48.00000 32.00000 43.75000 26.25000 10.00000		65.62500 39.37500 15.00000 120.00000		NET ACRES EACH OWNER EACH LEASE
	н.в.р.		н.в.р.	н.в.Р.	н.в.р.	EXFIRATION DATE
.62500 .93750 .31250 .62500 .62500 .12.50000 (2	.0.00	3.75000 2.50000 3.41797 2.05078 .78125		10.93750 6.56250 2.50000		PERCENT ROYALIY & DURDENS BORNE BY ALL OWNERS IN TRACT
	1 1 0 0 0 0 ! ! !					PERCENT BURDEN BORNE BY INDIVIDUAL, OWNERS
137500 13.185500 14.37500 1.1855500 1.1855500 1.1855500	23		·	13.75000 26.25000 10.00000		PERCENT REVENUE INTEREST TO EACH OWNER
100.00000				100.00000	3.1770 4	BURDENS PLUS REVENUE INTEREST FOR
шавая в в по	7.500	87.50000 87.50000 87.50000 87.50000		80.00000	OTOVICE	PERCENT REVENUE INTERIST ON 100% COST

EXHIBIT "B"

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, SW/HNE/4, N/2SW/4, TO 10896 PEET BELOW THE SURPACE

	10.		9.	([∞] = F
b. B-1969 Sec. 22: AMOCO PRO CONTINENT TR. NO	Sec. 22: 3 Sec. 22: 3 B-1111 Sec. 22:		a. <u>B-1969</u> Sec. 22: b. B-1111	Sec. 22: SE/ TENNECO OIL (CONTINENTAL (TR. NO. 8	TR. LEAS NO. DESC (A11
b. B-1969 Sec. 22: SW/4NW/4 AMOCO PRODUCTION CO CONTINENTAL OIL CO. TR. NO. 11 TOTAL	Sec. 22: SE/4SE/4 GULF OIL CORPORATION a. B-1111 Sec. 22: SW/4SW/4	22: NW/4NE/4 OIL CORPORATION	B-1111 B-1111	Sec. 22: SE/4SW/4 TENNECO OIL CO. CONTINENTAL OIL CO TR. NO. 8 TOTAL	
IN/h TOTAL	SE/4 DRATION	NE/4 ORATION	17/MN	/4SW/4 CO. OIL CO.	OWNERS 28E)
d	_	d.		1 .	80
40.00		40.00	00.001	40.00	QROSS ACIRES IN LEASIR
75.00000 25.00000 100.00000	100.00000	100.00000		50.00000 50.00000 100.00000	PERCENT INTEREST EACH OWNER EACH EACH EACH
60.00000 20.00000 80.00000	00000	80.00000		20.00000 20.00000	NET ACRES EACH OWNER EACH LEASE
н. в	н.	Ħ.	Ξ.	-	
H.B.P.	H.B.P.	H.B.P.	н.в.р.	H.B.P.	XFIRATI
19,87500 6,62500 26,50000(5	15.50	25.00000		5.25000 5.25000	EXPIRATION: PENCENT ROYALTY BOTH & BURDE BORNE
	15.50000 (4)	000 000 (3)	; ;	000	PERCENT ROYALTY & EURDENS BORNE BY ALL, OWNERS IN TRACT
9.37500 (5) 3.12500	; 0 -	-0-	, O	000	PRECENT RESPONDEN RESPONDE
55.12500 18.37500 73.50000	84.50000	75.00000 75.000000		43.75000 43.75000	PERCENT REVIEW JE INTER EST I, TO EA JII OWNER
100.00000	100.00000	100.00000	# 00 * 00000		BURDIENS PLUS REVENUS INTEREST FOR TINACT
73.5000c 73.50000	84.50000	75.00000	្ត រូប ន	87.50000 87.50000	PERCENT REVENUE INTEREST ON 100% COST BASIS

EXHIBIT "D"

Page 4.

SW/NSW/4 Section 23 and 5/2 SECTION 24, T17s R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 3500 NEET

년 •	•	14 (•	13.	•	12.	NO.
FED	Sec. 22: S/2NE/4 AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 14 TOTALS	a. B-1969 Sec. 22: NW/4NW/4 NE/4SW/4 b. B-1111	AMOCO PRODUCTION CO. CONTINENTAL CIL CO.	a. B-1969 Sec. 22: SW/4SE/4 b. 636	Sec. 22: N/2SE/4 AMOGO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 12 TOTALS	3. B-1111 Sec. 22: SE/4NW/4 NE/4NE/4 b. B-1969	LEASE NO., OWNERS & DESCRIPTION (All T17s R28E)
	80.00		00.00 ¹	40.00	80.00	80.00	OROSS ACRES IN LEASE
	50.00000 100.00000	F0000	50.00000	•	75.00000 25.00000 100.00000		PERCENT INTEREST EACH OWNER EACH EACH IFASE
	80.00000 80.00000 160.00000	•	40.00000		120.00000 160.00000		NET ACRES EACH OWNER EACH LEASE
	H.B.P.	'Н.В.Р.	H.B.P.	H.B.P.	H.B.P.	н.в.р.	
	12.50000 12.50000 25.00000 (9)	3) 00000 (5			19.87500 6.62500 26.50000 (7		EXPIRATION :: PERCENT DATE :: ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT
Applicately in Advances on 1922 - Some 1988 - So	-0-		6.25000 (6)		-0-		PFICENT E BUFDEN FOFNE BY INTIVIDUAL S OWNERS
	37.50000 37.50000 75.0000	75.03000	37.5 0000 37.5 0000		55.12500 18.37500 73.5000		PEI CENT REVENUE INIEREST TO FACH OWNER
	100,0000	100.00000		î.	100.0000		BURDENS PLUS REVENUE INTEREST FOR FOR
The same and the same state of	75.00000 75.00000		75.00000		73.50000 73.50000	TO TO TO	

Sec. 23: SW/4SW/4 TENNECO OIL CO.

40.00

100.00000

40.00000

H.B.P.

21.87500

0-

73.12500 loc.coooo

73.12500

LEASE CWMERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, 3/2NW/4, SW/4NE/4, N/2SW/4, SW/4SW/4, SW/4SW/4, SW/4NE/4, N/2SW/4, TO 10896 FEET BELOW THE SURFACE

		18 C	17.	16.	C REP
TR. NO. 18 TOTALS			NM 01510 Sec. 23: E/2NW/4, PENNZOIL COMPANY INEXCO OIL CO.	L-2762 Sec. 23: NN/4SW/4 PENNZOII, COMPANY INEXCO OIL CO. TR. NO. 16 TOTALS	LEASE NO., OWNERS & DESCRIPTION (All F17S R28E)
160.00		120.00	120.00	40.00	dross aches in lease
96.87500	50.00000 42.18750 1.56250 .78125 .78125 .78120	100.00000	50.00000	50.00000 50.00000	PERCENT INTEREST EACH OWHER EACH LIVASE
155.00000	80.00000 67.50000 2.50000 1.25000 1.25000 1.25000	120.00000	50.00000	20.00000 20.00000 40.00000	NET ACRES EACH OWNER EACH EACH LEASE
7		ដុ ជ	н.в.р.	4-15-79	ES EXPIRATION DATE
24.21875	12.50000 10.54688 .39062 .19531 .19531 .19531	12,50000	6.25 6.25 6.25 6.25 6.25 6.25 6.25 6.25	6,25000 6,25000 12,5000	ON PERCENT ROYALTY & DURDENS BORNE BY ALL OWNERS IN TRACT
	1,00000	3.56250	3.56250 -0-	3.55250 3.55250	PERCENT BURDEN B
71.65(25	36.50000 31.64062 1.17.88 .585.94 .585.94 .585.89	83.93"50	40.18750	40.18750 43.75 <u>000</u> 83.93750	PERCENCE REVENUEST OTHER OTHER OTHER OTHER OTHER OTHER
96.87500		100.00000		100,00000	THE THINGT
	73.00000 75.00000 75.00000 75.00000 75.00000	• • • • • • • • • • • • • • • • • • • •	30.37500 50.37500	80.37500 87.50000	PERGENT REVENUE INTEREST CN 100% COST BASIS

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/H, SW/4NE/4, N/2SW/H, SW/HSW/H, SCOTION 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 3500 REET TO 10896 FEET BELOW THE SURFACE

	· · · · · · · · · · · · · · · · · · ·		1.9. (No.
TR. NO. 20 TOTALS	Sec. 24: NW/4SW/4 PENNZOIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC. ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL COMPANY	TR. NO. 19 TOTALS	LEASE NO., OWNERS & DESCRIPTION (A11 T17S R28E) B-5862 (10) Sec. 24: NE/4SW/4 PENNZOIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC. ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL COMPANY
40.00	40,00	40.00	GROSS ACRES IN LEASE
96.87500 (11)	50.00000 42.18750 1.56250 .78125 .78125 .78120	96.8750.	PFRCENT INTEREST EACH OWNER EACH LFASE 1.56250 1.56250 1.56250 1.78125 .78125 .78120 .78120
38.75000	20.00000 16.87500 .62500 .31250 .31250 .31250	3875000	NET ACRES EACH OWNER EACH LEACH LEASE 20.0000 16.87500 .62500 .31250 .31250 .31250 .31250
	4-15-79		S EXPIRATION DATE 12 12
12.10937	6.25000 5.27344 19531 .09765 .09766	23.46191	ON PERCENT ROYALTY & BURDENS FORNE BY ALL OFNETS I'N TRACT 10.21729 .37841 .18921 .18921 .18921 .18921 .18921
.4.580.00	4.58000	1.00000	PURCENT BURDEN BURDEN INDIVIDUAL FIS OWNERS 1.00000 36
80:18553	39.17000 36.91406 1.36719 .68360 .68364	72.41.509	FERCENT REVENUE T REVENUE TOTAL TO EACH O'VNER 36.85063 31.97021 1.18409 .59204 .59204 .59209
96.87500		96.87500	DURDENS UE PLUS EST REVENUE CH INTEREST FOR TRACT
	78.34000 87.50000 87.50000 87.50000 87.50000 87.50000		PERCENT REVENUE INTEREST ON 100% COST BASIS 73.78125 75.78125 75.78125 75.78125 75.78125 75.78125 75.78125

"B" TIBIIX

Page 7.

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, 3/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, SW/4NE/4, N/2SW/4, SW/4SW/4 Section 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

override on oil when the average daily production per well on a monthly basis is 0 - 15 BOPD, 3% of 8/8ths, 15-50 BOPD, 5% of 8/8ths and over 50 BOPD, 12 1/2% of 8/8ths. The override on gas is 5% of 8/8ths when the production is from above 3000 feet and 12 1/2% of 8/8ths when production is from below 3000 feet. A 12 1/2% of 8/8ths override was assumed for this schedule. (1) The lease also covers the NW/4 of Section 14. The lease has two shallow wells on it. It is subject to the following

⁽²⁾ Schedule "B" Gov. Royalty. Rate assumed to be 12.5% for this schedule.

out of 12 1/2% of 8/8ths. These lands are also subject to a production payment in the amount of \$8,000.00 payable out of 3% of 8/8ths which becomes effective when the \$4,000.00 production payment is retired. (<u>w</u> NE/4NW/4 & NW/4ME/4 Sec. 22 is subject to the remainder of a production payment in the original amount of \$4,000.00 payable

⁽⁴⁾ This tract is subject to a production payment in the amount of \$12,000.00 payable out of 3% of 8/8ths.

ехнівіт "в"

- (5) These lands are subject to the remainer of the net revenue interest. 12 1/2% of 8/8ths plus an overriding royalty equal to 2% of the net revenue interest. 1s 1.5%. These lands are subject to the remainder of a production payment in the original amount of \$546,000.00 payable out of Under present conditions the override
- (6) These lands are subject to a production payment in the amount of \$234,000.00 payable out of 12 1/2% of 8/8ths which becomes effective when the production payment described under Note No. 5 pays off.
- (7) These lands are subject to a production payment in the amount of \$260,000.00 payable out of 12.5% of 8/8ths plus an gerride equal to 2% of the net revenue interest. Under present conditions the override is 1.5%.
- in Note No. 5. (8) These lands are subject to the production payment described in Note No. 5. They are not subject to the override described
- In Note No. 7. (9) These lands are subject to the production payment described in Note No. 7. They are not subject to the override described
- (10) Depth rights from 2300 feet to 10896 feet subject to working interest unit under terms of operating agreement dated November 9, 1970 as amended by agreement dated February 8, 1971, Pennzoil Company, Operator.
- Exxon's 3.125% interest, total of 10 acres, under 8/2 Section 2^{l_1} is not subject to the unit. Unit is 2070. Total acres subject to

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, WIL OF SECTIONS 15 and 22, E/2NW/4, SW/4NE/4, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, TITS R28E, EDDY COUNTY, NEW MEKICO, CONTAINING 2070 ACRES.

OWNERS	TRACT	NET ACRES EACH OWNER	PERCENT OWNER- SHIP IN UNIT	PERCENT ROYALTY PLUS PLUS BURDEN ON 100% OWNER- SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PIRCENT BINEFICIAL INTEREST IN UNIT	
			Andrew States on the Control of the	And the state of t		eriano - amuni (ma) antono de mandante	
PENNZOIL CO.	16 6 8 8	-		20,00000 12,50000	52.50000 38.28125 16.07500		
	17 71	80.00000		19.62500	46.22500	-	
	200	20.00000			in 🚈		
PENNZOIL TOTAL	•	349.37500	16.87802		275.24150	16:74129	
AMOCO PRODUCTION CO.	13 11	0,00000 120,00000 40,00000		26.50000 26.50000 25.00000	##.10000 8E.20000		
AMOCO TOTAL	‡ -	300.00000	14:49275	23.0000	222.30000	13.52118	

(

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/H, SW/HNE/H, N/2SW/H, SW/HSW/H SECTION 24 and 8/2 Section 24, TITS R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

OWNERS GULF OIL CORPORATION GULF TOTAL INEXCO CIL CO.	TRACT NO. 9 a & b 10 16 17 18	NET ACIES EACH OWNER 80.00000 120.00000 120.00000 67.50000 16.87500	PERCENT OWNER- SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER- BILLE BASIS 25.0000 15.50000 12.50000 12.50000 24.21875	BENEFICIAL ACRES FACH DWNER 60.00000 33.80000 93.60000 17.50000 52.50000 52.60000 52.60000 52.60000	PERCENT BENEFICIAL INTELEST IN UNIT	
	\						9
INEXCO CIL CO.	16 17 18 19 20 21	20.00000 60.00000 67.50000 16.87500 16.87500 215.00000	10.38647		17.50000 52.50000 50.62500 12.78808 14.76563 29.53125 177.70996	10.80903	
	α	30 00000			17.50000		
CONTINENTAL OIL CO.	11 12 13 14 19 20 21	20.00000 40.00000 40.00000 80.00000 1.25000 31250 .31250	0.78861	25.50000 25.50000 25.00000 25.00000 25.00000 24.21875 12.50000	14.70000 29.40000 60.00000 .23682 .27343 .54688	9. 3.4.2.2.4 9. 3.4.2.2.4	
CONTINENTAL TOTAL	!	202.50000	9.78261		153.59463	9.34224	

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15, and 22, E/2NW/4, SW/4NE/4, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, Tl7s R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

•	Supron Energy Corp. Supron Total	TENNECO OIL TOTAL	WAINOCO, INC. WAINOCO TOTAL	KINCAID & WATSON DRILLING CO.	HARVEY E. YNTES CO. HARVEY E. YNTES TOTAL	S. P. YATES S. P. YATES TOTAL	OWNERS
	σ	15 18 19 20 21	Q 88 Q 5	7.1	4	4	TRACT
	48.00000	20.00000 40.00000 1.25000 .31250 .31250 .62500	39.37500 26.25000 65.62500	40.00000 42.66666 82.66666	100.00000	100.00000	NET ACRES EACH OWNER
	2.31884	3.01932	3.17029	3.99356	4.83092	4.83092	PERCENT OWNER- SHIP IN UNIT
	12.50000	12.50000 21.87500 25.00000 24.21875 12.50000 12.50000	20.00000	25.00000 12.50000	17.50000	17.50000	PERCENT ROYALTY PLUS PLUS BURDEN ON 100% OWNER- SHIP BASIS
	42.00000	17.50000 31.25000 .93750 .23682 .27343 .54688 50.74463	31.50000 22.56875 54.46875	30.00000 37.33333 67.333333	82.50000 82.50000	82.50000 82.50000	BENEFICIAL ACRES EACH OWNER
	2.55461.	3.08649	3,3130.	81/560*1/	5.01.798	5.01798	PERCENT DENEFICIAL INTEREST IN UNIT
		1	}	1		i	

CALCULATION OF FERCENT OWNERSHIP AND DENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/4, SW/HNE/H, N/2SW/4, SW/HSW/4 SECTION 24 and 8/2 Section 24, T175 R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES

OWNERS TRACT NET PERCENT BENEFICIAL PERCENT NO. ACRES OWNER- ROYALTY ACRES BENEFICIAL EACH SHIP IN PLUS EACH INTEREST OWNER- SHIP BASIS	NZTEC OIL & GAS CO. 6 32.00000 12.50000 23.0000 23.0000 AZTEC TOTAL 32.00000 1.54589 23.0000 23.0000	HANSON TOTAL 2 150.00000 7.24638 25.00000 112.50000 6.84270	DURHAM DRILLING CO. 7 26.66667 12.50000 23.33333 1.41923 DURHAM TOTAL 26.66667 1.28825 23.33333 1.41923	DALEVCO, INC. 7. 26.66667 1.28825 12.50000 23.33333 1.41923	JUNE JOHNSON TOTAL 6 15.00000 1.20000 20.00000 12.000000 12.00000 12.00000 12.00000 12.00000 12.00000 12.00000 12.000000 12.00000 12.00000 12.00000 12.00000 12.00000 12.00000 12.000000 12.00000 12.00000 12.00000 12.00000 12.00000 12.00000 12.000000 12.00000 12.00000 12.00000 12.00000 12.00000 12.00000 12.000000 12.00000 12.00000 12.00000 12.00000 12.00000 12.00000 12.000000 12.000000 12.000000 12.000000 12.000000 12.000000 12.000000 12.000000 12.000000 12.000000 12.0000000 12.000000 12.0000000 12.000000 12.000000 12.0000000000	TONNIE KEMPER TOTAL 7 24.00000 1.15942 12.50000 200000 1.27730	MARTIN YATES III 4 20.00000 17.50000 16.50000 1.00360	JOHN A. YATES 4 20.00000 17.50000 16.50000
PERCENT BENEFIC INTERES IN UNIT	1,70307	6.84270	1.41923	1./11923	1,03169	1.27730	1.00360	

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT; W/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/4, SW/4NE/4, N/2SW/4, SW/4CW/4 SECTION 24 and S/2 Section 24, T175 R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

ERMA LOWE TOTAL	M. RALPH LOWE, INC. M. RALPH LOWE TOTAL	COWATCO TOTAL	LANNING TOTAL	VAN LANNING TOTAL	HAROLD KERSEY	JONELL R. GILMORE GILMORE TOTAL	OWNERS
18 19 20 21	18 20 21	œ	7	7	N	7	TRACT NO.
1.25000 .31250 .31250 .62500 2.50000	2.50000 .62500 .62500 1.25000 5.00000	8.00000	8.00000	8.00000	50.00000	12.00000	NET ACRES EAGH OWNER
.12077	.24156	.38647	.38647	.38647	2,41546	.57971	PERCENT OWNER- SHIP IN UNIT
25.00000 24.21875 12.50000 12.50000	25.00000 24.21875 12.50000 12,50000	12,50000	12.50000	12.50000	25,00000	12;50000	PERCENT RCYALTY PLUS BURDEN ON 100% OWNER- SHIP BASIS
.93750 .23682 .27343 .54688 1.99463	1.87500 .47363 .54688 1.09375 3.98926	7.00000	7.00000	7.00000	7.50000	.0.50000	BINEFICIAL ACRES E/CH OVNER
.12132	.24264	.42576	.42576	.42576	2.28090	.6386F	PERCENT BENEFICIAL INTEREST IN UNIT

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, 14/2 SECTION 14, ALL OF SECTIONS 15 and 22, E/2NW/4, SW/4NE/4, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, T17S R28E, EDDX COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

\					-		•
Exxon's 3.125% Int. under S/2 24 TOTAL IN UNIT OUTLINE	UNITENSED GOV. KGS LANDS	TOTAL SUBJECT TO UNIT	NANCY KING KING TOTAL	MARALO TOTAL	MARALO, INC.		OWNERS
			7	אל ע מ	19		TRACT
2160.00000	80.00000	2070.00000	4.00000	2.50000	1.25000		NET ACRES EACH OWNER
	; 	100.00000	.19324	712077			PERCENT OWNER- SHIP IN UNIT
			12.50000	12.50000	25.00000 24.21875	ON 100% OWNER- SHIP PASIS	PERCENT ROYALTY PLUS BURDEN
		1644.08798	3.50000 3.50000	.54688 1.99463	.93750 .23682		BENEFICIAL ACRES EACH OWNER
		100.00000	.21289	.12132			PERCENT DENEFICIAL INTEREST IN UNIT
		i	i	-	•		•

SHOWING INTERESTS COSTRIBUTED, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNTIL PAYOUT, PERCENTÂGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL AFTER PAYOUT, AND ALL SUBSEQUENT WELLS AND OWNER'S RETAINED OVERRIDING ROYARTY DURING THE FAYOUT PERTOD IN THE LUCAS STOKE UNIT, TIYS R28E, CONTAINING 2070 ACRES.

JUNE JOHNSON LONNIE KEMPER MARTIN YATES III JOHN A. YATES JONELL R. GILMORE	CORPORATION AZTEC OIL & GAS CO. HANSON OIL CO. DURHAM DRILLING CO. DALEVCO, INC.	PENNZOIL COMPANY AMOCO PRODUCTION CO. 414 COULF OIL CORPORATION 410 INEXCO OIL CO. 410 CONTINENTAL OIL CO. 410 CONTINENTAL OIL CO. 41 HARVEY E. YATES CO. 414 KINCAID & WATSON DRILLING CC 3 WAINOCO, INC. 43 TENNECO OIL CO. 403	OWNERS
\$ 1.20773 \$ 1.15942 \$.96618 \$.96618	< 2.31884 < 7.54589 < 7.24638 < 1.28825 < 1.28825	₹ 16.87802 4.1 4.19275 10.38647 ₹ 10.38647 ₹ 10.38647 ₹ 4.83092 ₹ 4.83092 ₹ 4.83092 ₹ 4.83092 ₹ 3.17029 № 3.01932	Contributions Intital Tost Column 1 Co Percent Pe Owner- Be ship In
1.23169 1.27730 1.00360 1.00360	2.55461 1.70307 6.84270 1.41923	16.74129 13.52118 5.70529 10.80903 9.34234 5.01798 5.01798 4.09548 3.31301 3.08649	thons for tost Woll Golumn 2 Percent Beneficial Interest
			Initial Until Pr Costs Column 3 Percent Costs
\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	Ó 0 0 0 0	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$	1 Test Well Payout Production Column 4 Percent Beneficial Interest
.603865 .579710 .483090 .483090	1.159420 .772945 3.623190 .644125	8.439010 7.246375 2.898550 5.193235 4.891305 2.415460 2.415460 1.595780 1.585145 1.509660	Subsequent W Inditial Test After Payout Conts Column 5 Percent Costs
.615845 .501800 .501800	1.277305 .851535 3.421350 .709615	8.370645 6.760590 8.852645 5.404515 4.671120 2.508990 2.508990 2.508990 2.508990 2.508990 2.508990	rnt Wells and Test Well Yout Production Column 6 Percent Beneficial
.05908 .06127 .04814 .04854	.12254 .08169 .32824 .06808	.80306 .64859 .27368 .51850 .44814 .24071 .24071 .15892 .14806	Percent Cwners Retained Overridit Royalty Until Pay of First Producin Well Column 7

THE PAYOUR PERIOD IN THE LUCAS STOKE UNIT, TITS REBE, CONTAINING 2070 ACRES. COSTS AND PRODUCTION FROM INTUIAL PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNTIL PAYOUT, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INTUITAL PROPURING ROYALTY DURING

OPERATOR UNIT: TOTALS	MARALO, INC.	ERMA LOWE	M. RALPH LOWE, INC.	COWATCO CILS	LYMN LANNING	"/AN LANNING	INROLD KERSEY	the state of principle that are the content of the terminate of the state of the st		-		CWARKS			
100.00000	今、19324 7702077	7.7.02	1 2/1156	715884F	. 38647	₹ .38647	や 2.41546	Talifierige Order of Talific Advantages and T	כן.ניתם	Owner-	Percent	Column 1	Infitfal 5	Contributions for	٠
100.00000	.12132 .12132	.12132	.24264	112576	·42576	.42576	2.28090	ليهابانا فالتطويق فاسديميسيد ودوه وسمي رعاباتها اهرماها	Interest	Beneficial	Porcent	Column 2	Infitial Test Vell	tions for	
100,00000	000	0-	-0-	-0-	0-	0	-0-		Coats	Percent	Column 3	Costs	Unt:11 Pa	Initial	
100.00000	000	-0-	0,]	0	0	700	Interest	Beneficial	Percent	Co Lumin 4	Production	Payout .	al Test Well	
50.000000	.000385 .000385	•060 <u>3</u> 85	.120780	· 193235	.193235	.193235	1.207730		Conts	Percent	Column 5	Costs	After Payout	Initial Test Well	Subaecuan
50.000000	000000	. ୦େଉଁଡେ	.121320	.212880	.212880	.212880	1.1/10/150	Interest	Benefileial	Pencent	Column 6	Production	out	est Well	Subsection: Melle and
91	.00582	•00582			.02042		.109/11	(1)		An and anti-transfer of the control	Column 7	We 1.1	of First Froducing	Royalty Until Payo	Percent Owners

beneficial ownership as set out in column 2 hereof the W/2 of Section 23 1s 7.70312%. The W/2 of Section 23 is designated the spacing unit to the Initial Test Well. The communitized overriding burden on 12.5% - 7.70312% = 4.79688% to be divided among the owners in accordance with their

EXHIBIT "C"

TAX PARTNERSHIP

We believe that a tax partnership is the best way to avoid undesirable tax consequences which can result from IRS Ruling 77-176, dated May 9, 1977. We understand that a tax partnership has the following features:

- 1. It is a partnership for income tax purposes only.
- 2. A partner in a tax partnership can not bind any other partner as is the case in a partnership or a limited partnership.
- 3. Only the income from the property in the tax partnership is involved.
- 4. The operator of the property must file a tax partnership tax return each calander year for the partnership. This return is an information return in which the income is allocated to each tax partner in accordance with his ownership. The allocated income is then taxable to the individual owners as though the partnership did not exist.
- 5. It is possible to elect to be in or out of a partnership each year.
- 6. A tax partnership can be formed by a few changes in the standard AAPL-610 operating agreement.

Tenneco Oii A Tenneco Company

- (303) 233 5326



TENNECO DIL COMPANY Land Department Galleria 720 So. Calorado Bivd. Denver, Colorado 80222 (303) 753-7130

November 22, 1977

Mr. Robert E. Boling Exploration Consultant 202 American Home Building Artesia, New Mexico 88210

RE: Your proposed Lucas Stroe Unit of 2070 acres in T17S-R28E, Eddy County, New Mexico (30401, tr. E & 35039, HBP)

Dear Mr. Boling:

We have looked over the captioned proposal and have decided not to do anything, at this jime.

Thank you for four inquiry.

Yours truly.

Law formin_

N. B. Venus -

JOE GAZLICK

MR. WINGLAZ.

You with the fact the fact that the fact the fact that the

50/4501/4502 73 - Relaw 3500/ - Bour of pour

303-758-7130 Det winkler - Fau paintle-

ROBERT E. BOLING EXPLORATION CONSULTANT 202 AMERICAN HOME BUILDING

ARTESIA, NEW MEXICO - 83210

April 12, 1973

Tenneco Oil Company 720 So. Colorado Blvd. Denver, Colorado 80222

Attention: Mr. Joe Gazlick

Re: Fee Lease H.B.P. covering SM/4 SM/4 Section 23, T17S R28E, Eddy County, New Mexico.

Gentlemen:

Mark D. Wilson and the undersigned respectfully request a farmout on your captioned lease under the following terms and conditions:

- 1. Within 90 days after our receipt of acceptable farmout agreements from all lease owners in the W/2 of Section 23, T17S R23E we will commence, or cause to be commenced, the drilling of a well to test the Morrow series of the Pennsylvanian System, the "Initial Test Well". The Initial Test Well will be located in the SW/4 NW/4 of Section 23 dedicated to the well. The extimated depth of the Initial Test Well is 10,750 feet.
- 2. In the event the Initial Test Well is completed as a producer it will earn depth rights from 3500 feet to 100 feet below the total depth drilled not to exceed the top of the "Solid Mississippian Lime."
- 3. In the event the Initial Test Well is completed as a producer Tenneco shall retain an overriding royalty equal to the difference between existing lessor's royalty plus existing burdens and 25% so that we shall receive a 75% revenue interest.

4. In the event the Initial Test Well is completed as a dry hole we shall carn no interest in your lease.

Please let us hear from you as soon as you have reached a decision concerning this request.

Respectfully Requested,

Robert E. Boling
Robert E. Boling

RE3/jj

AUTHORITY FOR EXPENDITURE

BEFORE EXAMINER STAMETS

OIL CONSERVATION COMMISSIONical Store "JZ" State Com #1 Estimated Cost to Drill. exhibit No. 3 1980 FNL, 860 FWL Sec. 23-17S-28E Red Lake Area, Eddy Co., NM Complete & Equip - 10800' Morrow Test CASE NO. bry lole Completion Submitted by 1,000 Staking Permit & Legal Fees 1 000 Location, Right-of-Way & Suiteringa Dages 500 \$ 6,500 \$ 25,000 Drilling: Moving in, Rigging Up & 000 40 days @ \$3850 \$154,000 \$154,000 \$ 20,000 Bits, Reamers & Subs \$ 20,000 Water, Mud & Additives, Pit Lining \$ 50,300 \$ 49,000 Cementing, Tools & Services, Temp. Surveys 10,500 \$ 15,200 Electric Logs & Perforating \$ 26,000 21,600 Mud Logging Unit 6,300 6,300 Drill Stem Testing 4,400 4,400 3,600 Tool Rentals, Trucking & Welding \$ 2,300 5,000 Supervision & Overhead 4,000 Completion Unit, 7 days @ \$700 4,900 Stimulation \$ 16,000 Contingency 32,400 \$ 36,800 TOTAL INTANGIBLES \$336,000 \$375,000 Xmas Tree 1,200 \$ 13,600 Casing: 13 3/8" 48# J-55, 45' @ \$17.98 800 800 8 5/8" 24# J-55, 2265' @ \$9.05 20,500 \$ 20,500 5 1/2" 17# N-80, 10800' @ \$8.37 \$ 90,400 Tubing: 2 3/8" 4.7# N-80, 10500' @ \$2.47 \$ 25,900 Packer & Special Equipment \$ 2,600 Contingency \$ 11,200 TOTAL TANGIBLES 24,000 \$165,000 Tanks, 2-210 bbl welded w/stair & walk, Fibrgls Tnk. 9,200 Heater-Separator & Flowlines, Valves & Ftgs. \$ 19,400 6,400 Trucking, Fences, Construction Costs, Misc. TOTAL LEASE EQUIPMENT \$ 35,000 TOTAL TO DRILL, COMPLETE & EQUIP \$360,000 \$575,000

Approval of this AFE constitutes approval of the Operator's option to charge the joint account with tubular goods from Operator's warehouse stock at the rates stated above, unless the Non-Operator gives notification on this form of his intent to furnish his proporationate share in kind.

TENNECO OIL COMPANY 12.5%

\$45,000.00 \$71,250.00

Tenneco Oil A Tenneco Company



TERRECO OIL COMPANY Land Department Galleria 720 So. Colorado Blyd. Denver, Colorado 80222 (303) 753-7130

November 22, 1977

Mr. Robert E. Boling Exploration Consultant 202 American Home Building Artesia, New Mexico 88210

RE: Your proposed Lucas Stree Unit of 2070 acres in T17S-R28E, Eddy County, New Mexico (30401, tr. E & 35039, HBP)

Dear Mr. Boling:

We have looked over the captioned proposal and have decided not to do anything, at this time.

Thank you for your inquiry

Thank you for your inquiry

You

Note change of aggress and provided the state of t

Yours truly,

N. B. Venus -

JOE GAZLICK

WS. MINKRES.

5 ay 45 av /4 mos 25 - Bollow 3500/ - Bore of pour

303-754-7130 Del vinklan- Fau painte-

ROBERT E. BOLING EXPLORATION CONSULTANT 202 AMERICAN HOME BUILDING

ARTESIA, NEVY MEXICO - 89210

April 12, 1978

Tenneco Oil Company 720 So. Colorado Blvd. Denver, Colorado 80222

Attention: Mr. Joe Gazlick

Re: Fee Lease H.B.P. covering SW/4 SW/4 Section 23, T17S R28E, Eddy County, New Mexico.

Gentlemen:

Mark D. Wilson and the undersigned respectfully request a farmout on your captioned lease under the following terms and conditions:

- 1. Within 90 days after our receipt of acceptable farmout agreements from all lease owners in the M/2 of Section 23, T17S R28E we will commence, or cause to be commenced, the drilling of a well to test the Morrow series of the Pennsylvanian System, the "Initial Test Well". The Initial Test Well will be located in the SW/4 NW/4 of Section 23 dedicated to the well. The extimated depth of the Initial Test Well is 10,750 feet.
- 2. In the event the Initial Test Well is completed as a producer it will carn depth rights from 3500 feet to 100 feet below the total depth drilled not to exceed the top of the "Solid Mississippian Lime."
- 3. In the event the Initial Test Well is completed as a producer Tenneco shall retain an overriding royalty equal to the difference between existing lessor's royalty plus existing burdens and 25% so that we shall receive a 75% revenue interest.

k. In the event the Initial Test Well is completed as a dry hole we shall earn no interest in your lease.

Please let us hear from you as soon as you have reached a decision concerning this request.

Respectfully Requested,

Robert E. Boling

REB/jj

ROBERT E. BOLING EXPLORATION CONSULTANT 202 AMERICAN HOME BUILDING

ARTESIA, NEW MEXICO - 89210

April 12, 1978

Tenneco Oil Company 720 So. Colorado Blvd. Denver, Colorado 80222

Attention: Mr. Joe Gazlick

Re: Fee Lease H.B.P. covering SW/4 SW/4 Section 23, T17S R2SE, Eddy County, New Mexico.

Gentlemen:

Mark D. Wilson and the undersigned respectfully request a farmout on your captioned lease under the following terms and conditions:

- 1. Within 90 days after our receipt of acceptable farmout agreements from all lease owners in the W/2 of Section 23, T178 R23E we will commence, or cause to be commenced, the drilling of a well to test the Morrow series of the Pennsylvanian System, the "Initial Test Well". The Initial Test Well will be located in the SW/4 NW/4 of Section 23 dedicated to the well. The extimated depth of the Initial Test Well is 10,750 feet.
- 2. In the event the Initial Test Well is completed as a producer it will earn depth rights from 3500 feet to 100 feet below the total depth drilled not to exceed the top of the "Solid Mississippian Lime."
- 3. In the event the Initial Test Well is completed as a producer Tenneco shall retain an overriding royalty equal to the difference between existing lessor's royalty plus existing burdens and 25% so that we shall receive a 75% revenue interest.

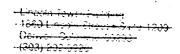
4. In the event the Initial Test Well is completed as a dry hole we shall earn no interest in your lease.

Please let us hear from graits soon as you have reached a decision concerning this request.

Respectfully Requested,

Robert E. Boling
Robert E. Boling

REB/jj





TENNECO OIL COMPANY Land Department Galleria 720 Sa. Calarada Blyd. Denver, Colorado 80222 (303) 758-7130

November 22, 1977

Mr. Robert E. Boling Exploration Consultant 202 American Home Building Artesia, New Mexico 88210

RE: Your proposed Lucas Stroe Unit of 2070 acres in T17S-R28E, Eddy County, New Mexico (30401, tr. E & 35039, HBP)

Dear Mr. Boling:

We have looked over the captioned proposal and have decided not to do anything, at this time

Thank you for your inquiry.

Yours truly,

Law Parish

N. B. Venus -

JOE GAZLICK.

WB. WINKFES.

You have the property of address and phone above.

5 0/4 5 00/4 500 23 - Bolow 3500/ - Bare of porm

303-758-7130

Det winkler Fre paintle 7/3-757-2/50

LAW OFFICES

LOSEE & CARSON, P.A.

300 AMERICAN HOME BUILDING P. O. DRAWER 239 ARTESIA, NEW MEXICO 88210 746-3508

A.J. LOSEE
JOEL M. CARSON
CHAD DICKERSON

August 25, 1978

SEP 1 1978

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

Dear Mr. Ramey:

Enclosed for filing, please find three copies of an Application of Yates Petroleum Corporation for compulsory pooling, in Eddy County, New Mexico.

Also enclosed is Yates Petroleum Corporation's Application for an order reducing the horizontal limits of the Empire Gas Pool, and modifying special pool rules for said pool, in Eddy County, New Mexico.

We ask that these cases be set for hearing before an examiner and that you furnish us with a docket of said hearings.

Yours truly,

LOSEE, CARSON & DICKERSON, P.A.

. darson

JMC:pv Enclosures

cc w/enclosure: Amoco Production Company

Mr. R. E. Boling

Dockets Nos. 31-78 and 32-78 are tentatively set for hearing on September 27 and October 11, 1978. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - MONDAY - SEPTEMBER 11, 1978

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205 STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 6289: (Continued from August 23, 1978, Commission Hearing)

Application of Bill Taylor for enforcement and amendment of Order No. R-5332, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a determination of well costs, an accounting of expenditures and costs withheld from production, and the amendment of Order No. R-5332 to remove the present operator of the pooled proration unit comprising the N/2 of Section 13, Township 22 South, Range 26 East, South Carlsbad Field, Eddy County, New Mexico, and designate another operator for said unit.

CASE 6146: (DE NOVO)

Application of Jerome P. McHugh for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Tapacito-Gallup and Basin-Dakota production within the wellbore of his Jicarilla Well No. 5 located in Unit D of Section 29, Township 26 North, Range 4 West, Rio Arriba County, New Mexico.

Upon application of Jerome P. McHugh this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 6328: Application of Maralo, Inc., for statutory unitization, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of secondary recovery, all mineral interests in the Jalmat Yates Unit underlying the following described lands in Township 25 South, Range 36 East:

Section 12: SE/4 Section 13: NE/4

and the following described lands in Township 25 South, Range 3/ East:

Section 18: NW/4 and N/2 SW/4

all in Lea County, New Mexico.

The unitized interval would be all formations or zones extending from the top of the Yaces formation down to 100 feet below the base of the Queen formation in the Humble-Winters "A" Well No. 2 located in Unit C of Section 18, Township 25 South, Range 37 East.

Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of the horizontal and vertical limits of the unit area; the determination of a rair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges be hade among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations, including, but not necessarily limited to, unit voting procedures, selection, removal, or substitution of unit operator, and time of commencement and termination of unit operations.

CASE 6313: Application of Maralo, Inc., for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project on its Jalmat Yates Unit Area, Lea County, New Mexico, by the injection of water into various wells located in Township 25 South, Ranges 30 and 37 East.

DOCKET: EXAMINER HEARING - WEDNESDAY - SEPTEMBER 13, 1978

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

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

- ALLOWABLE: (1) Consideration of the allowable production of gas for October, 1978, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
 - (2) Consideration of the allowable production of gas for October, 1978, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.
- CASE 6314: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Overland Drilling & Exploration, Ltd., Ohio Casualty Insurance Company, and all other interested parties to appear and show cause why the Lowe State Well No. 1 located in Unit E of Section 15, Township 19 South, Range 29 East, Eddy County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 6315: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Hugh L. Johnston, Sr., General Insurance Co. of America, and all other interested parties to appear and show cause why the Continental State Well No. 5 located in Unit C of Section 30, Township 17 South, Range 29 East, Eddy County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 6316: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Cortez Corporation, Aetna Casualty & Surety Company, and all other interested parties to appear and show cause why the Fair Well No. 1 located in Unit D of Section 24, Township 18 South, Range 26 East, Eddy County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 6290: (Continued from August 16, 1978, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit K. A. Grade, Jr., Great American Insurance Co., and all other interested parties to appear and show cause why the Donella Well No. 1 located in Unit P of Section 3, Township 29 North, Range 15 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6307: (Continued from August 30, 1978, Examiner Hearing)

Application of Exxon Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Drinkard and Wantz-Abo production in the wellbore of its 7. F. Hardison B Well No. 10, located in Unit A of Section 34, Township 21 South, Range 37 East, Lea County, New Mexico. (This case will be dismissed.)

- CASE 6317: Application of Harvey E. Yates Company for an unorthodox gas well location and a non-standard providing unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 301.75-acre non-standard gas proration unit comprising the N/2 of Section 18, Township 18 South, Range 29 East, Eddy County, New Mexico, to be dedicated to a well to be drilled 1980 feet from the North line and 660 feet from the East line of said Section 18 to test the Norrow formation.
- CASE 6318: Application of Coquina Oil Corporation for an increase in casinghead gas allowable, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Rule 303-C-4 to increase the casinghead gas allowable for its Vivian Well No. 1, located in Unit F of Section 30, Township 22 South, Range 38 East, Lea County, New Mexico, the Drinkard and Granite Wash zones in said well being commingled pursuant to Order Mo. DMC-255 and subject to the GOR limit for the Wantz-Granite Wash Pool
- CASE 6319: Application of Belco Petroleum Corporation for an unorthodox well location and compulsory pooling, tady county, New Newless. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp formation underlying the N/2 of Section 31, Township 21 South, Range 27 East, Eddy County, New Mexico, to be dedicated to its Mollie Com Well No. 1 located at an unorthodox location 1100 feet from the North line and 1575 feet from the East line of said section. Also to be considered will be the cost of recompleting said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

ì

- CASE 6320: Application of Texas 0il & Gas Corporation for an unorthodox gas well location, Eddy County, New Mexico, Applicant, in the above styled cause, seeks approval for the unorthodox location of its Coquira Federal Con. Well No. 1 to be drilled 660 feet from the North line and 1980 feet from the West line of Section 32, Township 18 South, Range 27 East, to test the Morrow formation, the W/2 of said Section 32 to be dedicated to the well.
- CASE 6321: Application of Texas 0:1 & Gas Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Shugart State Com. Well No. 1 to be drilled 660 feet from the South line and 1980 feet from the West line of Section 16, Township 18 South, Range 31 East, Eddy County, New Mexico, to test the Wolfcamp and Pennsylvanian formations, the W/2 of said Section 16 to be dedicated to the well.
- CASE 6283: (Continued from August 2, 1978, Examiner Hearing)

Application of Texas Oil & Gas Corporation for a non-standard proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 320-acre non-standard gas proration unit comprising the W/2 of Section 16, Township 20 South, Range 36 East, North Osudo-Morrow Gas Pool, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon.

CASE 6322: Application of Yates Petroleum Corporation for pool contraction, Eddy County, New Mexico.

Applicant, in the above-styled cause, seeks the amendment of Order No. R-391 to contract the horizontal limits of the Empire-Pennsylvanian Gas Pool to the following:

All of Sections 28 and 29, Township 17 South, Range 28 East

In the alternative, applicant seeks to limit the special pool rules for said pool to the present horizontal limits of the pool.

- CASE 6323: Application of Yates Petroleum Corporation for compulsory pooling and an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 23, Township 17 South, Range 28 East, Empire-Pennsylvanian Cas Pool, Eddy County, New Mexico, to be dedicated to its Lucas Store JZ Well No. 1 located at an unconsidered violation 1980 feet from the North line and 860 feet from the West line of said section. So to be considered will be the cost of completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6324: Application of Yates Petroleum Corporation for downhole commingling or pool creation, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Wolfcamp and Upper Penn gas production in the wellbore of its Box Canyon GJ Fed. Well No. 1 located in Unit J of Section 13, Township 21 South, Range 21 East, Eddy County, New Mexico. In the alternative, applicant seeks the creation of a new Permo-Penn gas pool for said well.
- CASE 6325: Application of Amoco Production Company for unorthodox locations and directional drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox locations of the following South Hobbs Unit wells located in Township 19 South, Range 38 East, Hobbs Pool, Lea County, New Mexico:

Well No. 120 located 1272 feet from the North line and 1420 feet from the West line of Section 5; Well No. 121 located 1450 feet from the North line and 150 feet from the West line of Section 4; Well No. 123 located 2390 feet from the North line and 150 feet from the East line of Section 6; Well No. 124 located 1925 feet from the South line and 2380 feet from the East line of Section 4; Well No. 126 located 1295 feet from the South line and 1365 feet from the West line of Section 10; Well No. 122 located 1726 feet from the North line and 167 feet from the East line of Section 4; and Well No. 125 located 2016 feet from the North line and 763 feet from the West line of Section 3.

Applicant further seeks authority to directionally drill Wells Nos. 122 and 125 to bottomhole locations in the extreme southeast corners of Unit R of Section 4 and Unit E of Section 3, respec-

- CASE 6326: Application of Energy Reserves Group, Inc., for downhole commingling, Rio Arriba County, New Mexico.

 Applicant, in the above-styled cause, seeks authority to commingle South Blanco-Pictured Cliffs and Octave-Clareca production in the wellbore of its licarilla 35 Well No. 3, located in Unit B of Section 2, Township 24 North, Range 5 West, Rio Arriba County, New Mexico.
- CASE 6327: Application of O. H. Berry for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its J. L. Isabell Well No. 5-Y located 340 feet from the North line and 330 feet from the East line of Section 15, Township 24 South, Range 36 East, Santa Rosa formation, Lea County, New Mexico, the NE/4 of said Section 15 to be dedicated to the well.

BEFORE THE OIL CONSERVATION DIVISION OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF YATES PETROLEUM CORPORATION FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO

CASE NO. <u>6323</u>

APPLICATION

COMES NOW Yates Petroleum Corporation, by its attorneys, and in support hereof, respectfully states:

- 1. Applicant has the right to drill its Yates
 No. 1 Lucas Store "JZ" State Com. Well in the Wolfcamp and
 Pennsylvania formations as a gas well, which is to be located at a point 1,980 feet from the north line and 860
 feet from the west line of Section 23, Township 17 South,
 Range 28 East, N.M.P.M., Eddy County, New Mexico.
- 2. The applicant has dedicated the W/2 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests.
- 3. Applicant should be designated the operator of the well and the proration unit.
- 4. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said unit, all mineral interests, whatever they may be, from the Wolfcamp through the Pennsylvanian formation underlying the W/2 of said Section 23, should be pooled.

- 5. That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.
- 6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, applicant prays that:

- A. This application be set for hearing before an examiner and that notice of said hearing be given as required by law.
- B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the Wolfcamp through the Pennsylvanian formation underlying the W/2 of said Section 23, Township 17 South, Range 28 East, N.M.P.M., Eddy County, New Mexico, to form a 320-acre spacing unit dedicated to applicant's well.
- C. And for such other relief as may be just in the premises.

YATES PETROLEUM CORPORATION

y:___

Joe♪ M.\Carson

LOSEE, CABSON & DICKERSON, P.A.

P. O. Drawer 239

Artesia, New Mexico 88210

Attorneys for Applicant

BEFORE THE OIL CONSERVATION DIVISION OF THE STATE OF NEW MEXICO

IN THE NATTER OF THE APPLICATION OF YATES PHTROLEUM CORPORATION FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO

CASE NO. <u>6323</u>

APPLICATION

COMES NOW Yates Petroleum Corporation, by its attorneys, and in support hereof, respectfully states:

- 1. Applicant has the right to drill its Yates
 No. 1 Lucas Store "JZ" State Com. Well in the Wolfcamp and
 Pennsylvania formations as a gas well, which is to be located at a point 1,980 feet from the north line and 860
 feet from the west line of Section 23, Township 17 South,
 Range 28 East, N.M.P.M., Eddy County, New Mexico.
- 2. The applicant has dedicated the W/2 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests.
- 3. Applicant should be designated the operator of the well and the proration unit.
- 4. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said unit, all mineral interests, whatever they may be, from the Wolfcamp through the Pennsylvanian formation underlying the W/2 of said Section 23, should be pooled.

- 5. That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.
- 6. Applicant should be authorised to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, applicant prays that:

- A. This application be set for hearing before an examiner and that notice of said hearing be given as required by law.
- B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the Wolfcamp through the Pennsylvanian formation underlying the W/2 of said Section 23, Township 17 South, Range 28 East, N.M.P.M., Eddy County, New Mexico, to form a 320-acre spacing unit dedicated to applicant's well.
- C. And for such other relief as may be just in the premises.

YATES PETROLEUM CORPORATION

By:

JoeY N.

darson

LOSEE, CARSON & DICKERSON, P.A. P. O. Drawer 239 Artesia, New Mexico 98210

Attorneys for Applicant

OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF YATES PETROLEUM CORPORATION FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO

CASE NO. 6323

APPLICATION

COMES NOW Yates Petroleum Corporation, by its attorneys, and in support hereof, respectfully states:

- 1. Applicant has the right to drill its Yates
 No. 1 Lucas Store "JZ" State Com. Well i. the Wolfcamp and
 Pennsylvania formations as a gas well, which is to be located at a point 1,980 feet from the north line and 860
 feet from the west line of Section 23, Township 17 South,
 Range 28 East, N.M.P.M., Eddy County, New Mexico.
- 2. The applicant has dedicated the W/2 of said section to this, well, and there are interest owners in the proration unit who have not agreed to pool their interests.
- 3. Applicant should be designated the operator of the well and the proration unit.
- 4. To avoid the drilling of unnecessary wells, to protect correlative rights and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said unit, all mineral interests, whatever they may be, from the Wolfcamp through the Pennsylvanian formation underlying the W/2 of said Section 23, should be pooled.

- 5. That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs, plus an additional 200% thereof as a reasonable charge for the risk involved in the drilling of the well.
- 6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, applicant prays that:

- A. This application be set for hearing before an examiner and that notice of said hearing be given as required by law.
- B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the Wolfcamp through the Pennsylvanian formation underlying the W/2 or said Section 23, Township 17 South, Range 28 East, N.M.P.M., Eddy County, New Mexico, to form a 320-acre spacing unit dedicated to applicant's well.
- C. And for such other relief as may be just in the premises.

YATES PETROLEUM CORPORATION

Joel W. Carson

LOSEE, CARSON & DICKERSON, P.A.

P. O. Drawer 239

Artesia, New Mexico 88210

Attorneys for Applicant

Application of years Coronation you considered problems for the considering postering, Eddy County, N. M. Epplicant in the above-styled cause such an order pooling all minuse interest in the Wolfamp and Annoupwarian formations underlying the W/2 of Section 23, T175, R 28E, Empire-Benneywarian, Orol, Eddy County, N. M., to be dedilated to its Juras Store J2 Well No. 1 located at an unorthodox location 1980 FNL and 860 FWL of Said section.

Also to the Considered ... the

Called in by gerry Some 8 - 14 - 78

STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

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

CASE NO.	6	323
Order No.	R	5810

APPLICATION OF YATES PETROLEUM CORPORATION FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO.





BY THE DIVISION:

This cause came on for hearing at 9 a.m. on September 13.

19 78, at Santa Fe, New Mexico, before Examiner Richard L. Stamets

NOW, on this day of September, 1978, the Division

Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Yates Petroleum Corporation seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 23, Township 17 South, Range 28 East NMPM, Empire-Pennsylvanian Gao Peol, Eddy County, New Mexico.

(3) that the applicant has the right to drill and proposes to drill a drill a its hucus store of 2 well No 1 at such soundard location in the W/2 of Said Section 23.

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

- protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.
- That the applicant should be designated the operator of the subject well and unit.
- (%) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.
- does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional percunt thereof as a reasonable charge for the risk involved in the drilling of the well.
- That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.
- (14) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

the unortholox location is unnecessory bursuaus to the change in pool rules made by order 16. R-5889.

-3-Case No. Order No. R- # 2500. permonth while drilling and

- able charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.
- (13) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

IT IS THEREFORE ORDERED:
(1) That all mineral interests, whatever they may be,
in the Wolfcamp and Pennsylvanian formations underlying the W/2
of Section 23 , Township 17 South , Range 28 East ,
NMPM, Empire-Pennsylvanian Cas Pool , Eddy County, New Mexico,
are hereby pooled to form a standard <u>320-</u> acre gas spacing the Yales Petroleum Corporati and proration unit to be dedicated to axweldx she which had Lucas Store JZ Well No. 1 1652 ted at an unorthodox location 1980
feet from the North line and 860 feet from the West line of said
PROVIDED HOWEVER, that the operator of said unit shall
commence the drilling of said well on or before the 3/3pt day of
December, 1978, and shall thereafter continue the drilling
of said well with due diligence to a depth sufficient to test the
Morrow formation;
PROVIDED FURTHER, that in the event said operator does not

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 3/s day of December, 1978, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

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

- (2) That Yates Petroleum Corporation is hereby designated the operator of the subject well and unit.
- (3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.
- (4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.
- known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.
- (6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

-5-Case No. Order No. R-

above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

- (7) That the operator is hereby authorized to withhold the following costs and charges from production:
 - (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
 - (B) As a charge for the risk involved in the drilling of the well, 2002 of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.
- charge; for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge, attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

-6-Case No. Order No. R-

- (10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.
- (11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.
- well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within a days from the date of this order.

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

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

1