

CASE NO.

6323

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

RECEIVED
OCT 30 9 04 AM '78
ROBERT E. BOLING
EXPLORATION CONSULTANT
202 AMERICAN HOME BUILDING
STATE LAND OFFICE
SANTA FE, N.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 R23E, 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

By

Robert E. Boling
ROBERT E. BOLING, Agent

REB/bgt
Enclosure

cc w/ enclosure: Oil Conservation Division
P. O. Box ~~114~~ 37098
Santa Fe, New Mexico 87501

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

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.

(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.

(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.

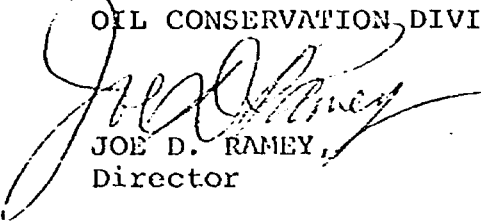
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(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
OIL CONSERVATION DIVISION


JOE D. RAMEY,
Director

S E A L

dr/

AUTHORITY FOR EXPENDITURE
Yates Petroleum Corporation

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

RECEIVED

OCT 30 9 05 AM '78

Lucas Store "JZ" State Com #1
1930 FNL, 860 FNL 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 Damage	\$ 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
<u>TOTAL INTANGIBLES</u>	<u>\$336,000</u>	<u>\$375,000</u>
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
<u>TOTAL TANGIBLES</u>	<u>\$ 24,000</u>	<u>\$165,000</u>
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
<u>TOTAL LEASE EQUIPMENT</u>	<u>\$ -</u>	<u>\$ 35,000</u>
<u>TOTAL TO DRILL, COMPLETE & EQUIP</u>	<u>\$360,000</u>	<u>\$575,000</u>

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 proportionate 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	1.159558
Robert E. Boling	.505940
A. J. Losee	.653730
Daleveco Oils	.493598
June Johnson	.462748
Nyco Industries	17.187500
S. P. Yates	1.542495
John A. Yates	7.183500
Martin Yates, III	.308500
Abo Petroleum Corp.	6.875000
Los Chicos	3.437500
Yates Drilling Co.	17.187500
Yates Petroleum Co.	17.631740
Tenneco Oil Co.	12.500000
<u>37.5% TOTAL</u>	<u>100.000000</u>
25% of the W/2 Sec. 23, T17S, R28E spacing unit dedicated to the Initial Test Well is subject to the unit. The unit owners who are participating will pay 25% of their unit ownership of the cost of the Initial Test Well.	

APPROVED FOR _____

BY: _____

AUTHORITY FOR EXPENDITURE
Yates Petroleum Corporation

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

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1980 FNL, 860 FNL Sec. 23-17S-28E
Red Lake Area, Eddy Co., NM

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APPROVED FOR _____

BY: _____

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-) CASE
ation for compulsory pooling and an) 6323
unorthodox gas well location, Eddy)
County, New Mexico.)

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

Exhibits 1 through 3
Complete Set

I N D E X

ROBERT E. BOLING

Direct Examination by Mr. Carson	3
Cross Examination by Mr. Stamets	9

E X H I B I T S

Applicant Exhibit One, Plat	9
Applicant Exhibit Two, Document	9
Applicant Exhibit Three, 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 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.

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?

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.

Q 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 southwest/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.

Q 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.

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?

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.

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 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 --

A Yes, sir.

Q -- 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.

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.

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 1978.

Richard L. Ham Examiner
Oil Conservation Division

STATE OF NEW MEXICO
 ENERGY AND MINERALS DEPARTMENT
 OIL CONSERVATION DIVISION
 State Land Office Building
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A P P E A R A N C E S

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

I N D E X

ROBERT E. BOLING

Direct Examination by Mr. Carson	3
Cross Examination by Mr. Stamets	9

E X H I B I T S

Applicant Exhibit One, Plat	9
Applicant Exhibit Two, Document	9
Applicant Exhibit Three, 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 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.

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?

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.

Q 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 southwest/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.

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?

A No, 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?

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.

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 unit --

A Yes, sir.

Q 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.

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 CSR
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 9-13 19 78
Richard H. Hahn Examiner
Oil Conservation Division

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.

(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.

-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) 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-5610

(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.

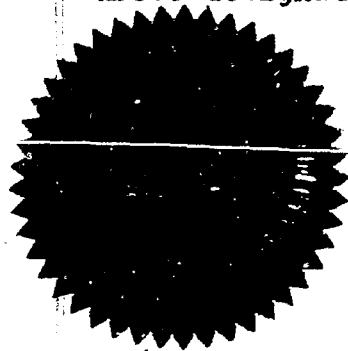
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(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
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY,
Director

dr/

ROBERT E. BOLING

EXPLORATION CONSULTANT

202 AMERICAN HOME BUILDING

ARTESIA, NEW MEXICO - 88210

October 21, 1977

CASE NO. 6323

Submitted by Applicant

Heading Only

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 ever 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 $8/8$ ths. Column 7 of Exhibit "B-2" shows each Owner's share of the retained override assuming the $W/2$ of Section 23, T17S R25E 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 "B-1" to this letter. Since Unit acreage only composes five-eighths 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-eighths 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-eighths 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 wildcard 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 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 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
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

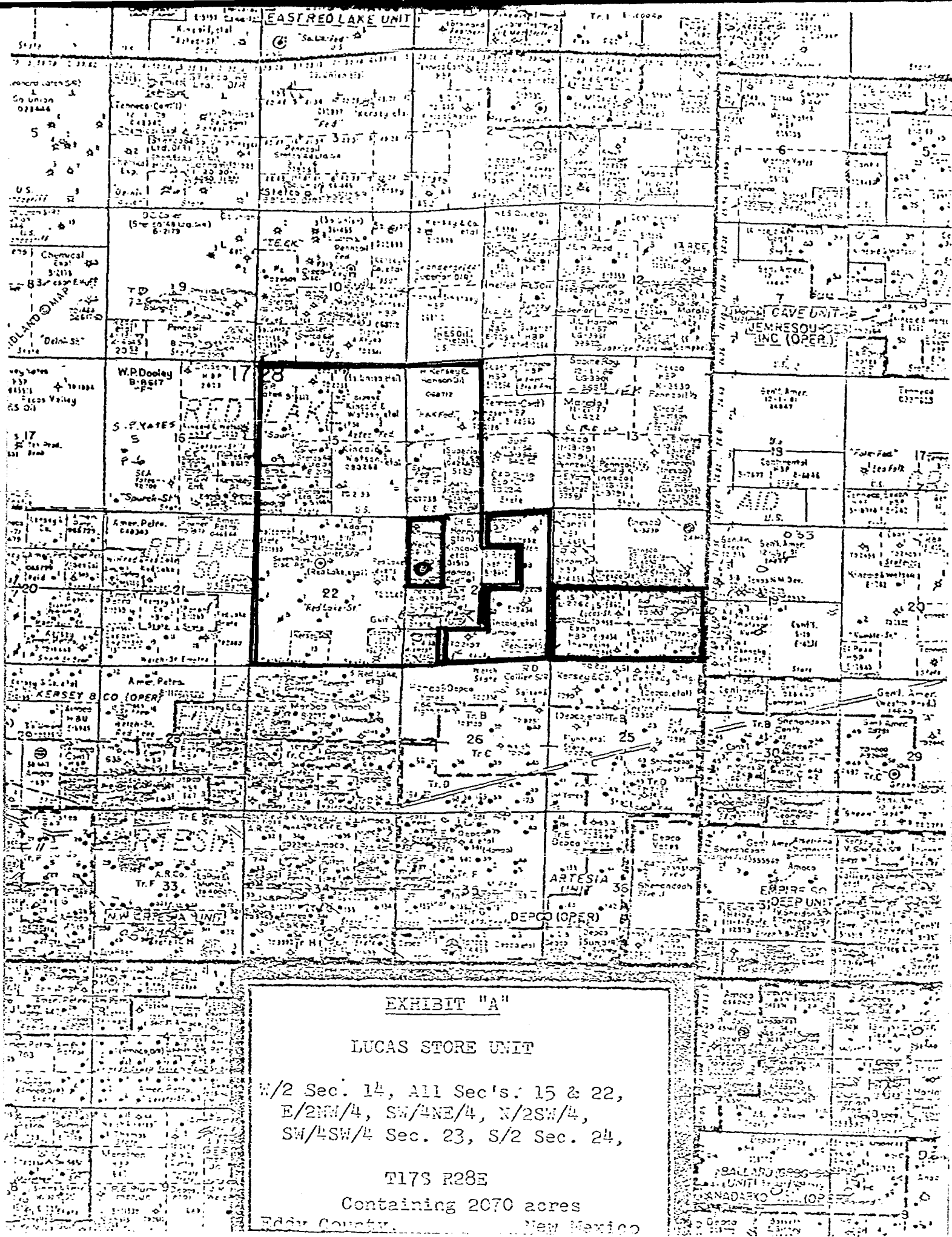


EXHIBIT "A"

LUCAS STORE UNIT

N/2 Sec. 14, All Sec's. 15 & 22,
E/2NW/4, SW/4NE/4, N/2SW/4,
SW/4SW/4 Sec. 23, S/2 Sec. 24,

T17S R28E

Containing 2070 acres

Eddy County, New Mexico

EXHIBIT "B"

Page 1

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 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

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (ALL T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER	NET ACRES EACH LEASE	EXPIRATION DATE	PERCENT FIDELITY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
1.	LC 067739 Sec. 14: SW/4SW/4 KINCAID & WATSON DRILLING CO.	40.00	100.00000	40.00000	H.B.P.	12.50000	-0-	87.50000	100.00000	87.50000
2.	LC 068712 & A Sec. 14: NW/4SW/4, NW/4 HARSON OIL CO. HAROLD KERSEY	200.00	75.00000 25.00000	150.00000 50.00000	H.B.P.	18.75000 6.25000	-0- -0-	56.25000 18.75000	100.00000	75.00000 75.00000
3.	Sec. 14: E/2SW/4 (UNLEASED FEDERAL KGS LAND)	80.00		80.00000						
4.	B-8617 Sec. 15: NW/4, NW/4SW/4 Sec. 23: SW/4NE/4 S. P. YATES HARVEY E. YATES CO. MARTIN YATES III JOHN A. YATES	240.00	41.66667 41.66667 8.33333 8.33333	100.00000 100.00000 20.00000 20.00000	H.B.P.	7.29167 7.29167 1.45833 1.45833	-0- -0- -0- -0-	34.37500 34.37500 6.87500 6.87500	100.00000	82.50000 82.50000 82.50000 82.50000
	TR. NO. 4 TOTALS	240.00	100.00000	240.00000		17.50000	-0-	82.50000	100.00000	

(We have requested that this tract be included in the next KGS sale)

EXHIBIT "B"

Page 2

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 Section 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTN RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (ALL T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH OWNER EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	EURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
a. B-1965	Sec. 15: S/2SW/4	80.00			H.B.P.					
b. B-2173	Sec. 15: NE/4SW/4	40.00			H.B.P.					
	PENNZOIL CO. WAINOCO, INC. JUNE JOHNSON	54.68750 32.81250 12.50000		65.62500 39.37500 15.00000		10.93750 6.56250 2.50000	-0- -0- -0-	43.75000 26.25000 10.00000		80.00000 80.00000 80.00000
TR. NO. 5 TOTALS		120.00	100.00000	120.00000		20.00000	-0-	80.00000	100.00000	
6. NM 012 896	Sec. 15: NE/4	160.00			H.B.P.					
	Supron Energy Corporation AZTEC OIL & GAS CO. PENNZOIL CO. WAINOCO, INC. JUNE JOHNSON	30.00000 20.00000 27.34375 16.40625 6.25000		48.00000 32.00000 43.75000 26.25000 10.00000		3.75000 2.50000 3.41797 2.05078 .78125	-0- -0- -0- -0- -0-	26.25000 17.50000 23.92578 14.35547 5.46875		87.50000 87.50000 87.50000 87.50000 87.50000
TR. NO. 5 TOTALS		160.00	100.00000	160.00000		12.50000(2)	-0-	87.50000	100.00000	
7. NM 080268	Sec. 15: SE/4	160.00			H.B.P.					
	KINCAID & WATSON DRILLING CO. DURHAM DRILLING CO. DALEVCO OILS COWATCO JONELL R. GILMORE NANCY KING LONNIE KEMPER VAN LANNING LYNN LANNING	26.66666 16.66667 16.66667 5.00000 7.50000 2.50000 15.00000 5.00000 5.00000		42.66666 26.66667 26.66667 8.00000 12.00000 4.00000 24.00000 8.00000 8.00000		3.33334 2.08333 2.08333 .62500 .93750 .31250 1.87500 .62500 .62500	-0- -0- -0- -0- -0- -0- -0- -0- -0-	23.33332 14.58334 14.58334 4.37500 6.56250 2.18750 13.12500 4.37500 4.37500		87.50000 87.50000 87.50000 87.50000 87.50000 87.50000 87.50000 87.50000 87.50000
TR. NO. 7 TOTALS		160.00	100.00000	160.00000		12.50000 (2)	-0-	87.50000	100.00000	

EXHIBIT "B"

Page 3.

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 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

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER	NET ACRES EACH OWNER	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
8.	E-135 Sec. 22: SE/4SW/4 TENNECO OIL CO. CONTINENTAL OIL CO. TR. NO. 8 TOTAL	40.00	50.00000 50.00000	20.00000 20.00000	H.B.P.	6.25000 6.25000	-0- -0-	43.75000 43.75000	87.50000 87.50000	
5.	a. D-1269 Sec. 22: NE/4NW/4. b. E-1111 Sec. 22: NW/4NE/4. GULF OIL CORPORATION	40.00			H.B.P.		-0-			
		40.00			H.B.P.		-0-			
		80.00	100.00000	80.00000	H.B.P.	25.00000 25.00000 (3)	-0- -0-	75.00000 75.00000	100.00000 100.00000	75.00000
10.	2029 Sec. 22: SE/4SE/4 GULF OIL CORPORATION	40.00			H.B.P.		-0-			
		40.00	100.00000	40.00000	H.B.P.	15.50000 (4)	-0-	84.50000	100.00000	84.50000
	a. E-1111 Sec. 22: SW/4SW/4. b. E-1969 Sec. 22: SW/4NW/4. AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 11 TOTAL	40.00			H.B.P.					
		40.00			H.B.P.					
		40.00	75.00000 25.00000	60.00000 20.00000	H.B.P.	19.87500 6.62500	9.37500 (6) 3.12500	55.12500 18.37500	73.50000 100.00000	73.50000 73.50000
		80.00	100.00000	80.00000		26.50000(5)		73.50000		

EXHIBIT "J"

Page 4.

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 Section 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 3500 FEET TO 10895 FEET BELOW THE SURFACE

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH OWNER EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
12.	a. B-1111									
	Sec. 22: SE/4NW/4 NE/4NE/4	80.00			H.B.P.					
	b. B-1969	80.00			H.B.P.					
	Sec. 22: N/2SE/4 AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 12 TOTALS	80.00	75.00000 25.00000	120.00000 40.00000	H.B.P.	19.87500 6.62500	-0- -0-	55.12500 18.37500		73.50000 73.50000
13.	a. B-1969									
	Sec. 22: SW/4SE/4 b. 636	40.00			H.B.P.					
	Sec. 22: NW/4SW/4 AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 13 TOTALS	40.00	50.00000 50.00000	40.00000 40.00000	H.B.P.	12.50000 12.50000	6.25000 (6) 6.25000	37.50000 37.50000		75.00000 75.00000
14.	a. B-1969									
	Sec. 22: NW/4NW/4 NE/4SW/4	80.00			H.B.P.					
	b. B-1111	80.00			H.B.P.					
	Sec. 22: S/2NE/4 AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 14 TOTALS	80.00	50.00000 50.00000	80.00000 80.00000	H.B.P.	12.50000 12.50000	-0- -0-	37.50000 37.50000		75.00000 75.00000
15.	FILE Sec. 23: SW/4SW/4 TENNECO OIL CO.	40.00	100.00000	40.00000	H.B.P.	21.87500	-0-	78.12500	100.00000	78.12500

EXHIBIT "B"

Page 5.

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 Section 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTM RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
16.	L-2762 Sec. 23: NW/4SW/4 PENNZOIL COMPANY INEXCO OIL CO. TR. NO. 16 TOTALS	40.00	50.00000 50.00000 40.00000	20.00000 20.00000 40.00000	4-15-79	6.25000 6.25000 12.50000	3.56250 -0- 3.56250	40.18750 43.75000 83.93750	100.00000	80.37500 87.50000
17.	NM 0151C Sec. 23: E/2NW/4, NE/4SW/4 PENNZOIL COMPANY INEXCO OIL CO. TR. NO.17 TOTALS	120.00	50.00000 50.00000 120.00000	60.00000 60.00000 120.00000	H.B.P.	6.25000 6.25000 12.50000	3.56250 -0- 3.56250	40.18750 43.75000 83.93750	100.00000	80.37500 87.50000
18.	B-6251 Sec. 24: SE/4 PENNZOIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC. ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL CO. TR. NO. 18 TOTALS	160.00	50.00000 42.18750 1.56250 .78125 .78125 .78120 .78130	80.00000 67.50000 2.50000 1.25000 1.25000 1.25000 1.25000	H.B.P.	12.50000 10.54688 .39062 .19531 .19531 .19531 .19532	1.00000	36.50000 31.64062 1.17188 .58594 .58594 .58589 .58598	73.00000 75.00000 75.00000 75.00000 75.00000 75.00000 75.00000	
		160.00	96.87500 (11)	155.00000	24.21875	71.65625	96.87500			

EXHIBIT "B"

Page 6

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 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

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (ALL T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER	NET ACRES EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
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19. B-5862 (10)

Sec. 24: NE/4SW/4

40.00

H.B.P.

PENNZOIL COMPANY	50.00000	20.00000	12.10937	1.00000	36.69063	73.78125
INEXCO OIL COMPANY	42.18750	16.87500	10.21729		31.97021	75.78125
M. RALPH LOWE, INC.	1.56250	.62500	.37841		1.18109	75.78125
ERMA LOWE	.78125	.31250	.18921		.59204	75.78125
MARALO, INC.	.78125	.31250	.18921		.59199	75.78125
TENNECO OIL COMPANY	.78120	.31250	.18921		.59209	75.78125
CONTINENTAL OIL COMPANY	.78130	.31250	.18921			75.78125

TR. NO. 19 TOTALS

40.00 96.8750 (11.) 38.75000 23.46191 1.00000 72.41309 96.87500

L-2762 (10)

Sec. 24: NW/4SW/4

40.00

4-15-79

PENNZOIL COMPANY	50.00000	20.00000	6.25000	4.58000	39.17000	78.34000
INEXCO OIL COMPANY	42.18750	16.87500	5.27344		36.91406	87.50000
M. RALPH LOWE, INC.	1.56250	.62500	.19531		1.36719	87.50000
ERMA LOWE	.78125	.31250	.09765		.68360	87.50000
MARALO, INC.	.78125	.31250	.09765		.68360	87.50000
TENNECO OIL COMPANY	.78120	.31250	.09766		.68354	87.50000
CONTINENTAL OIL COMPANY	.78130	.31250	.09766		.68364	87.50000

TR. NO. 20 TOTALS

40.00 96.87500 (11) 38.75000 12.10937 4.58000 80.18563 96.87500

Page 7.

Page 7.

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H. B. P.

(11)

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

EXHIBIT "B"

Page 8

- (5) These lands are subject to the remainder of a production payment in the original amount of \$546,000.00 payable out of 12 1/2% of 8/8ths plus an overriding royalty equal to 2% of the net revenue interest. Under present conditions the override is 1.5%.
- (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 \$250,000.00 payable out of 12.5% of 8/8ths plus an override equal to 2% of the net revenue interest. Under present conditions the override is 1.5%.
- (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. 5.
- (9) These lands are subject to the production payment described in Note No. 7. They are not subject to the override described in Note No. 7.
- (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.
- (11) Exxon's 3.125% interest, total of 10 acres, under S/2 Section 24 is not subject to the unit. Total acres subject to unit is 2070.

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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
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PENNZOIL CO.

5	a & b	65.62500		20.00000	52.50000	
6		43.75000		12.50000	38.25000	
16		20.00000		19.62500	16.07500	
17		60.00000		19.62500	48.22500	
18		80.00000		27.00000	58.40000	
19		20.00000		26.21875	14.75625	
20		20.00000		21.66000	15.66000	
21		40.00000		21.66000	31.33600	
		<u>349.37500</u>			<u>275.24150</u>	
			16.87802			16.74129

PENNZOIL TOTAL

AMOCO PRODUCTION CO.

11		60.00000		26.50000	44.10000	
12		120.00000		26.50000	88.20000	
13		40.00000		25.00000	30.00000	
14		80.00000		25.00000	60.00000	
		<u>300.00000</u>			<u>222.30000</u>	
			14.49275			13.52118

AMOCO TOTAL

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/4INT/4, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, T17S R28E, LDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

BASES

INEXCO OIL, CO.

INEXCO TOTAL

CONTINENTAL TOTAL

EXHIBIT "B-1"

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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT FIDELITY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
S. P. YATES	4	100.00000		17.50000	82.50000	
S. P. YATES TOTAL		100.00000	4.83092		82.50000	5.01798
HARVEY E. YATES CO.	4	100.00000		17.50000	82.50000	
HARVEY E. YATES TOTAL		100.00000	4.83092		82.50000	5.01798
KINCAID & WATSON DRILLING CO.	1	40.00000		25.00000	30.00000	
	7	42.66666		12.50000	37.33333	
		82.66666	3.99356		67.33333	1.09548
WAINOCO, INC.	5 a & b	39.37500		20.00000	31.50000	
	6	26.25000		12.50000	22.96875	
WAINOCO TOTAL		65.62500	3.17029		54.46875	3.31301
TENNECO OIL CO.	8	20.00000		12.50000	17.50000	
	15	40.00000		21.87500	31.25000	
	18	1.25000		25.00000	.93750	
	19	.31250		24.21875	.23682	
	20	.31250		12.50000	.27343	
	21	.62500		12.50000	.54688	
TENNECO OIL TOTAL		62.50000	3.01932		50.74463	3.08649
Supron Energy Corp.	6	48.00000		12.50000	42.00000	
Supron Total		48.00000	2.31884		42.00000	2.55161

EXHIBIT "B-1"

Page 4.

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, EDLY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
AZTEC OIL & GAS CO.	6	32.00000		12.50000	28.00000	
AZTEC TOTAL		32.00000	1.54589		28.00000	1.70307
HANSON OIL CO.	2	150.00000		25.00000	112.50000	
HANSON TOTAL		150.00000	7.24638		112.50000	6.81270
DURHAM DRILLING CO.	7	26.66667		12.50000	23.33333	
DURHAM TOTAL		26.66667	1.28825		23.33333	1.41923
DALEVCO, INC.	7	26.66667		12.50000	23.33333	
DALEVCO TOTAL		26.66667	1.28825		23.33333	1.41923
JUNE JOHNSON	5 a & b	15.00000		20.00000	12.00000	
JOHNSON TOTAL	6	10.00000		17.50000	8.25000	
		25.00000	1.20773		20.25000	1.23169
LONNIE KEMPER	7	24.00000		12.50000	21.00000	
KEMPER TOTAL		24.00000	1.15942		21.00000	1.27730
MARTIN YATES III	4	20.00000		17.50000	16.50000	
MARTIN YATES TOTAL		20.00000	.96618		16.50000	1.00360
JOHN A. YATES	4	20.00000		17.50000	16.50000	
JOHN A. YATES TOTAL		20.00000	.96618		16.50000	1.00360

EXHIBIT "B-1"

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 CCUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNED- SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER- SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
JONELL R. GILMORE	7	12.00000		12.50000	10.50000	
GILMORE TOTAL		12.00000	.57971		10.50000	.63865
HAROLD KERSEY	2	50.00000		25.00000	7.50000	
KERSEY TOTAL		50.00000	2.41546		7.50000	2.28090
VAN LANNING	7	8.00000		12.50000	7.00000	
VAN LANNING TOTAL		8.00000	.38647		7.00000	.42576
LYNN LANNING	7	8.00000		12.50000	7.00000	
LANNING TOTAL		8.00000	.38647		7.00000	.42576
COMATEC	8	8.00000		12.50000	7.00000	
COMATEC TOTAL		8.00000	.38647		7.00000	.42576
M. RALPH LOWE, INC.	18	2.50000		25.00000	1.87500	
	19	.62500		24.21875	.47363	
	20	.62500		12.50000	.54688	
	21	1.25000		12.50000	1.09375	
M. RALPH LOWE TOTAL		5.00000	.24156		3.98926	.21264
ERMA LOWE	18	1.25000		25.00000	.93750	
	19	.31250		24.21875	.23682	
	20	.31250		12.50000	.27343	
	21	.62500		12.50000	.54688	
ERMA LOWE TOTAL		2.50000	.12077		1.99163	.12132

EXHIBIT "B-1"

Page 6.

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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
MARALO, INC.	18	1.25000		25.00000	.93750	
	19	.31250		24.21875	.23682	
	20	.31250		12.50000	.27343	
	21	.62500		12.50000	.54688	
MARALO TOTAL		2.50000	.12077		1.99453	.12132
NANCY KING	7	4.00000		12.50000	3.50000	
KING TOTAL		4.00000	.19324		3.50000	.21289
TOTAL SUBJECT TO UNIT		2070.00000	100.00000	1644.08798		100.00000
UNLEASED GOV. KGS LANDS		80.00000				
Eckon's 3.125% Int. under S/2 24		10.00000				
TOTAL IN UNIT OUTLINE		2160.00000				

EXHIBIT "B-2"

Page 1

SHOWING INTERESTS CONTRIBUTED, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNTIL PAYOUT, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL AFTER PAYOUT, AND ALL SUBSEQUENT WELLS AND OWNER'S RETAINED OVERRIDING ROYALTY DURING THE PAYOUT PERIOD IN THE LUCAS STONE UNIT, T17S R28E, CONTAINING 2070 ACRES.

OWNERS	Contributions for		Initial Test Well		Subsequent Wells and		Percent Owners Retained Overriding Royalty Until Pay of First Production Well
	Initial Test Well Column 1	Column 2	Until Payout Column 3	Production Column 4	After Payout Column 5	Production Column 6	
	Percent Owner- ship	Percent Beneficial Interest	Costs Percent	Percent Beneficial Interest	Costs Percent	Percent Beneficial Interest	Column 7
PENNZOIL COMPANY	16.87802	16.74129	-0-	-0-	8.43900	8.37064	.80306
AVOCO PRODUCTION CO.	414.49275	13.52118	-0-	-0-	7.24637	6.76059	.64859
GULF OIL CORPORATION	5.79710	5.70529	-0-	-0-	2.89855	2.85264	.27368
INEXCO OIL CO.	10.38647	10.80903	-0-	-0-	5.19323	5.40451	.51850
CONTINENTAL OIL CO.	9.78261	9.34234	-0-	-0-	4.89130	4.67112	.44814
S. P. YATES	4.83092	5.01798	-0-	-0-	2.41546	2.50899	.24071
HARVEY E. YATES CO.	4.83092	5.01798	-0-	-0-	2.41546	2.50899	.24071
KENCAID & WATSON DRILLING CO.	3.99355	4.09548	-0-	-0-	1.99678	2.04771	.19646
WAINOCO, INC.	3.17029	3.31301	-0-	-0-	1.58514	1.65650	.15892
TENNECO OIL CO.	3.01932	3.08649	-0-	-0-	1.50966	1.54324	.14806
SUPRON ENERGY CORPORATION	2.31834	2.55461	-0-	-0-	1.15942	1.27730	.12254
ATTEC OIL & GAS CO.	1.54589	1.70307	-0-	-0-	.77294	.85153	.08169
HANSON OIL CO.	7.24638	6.84270	-0-	-0-	3.62319	3.42135	.32824
DURHAM DRILLING CO.	1.28825	1.41923	-0-	-0-	.64412	.70961	.06808
DALESCO, INC.	1.28825	1.41923	-0-	-0-	.64412	.70961	.06808
JUNE JOHNSON	1.20773	1.23169	-0-	-0-	.60385	.61584	.05908
LONNIE KEMPER	1.15942	1.27730	-0-	-0-	.57970	.63865	.06127
MARTIN YATES III	.96618	1.00360	-0-	-0-	.48309	.50180	.04814
JOHN A. YATES	.96618	1.00360	-0-	-0-	.48309	.50180	.04814
JONELL R. GILMORE	.57971	.63865	-0-	-0-	.28985	.31932	.03063

(1)

EXHIBIT "B-2"

Page 2

SHOWING INTERESTS CONTRIBUTED, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNTIL PAYOUT, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, AFTER PAYOUT, AND ALL SUBSEQUENT WELLS AND OWNER'S RETAINED OVERRIDING ROYALTY DURING THE PAYOUT PERIOD IN THE LUCAS STONE UNIT, 71/8 R28E, CONTAINING 2070 ACRES.

OWNERS	Contributions for Initial Test Well		Initial Test Well		Subsequent Wells and Initial Test Well		Percent Owners Retained Overriding Royalty Until Payout of First Production Well
	Column 1 Percent Owner-ship	Column 2 Percent Beneficial Interest	Column 3 Costs Percent	Column 4 Production Percent Beneficial Interest	Column 5 Costs Percent	Column 6 Production Percent Beneficial Interest	Column 7
HAROLD KERSEY	2.41546	2.23090	-0-	-0-	1.207730	1.140450	.10941
VAN LANNING	.38647	.42576	-0-	-0-	.193235	.212880	.02042
LYNN LANNING	.38647	.42576	-0-	-0-	.193235	.212880	.02042
CONATCO OILS	.38647	.42576	-0-	-0-	.193235	.212880	.02042
M. RALPH LOWE, INC.	.41156	.24264	-0-	-0-	.120730	.121320	.01164
ERMA LOWE	.42077	.12132	-0-	-0-	.060335	.060660	.00582
MARALO, INC.	.42077	.12132	-0-	-0-	.060335	.060660	.00582
NANCY KING	.19324	.21289	-0-	-0-	.096620	.106445	.01021
OPERATOR	-0-	-0-	100.00000	100.00000	50.000000	50.000000	-0-
UNIT TOTALS	100.00000	100.00000	100.00000	100.00000	100.000000	100.000000	4.79688

(1)

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 beneficial ownership as set out in column 2 hereof.

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

Lucas Store "JZ" State Com #1
1980 FNL, 860 FWL Sec. 23-17S-28E
Red Lake Area, Eddy Co., NM

BEFORE EXAMINER
OIL CONSERVATION
CASE NO. 6323
Submitted by Applicant
Rigging Down
Hearing Date

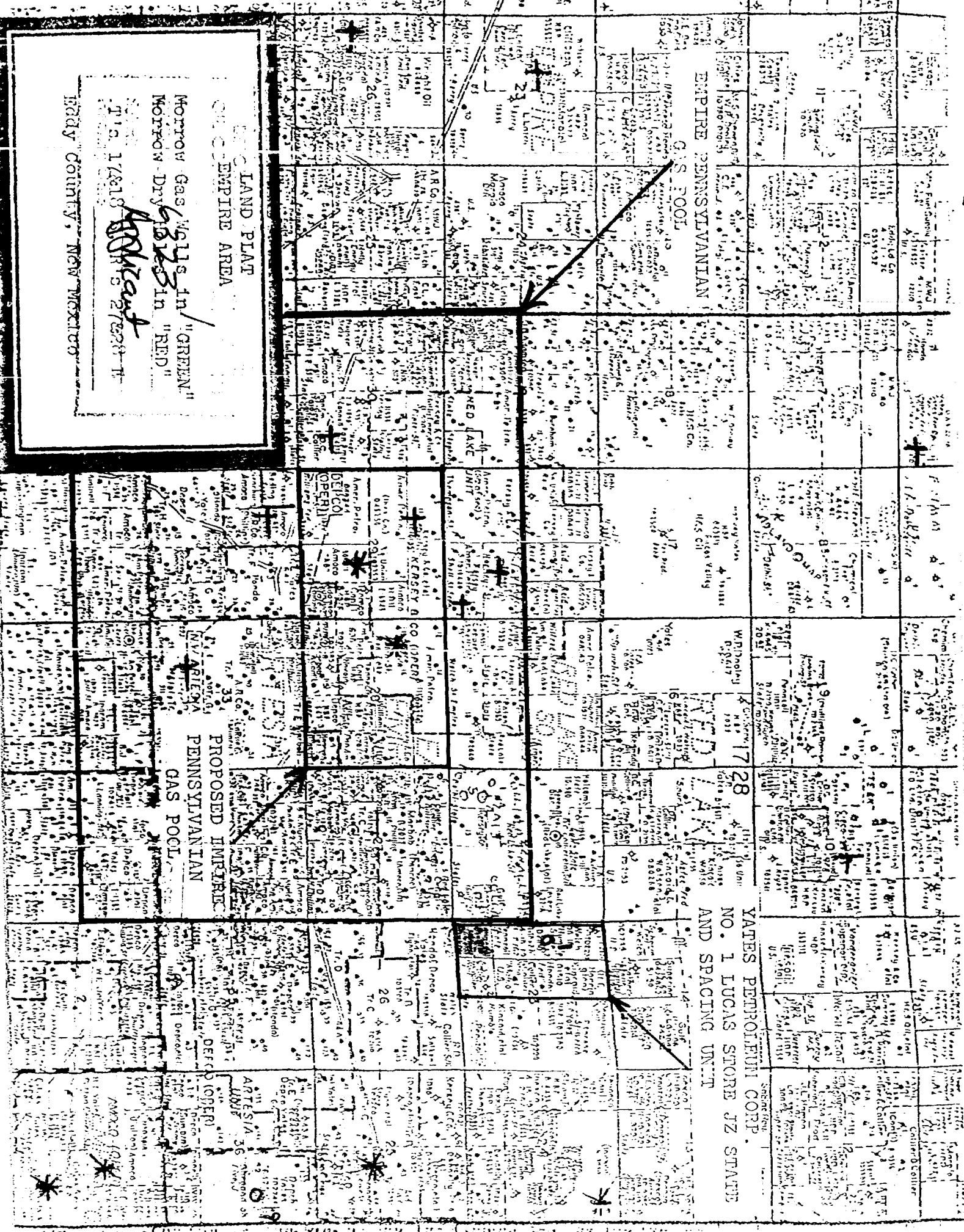
	Dry Hole	Completion
Staking Permit & Legal Fees	\$ 1,000	\$ 1,000
Location, Right-of-Way & Surface	\$ 5,500	\$ 6,500
Drilling: Moving in, Rigging Up & Rigging Down	\$ 25,000	\$ 25,000
40 days @ \$3850	\$154,000	\$154,000
Bits, Reamers & Subs	\$ 20,000	\$ 20,000
Water, Mud & Additives, Pit Lining	\$ 49,000	\$ 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
<u>TOTAL INTANGIBLES</u>	<u>\$336,000</u>	<u>\$375,000</u>
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
<u>TOTAL TANGIBLES</u>	<u>\$ 24,000</u>	<u>\$165,000</u>
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
<u>TOTAL LEASE EQUIPMENT</u>	<u>\$ -</u>	<u>\$ 35,000</u>
<u>TOTAL TO DRILL, COMPLETE & EQUIP</u>	<u>\$360,000</u>	<u>\$575,000</u>

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 proportionate share in kind.

TENNECO OIL COMPANY

12.5%

\$45,000.00 \$71,250.00



EDDY COUNTY, NEW MEXICO

LAND PLAT

EMPIRE AREA

MORROW Gas Wells in "GREEN"

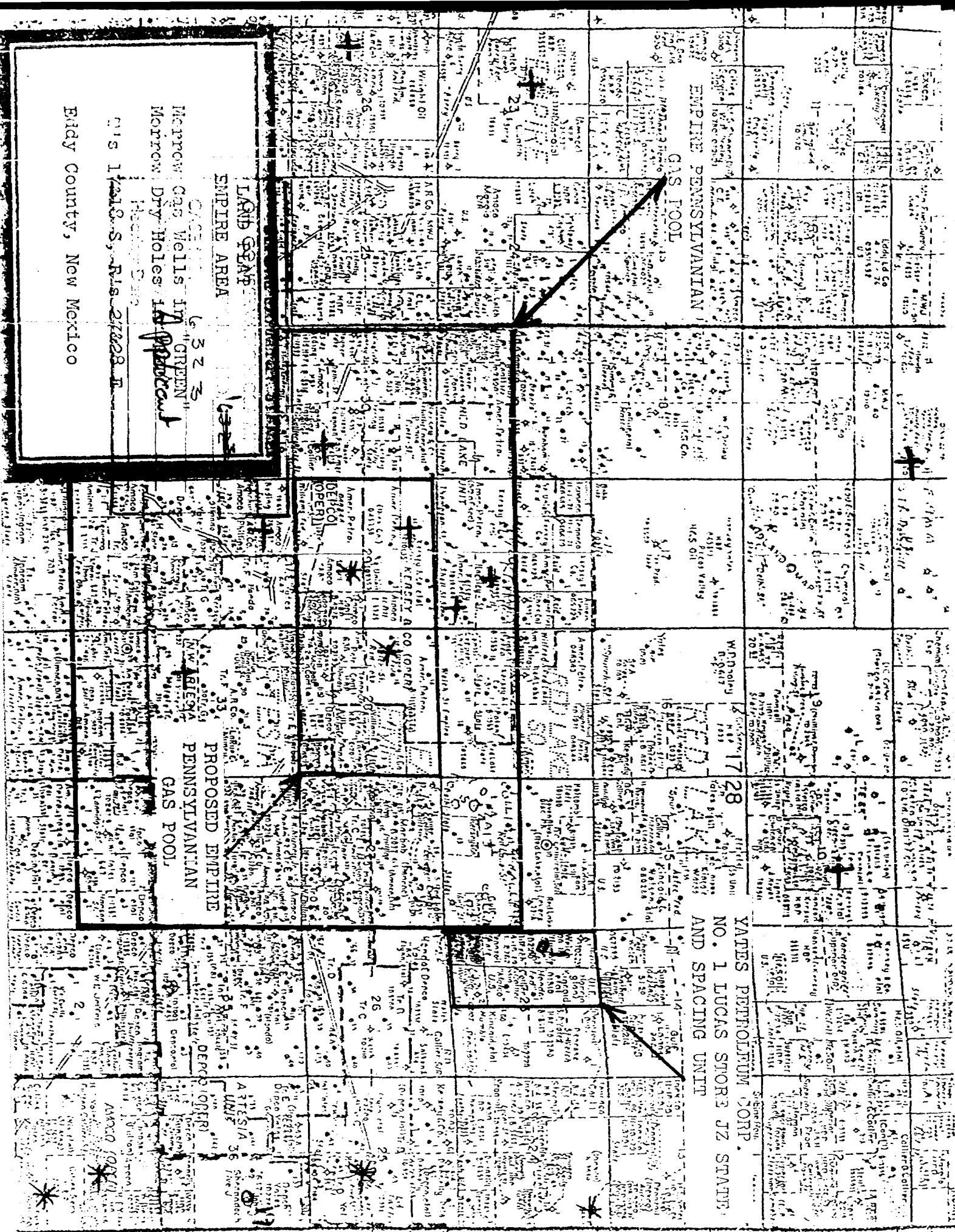
MORROW Dry Wells in "RED"

1/2 Sec. 16 & 17 T. 27 N. R. 20 E. S. 27

YATES PETROLEUM CORP.

NO. 1 LUCAS STORE JZ STATE

AND SPACING UNIT



ROBERT E. BOLING
EXPLORATION CONSULTANT
202 AMERICAN HOME BUILDING

ARTESIA, NEW MEXICO - 88210

October 21, 1977

63 23
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 ever 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 $8/8$ ths. 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 "B-1" to this letter. Since Unit acreage only composes five-eighths 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-eighths 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-eighths 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 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 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
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. Bailly

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

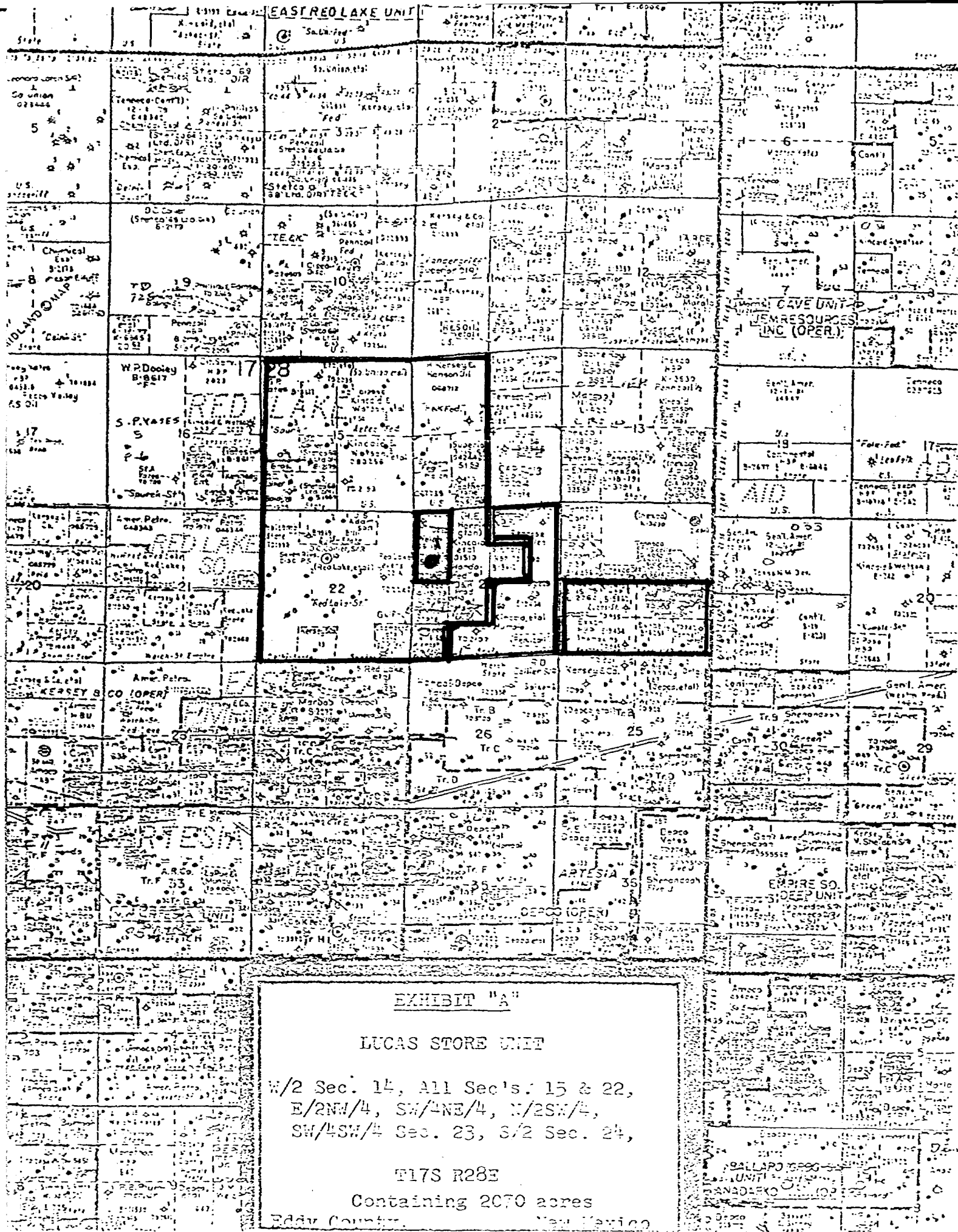


EXHIBIT "B"

Page 1

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 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

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER LEASE	NET ACRES EACH OWNER LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TWO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
LC 067739										
	Sec. 14: SW/4SW/4 KINCAID & WATSON DRILLING CO.	40.00			H.B.P.	12.50000	-0-	87.50000	100.00000	87.50000
LC 068712 & A										
	Sec. 14: NW/4SW/4, NW/4 HANSON OIL CO.	200.00	75.00000	150.00000	H.B.P.	18.75000 (1)	-0-	56.25000		75.00000
	HAROLD KERSEY		25.00000	50.00000		6.25000	-0-	18.75000		75.00000
	TR. NO. 2 TOTALS	200.00	100.00000	200.00000		25.00000	-0-	75.00000	100.00000	
3.										
	Sec. 14: E/2SW/4 (UNLEASED FEDERAL KGS LAND)	80.00		80.00000						
(We have requested that this tract be included in the next KGS sale)										
4.										
	E-8617									
	Sec. 15: NW/4, NW/4SW/4									
	Sec. 23: SW/4NE/4	240.00			H.B.P.					
	S. P. YATES		41.66667	100.00000		7.29167	-0-	34.37500		82.50000
	HARVEY E. YATES CO.		41.66667	100.00000		7.29167	-0-	34.37500		82.50000
	MARTIN YATES III		8.33333	20.00000		1.45833	-0-	6.87500		82.50000
	JOHN A. YATES		8.33333	20.00000		1.45833	-0-	6.87500		82.50000
	TR. NO. 4 TOTALS	240.00	100.00000	240.00000		17.50000	-0-	82.50000	100.00000	

EXHIBIT "B"

Page 2

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2NW/4, S/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 2500 FEET TO 10896 FEET BELOW THE SURFACE

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (ALL T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH OWNER EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
a.	B-1969	80.00			H.B.P.					
	Sec. 15: S/2SW/4									
b.	B-2178	40.00			H.B.P.					
	Sec. 15: NE/4SW/4									
	PENNZOIL CO.	54.68750		65.62500		10.93750	-0-	43.75000		80.00000
	WAINOCO, INC.	32.81250		39.37500		6.56250	-0-	26.25000		80.00000
	JUNE JOHNSON	12.50000		15.00000		2.50000	-0-	10.00000		80.00000
	TR. NO. 5 TOTALS	120.00	100.00000	120.00000		20.00000	-0-	80.00000	100.00000	
6.	NM 012 896									
	Sec. 15: NE/4	160.00			H.B.P.					
	Supron Energy Corporation	30.00000		48.00000		3.75000	-0-	26.25000		87.50000
	AZTEC OIL & GAS CO.	20.00000		32.00000		2.50000	-0-	17.50000		87.50000
	PENNZOIL CO.	27.34375		43.75000		3.41797	-0-	23.92578		87.50000
	WAINOCO, INC.	16.40625		26.25000		2.05078	-0-	14.35517		87.50000
	JUNE JOHNSON	6.25000		10.00000		.78125	-0-	5.46875		87.50000
	TR. NO. 6 TOTALS	150.00	100.00000	160.00000		12.50000(2)	-0-	87.50000	100.00000	
7.	NM 080258									
	Sec. 15: SE/4	160.00			H.B.P.					
	KINCAID & WATSON DRILLING CO.	26.66666		42.66666		3.33334	-0-	23.33332		87.50000
	DURHAM DRILLING CO.	16.66667		26.66667		2.08333	-0-	14.58334		87.50000
	DALEVCO OILS	16.66667		26.66667		2.08333	-0-	14.58334		87.50000
	COWATCO	5.00000		8.00000		.62500	-0-	4.37500		87.50000
	JONELL R. GILMORE	7.50000		12.00000		.93750	-0-	6.56250		87.50000
	NANCY KING	2.50000		4.00000		.31250	-0-	2.18750		87.50000
	LONNIE KEMPER	15.00000		24.00000		1.87500	-0-	13.12500		87.50000
	VAN LANNING	5.00000		8.00000		.62500	-0-	4.37500		87.50000
	LYNN LANNING	5.00000		8.00000		.62500	-0-	4.37500		87.50000
	TR. NO. 7 TOTALS	150.00	100.00000	160.00000		12.50000 (2)	-0-	87.50000	100.00000	

EXHIBIT "B"

Page 3.

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 Section 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEED RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER LEASE	NET ACRES EACH OWNER LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY INDIVIDUAL OWNERS IN TRACT	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
8.	<u>E-135</u> Sec. 22: SE/4SW/4 TENNECO OIL CO. CONTINENTAL OIL CO. TR. NO. 8 TOTAL	40.00	50.00000 50.00000	20.00000 20.00000	H.B.P.	6.25000 6.25000	-0- -0-	43.75000 43.75000	87.50000 87.50000
9.	<u>a. B-1969</u> Sec. 22: NE/4NW/4 <u>b. B-1111</u> Sec. 22: NW/4NE/4 GULF OIL CORPORATION	40.00 40.00			I.B.P. H.B.P.	-0- 25.00000 (3)	-0- -0-	75.00000 75.00000	75.00000
10.	<u>2029</u> Sec. 22: SE/4SE/4 GULF OIL CORPORATION	40.00	100.00000	40.00000	H.B.P.	15.50000 (4)	-0-	84.50000	84.50000
	<u>a. B-1111</u> Sec. 22: SW/4SW/4 <u>b. B-1969</u> Sec. 22: SW/4NW/4 AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 11 TOTAL	40.00 40.00			H.B.P. H.B.P.				
			75.00000 25.00000	60.00000 20.00000		9.87500 6.62500	9.37500 (6)	55.12500 18.37500	73.50000 73.50000
		80.00	100.00000	80.00000		26.50000(5)		73.50000	100.00000

EXHIBIT "D"

Page 4.

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W $\frac{1}{2}$ 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, LEASE RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH OWNER EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
12.	a. B-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	80.00 80.00 160.00	 75.00000 25.00000 100.00000	 120.00000 40.00000 160.00000	H.B.P. H.B.P. H.B.P.	 19.87500 6.62500 26.50000 (7)	 -0- -0- -0-	 55.12500 18.37500 73.50000	 100.00000	 73.50000 73.50000
13.	a. B-1969 Sec. 22: SW/4SE/4 b. 636 Sec. 22: NW/4SW/4 AMOCO PRODUCTION CO. CONTINENTAL OIL CO. TR. NO. 13 TOTALS	40.00 40.00 80.00	 50.00000 50.00000 100.00000	 40.00000 40.00000 80.00000	H.B.P. H.B.P. H.B.P.	 12.50000 12.50000 25.00000 (8)	 6.25000 (6) 6.25000 75.00000	 37.50000 37.50000 75.00000	 100.00000	 75.00000 75.00000
14.	a. B-1969 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	80.00 80.00 160.00	 50.00000 50.00000 100.00000	 80.00000 80.00000 160.00000	H.B.P. H.B.P. H.B.P.	 12.50000 12.50000 25.00000 (9)	 -0- -0- -0-	 37.50000 37.50000 75.00000	 100.00000	 75.00000 75.00000
15.	TEE Sec. 23: SW/4SW/4 TENNECO OIL CO.	40.00	100.00000	40.00000	H.B.P.	21.87500	-0-	78.12500	100.00000	78.12500

EXHIBIT "B"

Page 5.

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, E/2 NW/4, SW/4 NE/4, N/2 SW/4, SW/4 SW/4 Section 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 3500 FEET TO 10396 FEET BELOW THE SURFACE

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH LEASE	EXPIRATION DATE	PERCENT REVERTALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVERTALTY INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
16.	<u>L-2762</u> Sec. 23: NW/4 SW/4 PENNZOIL COMPANY INEXCO OIL CO. TR. NO. 16 TOTALS	40.00	50.00000 50.00000	20.00000 20.00000	4-15-79	6.25000 6.25000	3.56250 -0-	40.18750 43.75000		80.37500 87.50000
17.	<u>NM 01510</u> Sec. 23: E/2 NW/4, NE/4 SW/4 PENNZOIL COMPANY INEXCO OIL CO. TR. NO. 17 TOTALS	120.00	50.00000 50.00000	60.00000 60.00000	H.B.P.	6.25000 6.25000	3.56250 -0-	40.18750 43.75000		80.37500 87.50000
18.	<u>B-6251</u> Sec. 24: SE/4 PENNZOIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC. ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL CO. TR. NO. 18 TOTALS	160.00	50.00000 42.18750 1.56250 .78125 .78125 .78120 .78130	80.00000 67.50000 2.50000 1.25000 1.25000 1.25000 1.25000	H.B.P.	12.50000 10.54688 .39062 .19531 .19531 .19531 .19532	1.00000	36.50000 31.64062 1.17188 .58594 .58594 .58589 .58598		73.00000 75.00000 75.00000 75.00000 75.00000 75.00000 75.00000
		160.00	96.87500 (11)	155.00000	24.21875			71.65625	96.87500	

EXHIBIT "B"

Page 6

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 Section 23 and S/2 SECTION 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, MINERAL RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (ALL T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER	NET ACRES EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
19.	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	50.00000 42.18750 1.56250 .78125 .78125 .78125 .78120 .78130	20.00000 16.87500 .62500 .31250 .31250 .31250 .31250 .31250	H.B.F. 12.10937 10.21729 .37841 .18921 .18921 .18921 .18921	1.00000 36.89063 31.97021 1.18409 .59204 .59204 .59109 .59209	73.78125 75.78125 75.78125 75.78125 75.78125 75.78125 75.78125 75.78125			
	TR. NO. 19 TOTALS	40.00	96.87500 (11)	38.75000	23.46191	1.00000	72.41309	96.87500		
	L-2762 (10) Sec. 24: NW/4SW/4 PENNZOIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC. ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL COMPANY	40.00	50.00000 42.18750 1.56250 .78125 .78125 .78125 .78120 .78130	20.00000 16.87500 .62500 .31250 .31250 .31250 .31250 .31250	4-15-79 6.25000 5.27344 .19531 .09765 .09765 .09766 .09766	4.58000 39.17000 36.91406 1.36719 .68300 .68300 .68304 .68304	78.34000 87.50000 87.50000 87.50000 87.50000 87.50000 87.50000 87.50000			
	TR. NO. 20 TOTALS	40.00	96.87500 (11)	38.75000	12.10937	4.58000	80.18563	96.87500		

EXHIBIT "B"

Page 7.

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, 4/2 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

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST OWNER EACH	NET ACRES OWNER EACH	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR	PERCENT REVENUE INTEREST ON 100% COST BASIS
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E-9434	(10)	80.00			H.B.P.					
Sec. 24: S/2SW/4										
PENNZOIL COMPANY		50.00000		40.00000		6.25000	4.58000	39.17000		78.34000
INEXCO OIL COMPANY		42.18750		33.75000		5.27344		36.51406		87.50000
M. RALPH LOWE, INC.		1.56250		1.25000		.19531		1.36719		87.50000
ERMA LOWE		.78125		.62500		.09765		.68360		87.50000
MARALO, INC.		.78125		.62500		.09765		.68360		87.50000
TENNECO OIL COMPANY		.78120		.62500		.09766		.68354		87.50000
CONTINENTAL OIL COMPANY		.78130		.62500		.09766		.68364		87.50000

TR. NO. 21 TOTALS	80.00	96.87500	77.50000	12.10937	4.58000	80.18563	96.87500
Unit Sub-Total	2160.00						
Less unleased	80.00						
Unit Total	2080.00		2070.00000				

- 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 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.
- Schedule "B" Gov. Royalty. Rate assumed to be 12.5% for this schedule.
- 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 8/8ths which becomes effective when the \$4,000.00 production payment is retired.
- This tract is subject to a production payment in the amount of \$12,000.00 payable out of 3% of 8/8ths.

EXHIBIT "B"

Page 8

- (5) These lands are subject to the remainder of a production payment in the original amount of \$546,000.00 payable out of 12 1/2% of 8/8ths plus an overriding royalty equal to 2% of the net revenue interest. Under present conditions the override is 1.5%.
- (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 override equal to 2% of the net revenue interest. Under present conditions the override is 1.5%.
- (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. 5.
- (9) These lands are subject to the production payment described in Note No. 7. They are not subject to the override described in Note No. 7.
- (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.
- (11) Exxon's 3.125% interest, total of 10 acres, under S/2 Section 24 is not subject to the unit. Total acres subject to unit is 2070.

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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
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PENNZOIL CO.

5 a & b	65.62500	20.00000	52.50000	
6	43.75000	12.50000	33.28125	
16	20.00000	19.62500	16.07500	
17	60.00000	19.62500	48.22500	
18	80.00000	27.00000	58.40000	
19	20.00000	26.21875	14.75625	
20	20.00000	21.66000	15.66800	
21	40.00000	21.66000	31.33600	
PENNZOIL TOTAL	349.37500	16.87802	275.24150	16.77129

AMOCO PRODUCTION CO.

11	60.00000	26.50000	44.10000	
12	120.00000	26.50000	88.20000	
13	40.00000	25.00000	30.00000	
14	80.00000	25.00000	60.00000	
AMOCO TOTAL	300.00000	14.49275	222.30000	3.52118

EXHIBIT "B-1"

Page 2.

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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
GULF OIL CORPORATION	9 a & b	80.00000		25.00000	60.00000	
	10	40.00000		15.50000	33.80000	
		<u>120.00000</u>	<u>5.79710</u>		<u>93.80000</u>	<u>5.10529</u>
INEXCO OIL CO.	16	20.00000		12.50000	17.50000	
	17	60.00000		12.50000	52.50000	
	18	67.50000		25.00000	50.62500	
	19	16.87500		24.21875	12.78808	
	20	16.87500		12.50000	14.76563	
	21	<u>33.75000</u>		<u>12.50000</u>	<u>29.53125</u>	
INEXCO TOTAL		<u>215.00000</u>	<u>10.38647</u>		<u>177.70996</u>	<u>10.80903</u>
CONTINENTAL OIL CO.	8	20.00000		12.50000	17.50000	
	11	20.00000		26.50000	14.70000	
	12	40.00000		26.50000	25.40000	
	13	40.00000		25.00000	30.00000	
	14	80.00000		25.00000	60.00000	
	18	1.25000		25.00000	.93750	
	19	.31250		24.21875	.23682	
	20	.31250		12.50000	.27343	
	21	<u>.62500</u>		<u>12.50000</u>	<u>.54688</u>	
CONTINENTAL TOTAL		<u>202.50000</u>	<u>9.78261</u>		<u>153.59463</u>	<u>9.34224</u>

EXHIBIT "B-1"

Page 3.

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STOFFE 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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
S. P. YATES	4	100.00000		17.50000	82.50000	
S. P. YATES TOTAL		100.00000	4.83092		82.50000	5.01798
HARVEY E. YATES CO.	4	100.00000		17.50000	82.50000	
HARVEY E. YATES TOTAL		100.00000	4.83092		82.50000	5.01798
KINCAID & WATSON DRILLING CO.	1	40.00000		25.00000	30.00000	
	7	42.66666		12.50000	37.33333	
		82.66666	3.99356		67.33333	4.03548
WAINOCO, INC.	5 a & b	39.37500		20.00000	31.50000	
	6	26.25000		12.50000	22.96875	
WAINOCO TOTAL		65.62500	3.17029		54.46875	3.31301
TENNECO OIL CO.	8	20.00000		12.50000	17.50000	
	15	40.00000		21.87500	31.25000	
	18	1.25000		25.00000	.93750	
	19	.31250		24.21875	.23682	
	20	.31250		12.50000	.27343	
	21	.62500		12.50000	.54688	
TENNECO OIL TOTAL		62.50000	3.01932		50.74463	3.03649
Supron Energy Corp.	6	48.00000		12.50000	42.00000	
Supron Total		48.00000	2.31884		42.00000	2.53461

EXHIBIT "B-1"

Page 4.

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, N/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, EDL COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
AZTEC OIL & GAS CO.	6	32.00000		12.50000	28.00000	
AZTEC TOTAL		32.00000	1.54589		28.00000	1.70307
HANSON OIL CO.	2	150.00000		25.00000	112.50000	
HANSON TOTAL		150.00000	7.24638		112.50000	6.84270
DURHAM DRILLING CO.	7	26.66667		12.50000	23.33333	
DURHAM TOTAL		26.66667	1.28825		23.33333	1.41923
DALEVCO, INC.	7	26.66667		12.50000	23.33333	
DALEVCO TOTAL		26.66667	1.28825		23.33333	1.41923
JUNE JOHNSON	5 a&b	15.00000		20.00000	12.00000	
	6	10.00000		17.50000	8.25000	
JOHNSON TOTAL		25.00000	1.20773		20.25000	1.23169
LONNIE KEMPER	7	24.00000		12.50000	21.00000	
KEMPER TOTAL		24.00000	1.15942		21.00000	1.27130
MARTIN YATES III	4	20.00000		17.50000	16.50000	
MARTIN YATES TOTAL		20.00000	.96618		16.50000	1.00360
JOHN A. YATES	4	20.00000		17.50000	16.50000	
JOHN A. YATES TOTAL		20.00000	.96618		16.50000	1.00360

EXHIBIT "B-1"

Page 5.

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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
JONELL R. GILMORE	7	12.00000		12.50000	10.50000	
GILMORE TOTAL		12.00000	.57971		10.50000	.63665
HAROLD KERSEY	2	50.00000		25.00000	7.50000	
KERSEY TOTAL		50.00000	2.41546		7.50000	2.28090
VAN LANNING	7	8.00000		12.50000	7.00000	
VAN LANNING TOTAL		8.00000	.38647		7.00000	.42576
LYNN LANNING	7	8.00000		12.50000	7.00000	
LANNING TOTAL		8.00000	.38647		7.00000	.42576
COMATCO	8	8.00000		12.50000	7.00000	
COMATCO TOTAL		8.00000	.38647		7.00000	.42576
M. RALPH LOWE, INC.	18	2.50000		25.00000	1.87500	
	19	.62500		24.21875	.47353	
	20	.62500		12.50000	.54638	
	21	1.25000		12.50000	1.09375	
M. RALPH LOWE TOTAL		5.00000	.24156		3.98526	.24264
ERMA LOWE	18	1.25000		25.00000	.93750	
	19	.31250		24.21875	.23682	
	20	.31250		12.50000	.27343	
	21	.62500		12.50000	.54688	
ERMA LOWE TOTAL		2.50000	.12077		1.99163	.12132

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL CT 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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNERSHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNERSHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
MARALO, INC.	18	1.25000		25.00000	.93750	
	19	.31250		24.21875	.23682	
	20	.31250		12.50000	.27343	
	21	.62500		12.50000	.54688	
MARALO TOTAL		2.50000	.12077	1.99463	.12132	
NANCY KING	7	4.00000		12.50000	3.50000	
KING TOTAL		4.00000	.19324	3.50000	.21289	
TOTAL SUBJECT TO UNIT		2070.00000	100.00000	1644.08798	100.00000	
UNLEASED GOV. KGS LANDS		80.00000				
Exxon's 3.125% Int. under S/2 24		10.00000				
TOTAL IN UNIT OUTLINE		2160.00000				

EXHIBIT "B-2"

Page 1

SHOWING INTERESTS CONTRIBUTED, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNTIL PAYOUT, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL AFTER PAYOUT, AND ALL SUBSEQUENT WELLS AND OWNER'S RETAINED OVERRIDING ROYALTY DURING THE PAYOUT PERIOD IN THE LUCAS STONE UNIT, 1775 R28E, CONTAINING 2070 ACRES.

OWNERS	Contributions for Initial Test Well		Initial Test Well		Subsequent Wells and Initial Test Well		Percent Owners Retained Overriding Royalty Until Payout of First Production Well
	Column 1 Percent Owner-ship	Column 2 Percent Beneficial Interest	Column 3 Costs Percent	Column 4 Production Percent Beneficial Interest	Column 5 Costs Percent	Column 6 Production Percent Beneficial Interest	
PENNZOIL COMPANY	16.87802	16.74129	-0-	-0-	8.439010	8.370645	.80306
AMOCO PRODUCTION CO.	414.49275	13.52118	-0-	-0-	7.246375	6.760590	.64859
GULF OIL CORPORATION	5.79710	5.70529	-0-	-0-	2.898550	2.852675	.27368
INEXCO OIL CO.	10.38647	10.80903	-0-	-0-	5.193235	5.404515	.51850
CONTINENTAL OIL CO.	9.78261	9.34234	-0-	-0-	4.891305	4.671120	.44814
S. P. YATES	4.83092	5.01798	-0-	-0-	2.415460	2.508990	.24071
HARVEY E. YATES CO.	4.83092	5.01798	-0-	-0-	2.415460	2.508990	.24071
KINCAID & WATSON DRILLING CO.	3.99356	4.09548	-0-	-0-	1.925780	2.047710	.19646
WAINOCO, INC.	3.17029	3.31301	-0-	-0-	1.585145	1.656505	.15892
TENNECO OIL CO.	3.01932	3.08649	-0-	-0-	1.509660	1.543245	.14806
SUPRON ENERGY CORPORATION	2.31834	2.55461	-0-	-0-	1.159423	1.277305	.12254
AZTEC OIL & GAS CO.	1.54589	1.70307	-0-	-0-	.772945	.851535	.08169
HANSON OIL CO.	7.24638	6.84270	-0-	-0-	3.623190	3.421350	.32824
DURHAM DRILLING CO.	1.28825	1.41923	-0-	-0-	.644125	.709645	.06808
DALEVCO, INC.	1.28825	1.41923	-0-	-0-	.644125	.709645	.06808
JUNE JOHNSON	1.20773	1.23169	-0-	-0-	.603865	.615845	.05908
LONNIE KEMPER	1.15942	1.27730	-0-	-0-	.579710	.638650	.06127
MARTIN YATES III	.96618	1.00360	-0-	-0-	.483090	.501800	.04814
JOHN A. YATES	.96618	1.00360	-0-	-0-	.483090	.501800	.04814
JONELL R. GILMORE	.57971	.63865	-0-	-0-	.289855	.319325	.03063

(1)

SHOWING INTERESTS CONTRIBUTED, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNTIL PAYOUT, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, AFTER PAYOUT, AND ALL SUBSEQUENT WELLS AND OWNER'S RETAINED OVERRIDING ROYALTY DURING THE PAYOUT PERIOD IN THE LUCAS STORE UNIT, T1/2 S28E, CONTAINING 2070 ACRES.

OWNERS	Contributions for Initial Test Well		Initial Test Well Until Payout		Subsequent Wells and Initial Test Well After Payout		Percent Owners Retained Overriding Royalty Until Payout of First Producing Well
	Column 1 Percent Owner-ship	Column 2 Percent Beneficial Interest	Column 3 Costs Percent	Column 4 Production Percent Beneficial Interest	Column 5 Costs Percent	Column 6 Production Percent Beneficial Interest	
HAROLD KERSEY	2.41546	2.28090	-0-	-0-	1.207730	1.140450	.10941
VAN LANNING	.38647	.42576	-0-	-0-	.193235	.212880	.02042
LYNN LANNING	.38647	.42576	-0-	-0-	.193235	.212880	.02042
GOVATCO OILS	.38647	.42576	-0-	-0-	.193235	.212880	.02042
M. RALPH LOWE, INC.	.24156	.24264	-0-	-0-	.120780	.121320	.01164
TERMA LOWE	.12077	.12132	-0-	-0-	.060385	.060660	.00582
MARALO, INC.	.12077	.12132	-0-	-0-	.060385	.060660	.00582
NANCY KING	.19324	.21289	-0-	-0-	.096620	.106445	.01021
OPERATOR	-0-	-0-	100.00000	100.00000	50.000000	50.000000	-0-
UNIT TOTALS	100.00000	100.00000	100.00000	100.00000	100.000000	100.000000	4.79688

(1)

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 beneficial ownership as set out in column 2 hereof.

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

BEFORE EXAMINER STAMETS

OIL CONSERVATION COMMISSION

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

Lucas Store "JZ" State Com #1
1980 FNL, 860 FWL Sec. 23-17S-28E
Red Lake Area, Eddy Co., NM

EXHIBIT NO. 3

CASE NO. 6323

Submitted by applicant

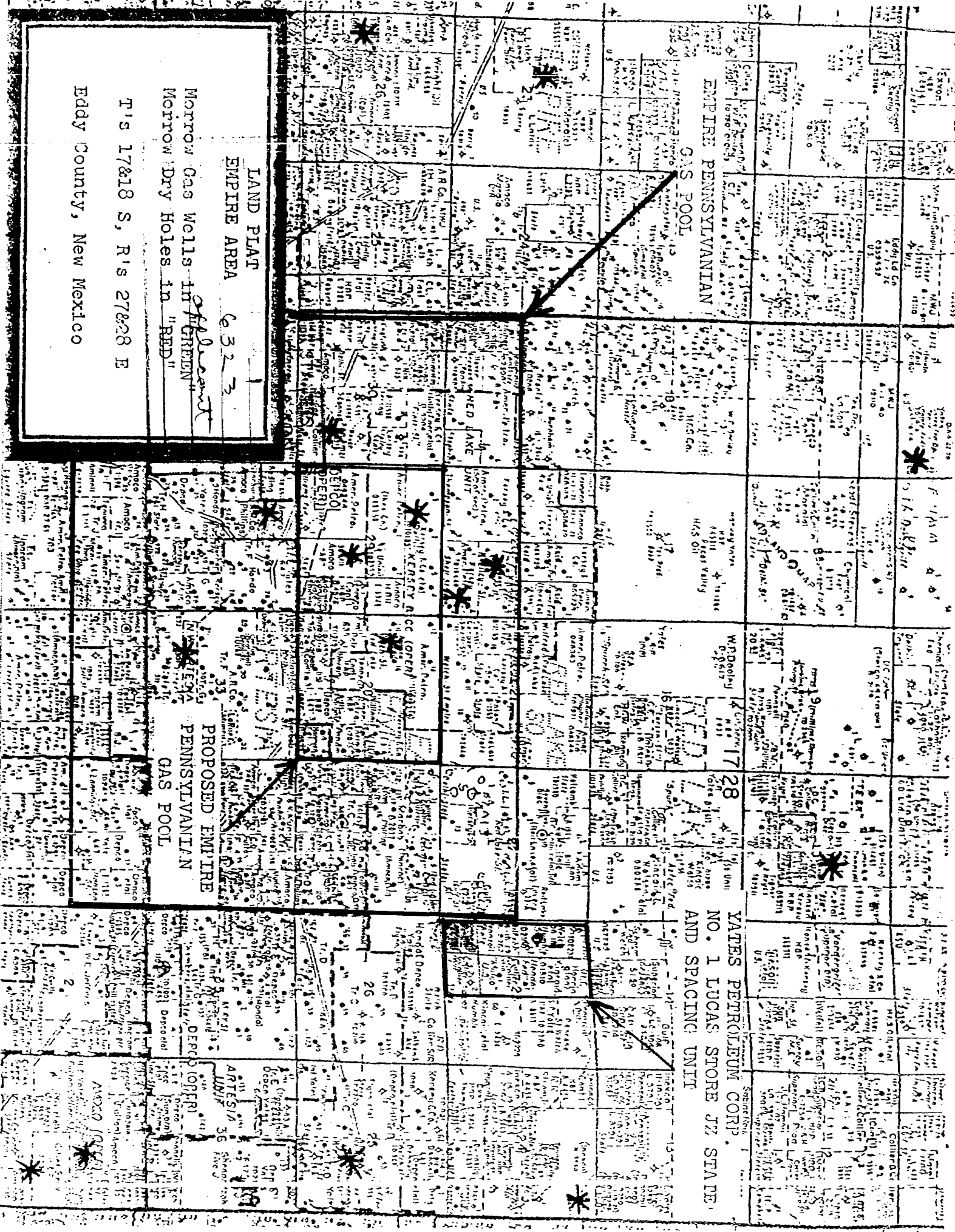
	Dry Hole	Completion
Staking Permit & Legal Fees	\$ 1,000	\$ 1,000
Location, Right-of-Way & Surface Damages	\$ 5,500	\$ 6,500
Drilling: Moving in, Rigging Up & Rigging Down	\$ 25,000	\$ 25,000
40 days @ \$3850	\$154,000	\$154,000
Bits, Reamers & Subs	\$ 20,000	\$ 20,000
Water, Mud & Additives, Pit Lining	\$ 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' @ \$17.93	\$ 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
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 proportionate share in kind.

TENNECO OIL COMPANY

12.5%

\$45,000.00 \$71,250.00



EDDY COUNTY, NEW MEXICO

MORROW GAS WELLS IN GREEN
MORROW DRY HOLES IN "RED"

LAND PLAT
EMPIRE AREA 6323

YATES PETROLEUM CORP.
NO. 1 LUCAS STORE JZ STATE
AND SPACING UNIT

EMPIRE PENNSYLVANIAN
GAS POOL

PROPOSED EMPIRE
GAS POOL

ROBERT E. BOLING

EXPLORATION CONSULTANT

202 AMERICAN HOME BUILDING

ARTESIA, NEW MEXICO - 88210

October 21, 1977

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION

DIRECT NO. 2

6323

Applicant

Filing Date

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 ever 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 $1/3$ of $8/8$ ths. 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 "B-1" to this letter. Since Unit acreage only composes five-eighths 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-eighths 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-eighths 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 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 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
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. Bailly

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 Will 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

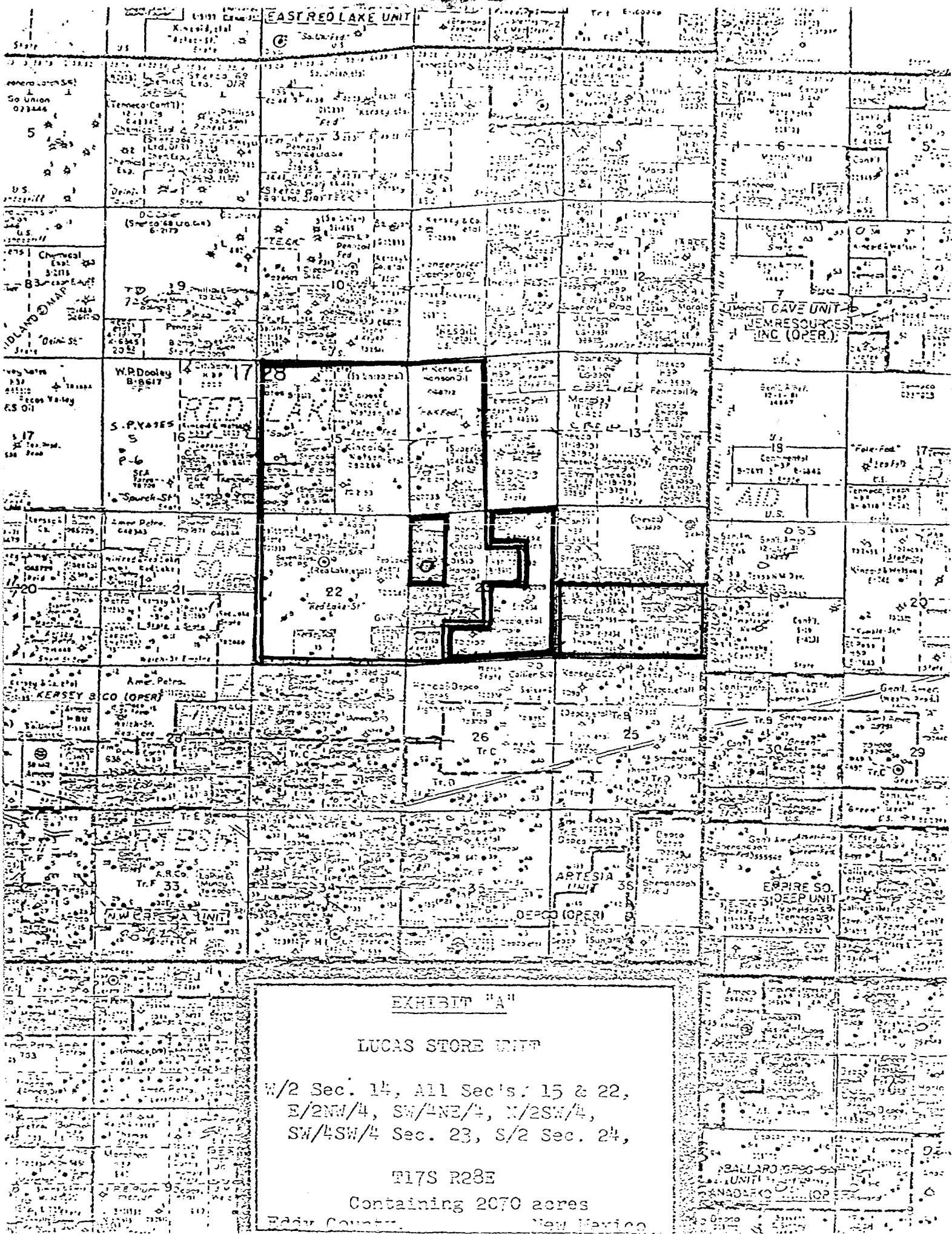


EXHIBIT "B"

Page 1

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 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

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (ALL T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH OWNER EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 1.00% COST BASIS
1.	LC 067739 Sec. 14: SW/4SW/4 KINCAID & WATSON DRILLING CO.	40.00	100.00000	40.00000	H.B.P.	12.50000	-0-	87.50000	100.00000	87.50000
2.	LC 068712 & A Sec. 14: NW/4SW/4, NW/4 HANSON OIL CO. HAROLD KERSEY	200.00	75.00000 25.00000	150.00000 50.00000	H.B.P.	18.75000 (1) 6.25000	-0- -0-	56.25000 18.75000	100.00000	75.00000 75.00000
3.	Sec. 14: E/2SW/4 (UNLEASED) FEDERAL KGS LAND	80.00	100.00000	200.00000		25.00000	-0-	75.00000	100.00000	
4.	B-3617 Sec. 15: NW/4, NW/4SW/4 Sec. 23: SW/4NE/4 S. P. YATES HARVEY E. YATES CO. MARTIN YATES III JOHN A. YATES TR. NO. 4 TOTALS	240.00	41.66667 41.66667 8.33333 8.33333	100.00000 100.00000 20.00000 20.00000	H.B.P.	7.29167 7.29167 1.45833 1.45833	-0- -0- -0- -0-	34.37500 34.37500 6.87500 6.87500	100.00000	82.50000 82.50000 82.50000 82.50000

(We have requested that this tract be included in the next KGS sale)

EXHIBIT "B"

Page 2

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 Section 23 and S/2 SECTION 21, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPT. RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH OWNER EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
a. B-1969	Sec. 15: S/2SW/4	80.00			H.B.P.					
b. B-2178	Sec. 15: NE/4SW/4 PENNCOIL CO. WAINOCO, INC. JUNE JOHNSON	40.00	54.68750 32.81250 12.50000	65.62500 39.37500 15.00000	H.B.P.	10.93750 6.56250 2.50000	-0- -0- -0-	43.75000 26.25000 10.00000		80.00000 80.00000 80.00000
	TR. NO. 5 TOTALS	120.00	100.00000	120.00000		20.00000	-0-	80.00000	100.00000	
6. NM 012 896	Sec. 15: NE/4	160.00			H.B.P.					
	Supron Energy Corporation AZTEC OIL & GAS CO. PENNCOIL CO. WAINOCO, INC. JUNE JOHNSON		30.00000 20.00000 27.34375 16.40625 6.25000	48.00000 32.00000 43.75000 26.25000 10.00000		3.79000 2.50000 3.41797 2.05078 .78125	-0- -0- -0- -0- -0-	26.25000 17.50000 23.92578 14.35547 5.46875		87.50000 87.50000 87.50000 87.50000 87.50000
	TR. NO. 6 TOTALS	160.00	100.00000	160.00000		12.50000(2)	-0-	87.50000	100.00000	
7. NM 080268	Sec. 15: SE/4	160.00			H.B.P.					
	KINCAID & WATSON DRILLING CO. DURHAM DRILLING CO. DALESCO OILS COWATCO JONELL R. GILMORE NANCY KING LONNIE KEMPER VAN LANNING LYNN LANNING		26.66666 16.66667 16.66667 5.00000 7.50000 2.50000 15.00000 5.00000 5.00000	42.66666 26.66667 26.66667 8.00000 12.00000 4.00000 24.00000 8.00000 8.00000		3.33334 2.08333 2.08333 .62500 .93750 .31250 1.87500 .62500 .62500	-0- -0- -0- -0- -0- -0- -0- -0- -0-	23.33332 14.58334 14.58334 4.37500 6.56250 2.18750 13.12500 4.37500 4.37500		87.50000 87.50000 87.50000 87.50000 87.50000 87.50000 87.50000 87.50000 87.50000
	TR. NO. 7 TOTALS	160.00	100.00000	160.00000		12.50000 (2)	-0-	87.50000	100.00000	

EXHIBIT "B"

Page 3.

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 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

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (ALL T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH OWNER EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR	PERCENT REVENUE INTEREST ON 100% COST BASIS
8.	E-135 Sec. 22: SE/4SW/4 TENNECO OIL CO. CONTINENTAL OIL CO. TR. NO. 8 TOTAL	40.00	50.00000 50.00000 100.00000	20.00000 20.00000 40.00000	H.B.P.	5.25000 5.25000 12.50000	-0- -0- -0-	43.75000 43.75000 87.50000		87.50000 87.50000
9.	a. B-1969 Sec. 22: NE/4NW/4 b. B-1111 Sec. 22: NW/4NE/4 GULF OIL CORPORATION	40.00 40.00 80.00			H.B.P. H.B.P. H.B.P.	25.00000 25.00000 (3) 75.00000	-0- -0- -0-	75.00000 75.00000 100.00000		75.00000
10.	2029 Sec. 22: SE/4SE/4 GULF OIL CORPORATION	40.00	100.00000	40.00000	H.B.P.	15.50000 (4)	-0-	84.50000	100.00000	84.50000
	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	40.00 40.00 40.00 80.00	75.00000 25.00000 100.00000	60.00000 20.00000 80.00000	H.B.P. H.B.P. H.B.P.	19.87500 6.62500 26.50000 (5)	9.37500 (5) 3.12500 73.50000	55.12500 18.37500 73.50000		73.50000 73.50000

EXHIBIT "D"

Page 4.

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, 1/2 SECTION 14, ALL OF SECTIONS 15 & 22, 1/2NW/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

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH OWNER EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
12.	a. B-1111									
	Sec. 22: SE/4NW/4 NE/4NE/4	80.00			H.B.P.					
	b. B-1969									
	Sec. 22: N/2SE/4	80.00	75.00000	120.00000	H.B.P.	19.87500	-0-	55.12500		73.50000
	AMOCO PRODUCTION CO.		25.00000	40.00000		6.62500	-0-	18.37500		73.50000
	CONTINENTAL OIL CO.									
	TR. NO. 12 TOTALS	160.00	100.00000	160.00000		26.50000 (7)	-0-	73.50000	100.00000	
13.	a. B-1969									
	Sec. 22: SW/4SE/4	40.00			H.B.P.					
	b. 636									
	Sec. 22: NW/4SW/4	40.00	50.00000	40.00000	H.B.P.	12.50000	6.25000 (6)	37.50000		75.00000
	AMOCO PRODUCTION CO.		50.00000	40.00000		12.50000	6.25000	37.50000		75.00000
	CONTINENTAL OIL CO.									
	TR. NO. 13 TOTALS	80.00	100.00000	80.00000		25.00000 (6)		75.00000	100.00000	
14.	a. B-1969									
	Sec. 22: NW/4NW/4 NE/4SW/4	80.00			H.B.P.					
	b. B-1111									
	Sec. 22: S/2NE/4	80.00	50.00000	80.00000	H.B.P.	12.50000	-0-	37.50000		75.00000
	AMOCO PRODUCTION CO.		50.00000	80.00000		12.50000	-0-	37.50000		75.00000
	CONTINENTAL OIL CO.									
	TR. NO. 14 TOTALS	160.00	100.00000	160.00000		25.00000 (6)	-0-	75.00000	100.00000	
15.	TEB									
	Sec. 23: SW/4SW/4	40.00			H.B.P.					
	TENNECO OIL CO.		100.00000	40.00000		21.87500	-0-	78.12500	100.00000	73.12500

EXHIBIT "B"

Page 5.

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, W/2 SECTION 14, ALL OF SECTIONS 15 & 22, 1/2NW/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

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (ALL T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST IN 100% COST BASIS
16.	<u>L-2762</u> Sec. 23: NW/4SW/4 PENNZOIL COMPANY INEXCO OIL CO. TR. NO. 16 TOTALS	40.00	50.00000 50.00000	20.00000 20.00000	4-15-79	6.25000 6.25000	3.56250 -0-	40.18750 43.75000	100.00000	80.37500 87.50000
17.	<u>NM 01510</u> Sec. 23: E/2NW/4, NE/4SW/4 PENNZOIL COMPANY INEXCO OIL CO. TR. NO.17 TOTALS	120.00	50.00000 50.00000	60.00000 60.00000	H.B.P.	6.25000 6.25000	3.56250 -0-	40.18750 43.75000	100.00000	80.37500 87.50000
18.	<u>B-6251</u> Sec. 24: SE/4 PENNZOIL COMPANY INEXCO OIL COMPANY M. RALPH LOWE, INC. ERMA LOWE MARALO, INC. TENNECO OIL COMPANY CONTINENTAL OIL CO. TR. NO. 18 TOTALS	160.00	50.00000 42.18750 1.56250 .78125 .78125 .78120 .78130	80.00000 67.50000 2.50000 1.25000 1.25000 1.25000 1.25000	H.B.P.	12.50000 10.54688 .39062 .19531 .19531 .19531 .19532	1.00000	36.50000 31.64062 1.17788 .58194 .58194 .58189 .58198	73.00000 75.00000 75.00000 75.00000 75.00000 75.00000 75.00000	
		160.00	96.87500 (11)	155.00000		24.21875		71.65625	96.87500	

EXHIBIT "B"

Page 6

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 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

TR. NO.	LEASE NO., OWNERS & DESCRIPTION (All T17S R28E)	GROSS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH OWNER EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
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19. B-5862 (10)
Sec. 24: NE/4SW/4

40.00	PENNZOIL COMPANY	50.00000	20.00000	12.10937	1.00000	36.85063	31.97021	1.18409	73.78125
	INEXCO OIL COMPANY	42.18750	16.87500	10.21729		1.18409	1.18409	.59204	75.78125
	M. RALPH LOWE, INC.	1.56250	.62500	.57841		.59204	.59204	.59199	75.78125
	ERMA LOWE	.78125	.31250	.18921		.59204	.59199	.59209	75.78125
	MARALO, INC.	.78125	.31250	.18921		.59204	.59199	.59209	75.78125
	TENNECO OIL COMPANY	.78120	.31250	.18921		.59204	.59199	.59209	75.78125
	CONTINENTAL OIL COMPANY	.78130	.31250	.18921		.59204	.59199	.59209	75.78125

TR. NO. 19 TOTALS

40.00 96.87500 38.75000 23.46191 1.00000 72.41309 96.87500

L-2762 (10)
Sec. 24: NW/4SW/4

40.00	PENNZOIL COMPANY	50.00000	20.00000	6.25000	4.58000	39.17000	36.91406	1.36719	78.34000
	INEXCO OIL COMPANY	42.18750	16.87500	5.27344		36.91406	1.36719	.68360	87.50000
	M. RALPH LOWE, INC.	1.56250	.62500	.19531		.68360	.68360	.68354	87.50000
	ERMA LOWE	.78125	.31250	.09765		.68360	.68354	.68354	87.50000
	MARALO, INC.	.78125	.31250	.09765		.68360	.68354	.68354	87.50000
	TENNECO OIL COMPANY	.78120	.31250	.09766		.68360	.68354	.68354	87.50000
	CONTINENTAL OIL COMPANY	.78130	.31250	.09766		.68360	.68354	.68354	87.50000

TR. NO. 20 TOTALS

40.00 96.87500 38.75000 12.10937 4.58000 80.18553 96.87500

EXHIBIT "B"

Page 7.

LEASE OWNERSHIP AND INFORMATION IN THE LUCAS STORE UNIT, S/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 R23E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES, DEPTH RIGHTS FROM 3500 FEET TO 10896 FEET BELOW THE SURFACE

TR. NO. DESCRIPTION (ALL T17S R23E)	DIOSIS ACRES IN LEASE	PERCENT INTEREST EACH OWNER EACH LEASE	NET ACRES EACH OWNER EACH LEASE	EXPIRATION DATE	PERCENT ROYALTY & BURDENS BORNE BY ALL OWNERS IN TRACT	PERCENT BURDEN BORNE BY INDIVIDUAL OWNERS	PERCENT REVENUE INTEREST TO EACH OWNER	BURDENS PLUS REVENUE INTEREST FOR TRACT	PERCENT REVENUE INTEREST ON 100% COST BASIS
E-9434 (10) Sec. 24: S/2SW/4	80.00			H.B.P.					
FENNZOIL COMPANY		50.00000	40.00000		6.25000	4.58000	39.17000		78.34000
INEXCO OIL COMPANY		42.18750	33.75000		5.27344		36.91406		87.50000
M. RAUFH LOWE, INC.		1.56250	1.25000		.19531		1.36719		87.50000
ERMA LOWE		.78125	.62500		.09765		.68360		87.50000
MARALO, INC.		.78125	.62500		.09765		.68360		87.50000
TENNECO OIL COMPANY		.78120	.62500		.09766		.68354		87.50000
CONTINENTAL OIL COMPANY		.78130	.62500		.09766		.68364		87.50000
-TR. NO. 21 TOTALS	80.00	96.87500	77.50000		12.10937	4.58000	80.18563	96.87500	
Unit Sub-Total	2160.00								
Less unleased	80.00								
Unit Total	2080.00		2070.00000						

(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 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.

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

(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 8/8ths which becomes effective when the \$4,000.00 production payment is retired.

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

- (5) These lands are subject to the remainder of a production payment in the original amount of \$546,000.00 payable out of 12 1/2% of 8/8ths plus an overriding royalty equal to 2% of the net revenue interest. Under present conditions the override is 1.5%.
- (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 override equal to 2% of the net revenue interest. Under present conditions the override is 1.5%.
- (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. 5.
- (9) These lands are subject to the production payment described in Note No. 7. They are not subject to the override described in Note No. 7.
- (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.
- (11) Exxon's 3.125% interest, total of 10 acres, under S/2 Section 24 is not subject to the unit. Total acres subject to Unit is 2070.

EXHIBIT "B-1"

Page 1.

CALCULATION OF PERCENT OWNERSHIP AND BENEFICIAL INTEREST IN THE LUCAS STORE UNIT, W/2 SECTION 14, N/2 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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
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PENNZOIL CO.	5 a & b	65.62500		20.00000	52.50000	
	6	43.75000		12.50000	33.28125	
	16	20.00000		19.62500	16.07500	
	17	60.00000		19.62500	46.22500	
	18	80.00000		27.00000	56.40000	
	19	20.00000		26.21875	14.75625	
	20	20.00000		21.66000	15.66800	
	21	40.00000		21.66000	31.33600	
		<u>349.37500</u>			<u>275.24150</u>	
	PENNZOIL TOTAL		16.87802			16.77129

AMOCO PRODUCTION CO.	11	60.00000		26.50000	44.10000	
	12	120.00000		26.50000	86.20000	
	13	40.00000		25.00000	30.00000	
	14	80.00000		25.00000	60.00000	
		<u>300.00000</u>			<u>222.30000</u>	
AMOCO TOTAL			14.49275			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/4, SW/4INT/4, N/2SW/4, SW/4SW/4 SECTION 24 and S/2 Section 24, T17S R28E, EDDY COUNTY, NEW MEXICO, CONTAINING 2070 ACRES.

[illegible]

GULF OIL CORPORATION	
9 a & b	80.00000
10	40.00000
	<u>120.00000</u>
	5.79710
GULF TOTAL	
	<u>60.00000</u>
	33.80000
	<u>93.80000</u>
	5.70529

	INEXCO OIL CO.		
16	20.00000	12.50000	17.50000
17	60.00000	12.50000	52.50000
18	67.50000	25.00000	50.62500
19	16.87500	24.21875	12.78808
20	16.87500	12.50000	14.76563
21	33.75000	12.50000	29.53125
	<u>215.00000</u>		<u>177.70936</u>
	10.38647		10.80903
	INEXCO TOTAL		

CONTINENTAL OIL CO.			
8	20.00000	12.50000	17.50000
11	20.00000	25.50000	14.70000
12	40.00000	25.50000	29.40000
13	40.00000	25.00000	30.00000
14	80.00000	25.00000	60.00000
18	1.25000	25.00000	.33750
19	.31250	24.21875	.23682
20	.31250	12.50000	.27343
21	.62500	12.50000	.54688
CONTINENTAL TOTAL	202.50000	9.78261	153.59463
			9.34224

EXHIBIT "D-1"

Page 3.

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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP IN UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
S. P. YATES	4	100.00000		17.50000	82.50000	
S. P. YATES TOTAL		100.00000	4.83092		82.50000	5.01798
HARVEY E. YATES CO.	4	100.00000		17.50000	82.50000	
HARVEY E. YATES TOTAL		100.00000	4.83092		82.50000	5.01798
KINCAID & WATSON DRILLING CO.	1	40.00000		25.00000	30.00000	
	7	42.66666		12.50000	37.33333	
		82.66666	3.99356		67.33333	4.09518
WAINOCO, INC.	5 a&b	39.37500		20.00000	31.50000	
	6	26.25000		12.50000	22.75000	
WAINOCO TOTAL		65.62500	3.17029		54.25000	3.31301
TENNECO OIL CO.	8	20.00000		12.50000	17.50000	
	15	40.00000		21.87500	31.25000	
	18	1.25000		25.00000	.93750	
	19	.31250		24.21875	.23682	
	20	.31250		12.50000	.27343	
	21	.62500		12.50000	.54688	
TENNECO OIL TOTAL		62.50000	3.01932		50.74463	3.08649
Supron Energy Corp.	6	48.00000		12.50000	42.00000	
Supron Total		48.00000	2.31884		42.00000	2.55461

EXHIBIT "B-1"

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.

OWNERS	TRACT NO.	NET ACRES EACH OWNER	PERCENT OWNER-SHIP UNIT	PERCENT ROYALTY PLUS BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
AZTEC OIL & GAS CO.	6	32.00000		12.50000	23.00000	
AZTEC TOTAL		32.00000	1.54589		23.00000	1.70307
HANSON OIL CO.	2	150.00000		25.00000	112.50000	
HANSON TOTAL		150.00000	7.24638		112.50000	6.84270
DURHAM DRILLING CO.	7	26.66667		12.50000	23.33333	
DURHAM TOTAL		26.66667	1.28825		23.33333	1.41923
DALEVCO, INC.	7	26.66667		12.50000	23.33333	
DALEVCO TOTAL		26.66667	1.28825		23.33333	1.41923
JUNE JOHNSON	5 a & b	15.00000		20.00000	12.00000	
	6	10.00000		17.50000	8.25000	
JOHNSON TOTAL		25.00000	1.20773		20.25000	1.23169
LONNIE KEMPER	7	24.00000		12.50000	21.00000	
KEMPER TOTAL		24.00000	1.15942		21.00000	1.27730
MARTIN YATES III	4	20.00000		17.50000	16.50000	
MARTIN YATES TOTAL		20.00000	.96618		16.50000	1.00360
JOHN A. YATES	4	20.00000		17.50000	16.50000	
JOHN A. YATES TOTAL		20.00000	.96618		16.50000	1.00360

EXHIBIT "B-1"

Page 5.

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/4EW/4 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 BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
JONELL R. GILMORE	7	12.00000		12.50000	10.50000	
GILMORE TOTAL		12.00000	.57971		10.50000	.63865
HAROLD KERSEY	2	50.00000		25.00000	7.50000	
KERSEY TOTAL		50.00000	2.41546		7.50000	2.28090
VAN LANNING	7	8.00000		12.50000	7.00000	
VAN LANNING TOTAL		8.00000	.38647		7.00000	.42576
LYNN LANNING	7	8.00000		12.50000	7.00000	
LANNING TOTAL		8.00000	.38647		7.00000	.42576
COMATCO	8	8.00000		12.50000	7.00000	
COMATCO TOTAL		8.00000	.38647		7.00000	.42576
M. RALPH LOWE, INC.	18	2.50000		25.00000	1.87500	
	19	.62500		24.21875	.47363	
	20	.62500		12.50000	.54688	
	21	1.25000		12.50000	1.09375	
M. RALPH LOWE TOTAL		5.00000	.24156		3.98926	.24264
ERMA LOWE	18	1.25000		25.00000	.93750	
	19	.31250		24.21875	.23682	
	20	.31250		12.50000	.27343	
	21	.62500		12.50000	.54688	
ERMA LOWE TOTAL		2.50000	.12077		1.99463	.12132

EXHIBIT "B-1"

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/4NE/4, N/2SW/4, SW/4SW/4 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 BURDEN ON 100% OWNER-SHIP BASIS	BENEFICIAL ACRES EACH OWNER	PERCENT BENEFICIAL INTEREST IN UNIT
MARALO, INC.	18	1.25000		25.00000	.93750	
	19	.31250		24.21875	.23682	
	20	.31250		12.50000	.27343	
	21	.62500		12.50000	.54688	
MARALO TOTAL		2.50000	.12077		1.99463	.12132
NANCY KING	7	4.00000		12.50000	3.50000	
KING TOTAL		4.00000	.19324		3.50000	.21289
TOTAL SUBJECT TO UNIT		2070.00000	100.00000	1644.08798		100.00000
UNLEASED GOV. KGS LANDS		80.00000				
Exxon's 3.125% Int. under S/2 24		10.00000				
TOTAL IN UNIT OUTLINE		2160.00000				

EXHIBIT "B-2"

Page 1

SHOWING INTERESTS CONFERRED, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNIT, PAYOUT, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL AFTER PAYOUT, AND ALL SUBSEQUENT WELLS AND OWNER'S RETAINED OVERRIDING ROYALTY DURING THE FAVORABLE PERIOD IN THE LUGAS STONE UNIT, 71/2 R28E, CONTAINING 2070 ACRES.

OWNERS	Contributions for Initial Test Well		Initial Test Well Unit Payout		Subsequent Wells and Initial Test Well After Payout		Percent Owners Retained Overriding Royalty Unit Pay of First Production Well
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7
	Percent Owner-shld	Percent Beneficial Interest	Costs Percent	Production Percent Beneficial Interest	Costs Percent	Production Percent Beneficial Interest	
PENNZOIL COMPANY	15.87802	16.74129	-0-	-0-	8.439010	8.370645	.80306
AMOCO PRODUCTION CO.	41.49275	13.52118	-0-	-0-	7.216375	6.760590	.64859
GULF OIL CORPORATION	5.79710	5.70529	-0-	-0-	2.898550	2.852645	.27368
INEXCO OIL CO.	10.38647	10.80903	-0-	-0-	5.193235	5.404515	.51850
CONTINENTAL OIL CO.	9.78261	9.34234	-0-	-0-	4.891305	4.671120	.44814
S. P. YATES	4.83092	5.01798	-0-	-0-	2.415460	2.508990	.24071
HARVEY E. YATES CO.	4.83092	5.01798	-0-	-0-	2.415460	2.508990	.24071
KINCAID & WATSON DRILLING CO.	3.99356	4.09548	-0-	-0-	1.996780	2.047710	.19646
WAINCO, INC.	3.17029	3.31301	-0-	-0-	1.585145	1.656505	.15892
TENNECO OIL CO.	3.01932	3.08649	-0-	-0-	1.509660	1.543245	.14806
SUPRON ENERGY CORPORATION	2.31884	2.55461	-0-	-0-	1.159420	1.277305	.12254
AZTEC OIL & GAS CO.	1.54589	1.70307	-0-	-0-	.772945	.851535	.08169
HANSON OIL CO.	7.24638	6.84270	-0-	-0-	3.623190	3.421350	.32824
DURHAM DRILLING CO.	1.28825	1.41923	-0-	-0-	.644125	.709615	.06808
DALECO, INC.	1.28825	1.41923	-0-	-0-	.644125	.709615	.06808
JUNE JOHNSON	1.20773	1.23169	-0-	-0-	.603865	.615845	.05908
LONNIE KEMPER	1.15942	1.27730	-0-	-0-	.579710	.638650	.06127
MARTIN YATES III	.96618	1.00360	-0-	-0-	.483090	.501800	.04814
JOHN A. YATES	.96618	1.00360	-0-	-0-	.483090	.501800	.04814
JONELL R. GILMORE	.57971	.63865	-0-	-0-	.289855	.319325	.03063

(1)

EXHIBIT "B-2"

Page 2

SHOWING INTERESTS CONTRIBUTED, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, UNTIL PAYOUT, PERCENTAGE SHARE OF COSTS AND PRODUCTION FROM INITIAL TEST WELL, AFTER PAYOUT, AND ALL SUBSEQUENT WELLS AND OWNERS REMAINED OVERRIDING ROYALTY DURING THE PAYOUT PERIOD IN THE LUCAS STONE UNIT, T1/2 S28E, CONTAINING 2070 ACRES.

OWNERS	Contributions for Initial Test Well		Initial Test Well Until Payout		Subsequent Wells and Initial Test Well After Payout		Percent Owners Retained Overriding Royalty Until Payout of First Production Well
	Column 1 Percent Owner-ship	Column 2 Percent Beneficial Interest	Column 3 Percent Costs	Column 4 Percent Beneficial Interest	Column 5 Percent Costs	Column 6 Percent Beneficial Interest	
HAROLD KERSEY	2.41546	2.28090	-0-	-0-	1.20773	1.14015	.10911
WYN LANNING	.38647	.42576	-0-	-0-	.19323	.21288	.02042
LYNN LANNING	.38647	.42576	-0-	-0-	.19323	.21288	.02042
COMATCO CILS	.38647	.42576	-0-	-0-	.19323	.21288	.02042
M. RALPH LOWE, INC.	.34156	.24264	-0-	-0-	.12078	.12132	.0154
ERMA LOWE	.12077	.12132	-0-	-0-	.06038	.06066	.00582
MARALO, INC.	.12077	.12132	-0-	-0-	.06038	.06066	.00582
NANCY KING	.19324	.21289	-0-	-0-	.09662	.10641	.01021
OPERATOR	-0-	-0-	100.00000	100.00000	50.00000	50.00000	-0-
UNIT TOTALS	100.00000	100.00000	100.00000	100.00000	100.00000	100.00000	4.79688

(1)

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 beneficial ownership as set out in column 2 hereof.

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 Oil
A Tenneco Company



~~Lincoln-Tenneco Building~~
~~1880 Lincoln Street, Suite 1200~~
~~Denver, Colorado 80202~~
~~(303) 633-6333~~

TENNECO OIL COMPANY
Land Department
Galleria
720 So. Colorado Blvd.
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, HEP)

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,

Lav Pouch
ext 400.

N. B. Venus -

JOE GAZLICK
MR. WINKLER

Note change of address and phone above.

50/450/4 Sec 23 - Below 3500' - Base of pen.

303-758-7130

Del. Winkler - Lav Pouch

713-757-2130

Revised to FD
H. 10/20/78 - let them pay
5-24-78 - turned down
Lav Pouch

ROBERT E. BOLING
EXPLORATION CONSULTANT
202 AMERICAN HOME BUILDING

ARTESIA, NEW MEXICO - 88210

April 12, 1973

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 W/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 estimated 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 you as soon as you have reached a decision concerning this request.

Respectfully Requested,

Robert E. Boling
Robert E. Boling

REB/jj

AUTHORITY FOR EXPENDITURE

~~Yates Petroleum Corporation~~

BEFORE EXAMINER STAMETS

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

OIL CONSERVATION COMMISSION

EXHIBIT NO. 3

Lucas Store "JZ" State Com #1
1980 FNL, 860 FWL Sec. 23-17S-28E
Red Lake Area, Eddy Co., NM

CASE NO. 6323

Submitted by <u>applicant</u>	Dry Hole	Completion
Staking Permit & Legal Fees	\$ 1,000	\$ 1,000
Location, Right-of-Way & Survey	\$ 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
<u>TOTAL INTANGIBLES</u>	<u>\$336,000</u>	<u>\$375,000</u>
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
<u>TOTAL TANGIBLES</u>	<u>\$ 24,000</u>	<u>\$165,000</u>
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
<u>TOTAL LEASE EQUIPMENT</u>	<u>\$ -</u>	<u>\$ 35,000</u>
<u>TOTAL TO DRILL, COMPLETE & EQUIP</u>	<u>\$360,000</u>	<u>\$575,000</u>

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 proportionate share in kind.

TENNECO OIL COMPANY

12.5%

\$45,000.00 \$71,250.00

Tenneco Oil
A Tenneco Company

~~Lincoln Tower Building~~
~~1880 Lincoln Street, Suite 1200~~
~~Denver, Colorado 80202~~
~~(303) 232-2022~~



TENNECO OIL COMPANY
Land Department
Galleria
720 So. Colorado Blvd.
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 time.

Thank you for your inquiry.

Yours truly,

*Law pouch -
ext 400.*

N. B. Venus -

JOE GAZLICK
MR. WINKLER

Note change of address and phone above.

5045 SW 14 Ave 25 - Below 3500 - Box 400

303-758-7130

Deb Winkler - Law pouch

713-757-2130

*Revised to F.D.
5-21-78 - let them pay
5-21-78 - turned down
Law pouch*

ROBERT E. BOLING
EXPLORATION CONSULTANT
202 AMERICAN HOME BUILDING

ARTESIA, NEW MEXICO - 88210

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 W/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 estimated depth of the Initial Test Well is 10,750 feet.
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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 have 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

REB/jj

ROBERT E. BOLING
EXPLORATION CONSULTANT
202 AMERICAN HOME BUILDING

ARTESIA, NEW MEXICO - 88210

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 SE/4 Section 23,
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New Mexico.

Gentlemen:

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

Respectfully Requested,

Robert E. Eoling
Robert E. Eoling

REB/jj

Tenneco Oil
A Tenneco Company

~~1860 L. ...~~
~~1860 L. ...~~
~~1860 L. ...~~
~~(303) 202-0000~~



TENNECO OIL COMPANY
Land Department
Gallatin
720 So. Colorado Blvd.
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,

N. B. Venus —

Lawrence
ext 400.

JOE GAZLICK.
MR. WINKLER.

Note change of address and phone above.

5045014 sec 23 - Below 3500' - Base of pen.

303-758-7130

Deb Winkler - Lawrence

713-757-2130

Received to F.D.
5-24-78 - turned down
Lawrence

A. J. LOSEE
JOEL M. CARSON
CHAD DICKERSON

LAW OFFICES
LOSEE & CARSON, P.A.
300 AMERICAN HOME BUILDING
P. O. DRAWER 239
ARTESIA, NEW MEXICO 88210

AREA CODE 505
746-3508

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:

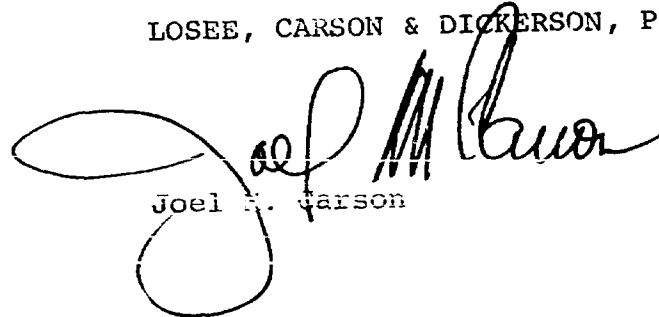
Enclosed for filing, please find three copies of an Application of Yates Petroleum Corporation for compulsory pooling, in Eddy County, New Mexico.

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.



Joel M. Carson

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 37 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 Yates 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 fair, 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 to be made 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 36 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. Crane, 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 F. 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 proration 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 Morrow 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 No. DHC-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, Eddy County, New Mexico. 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.

CASE 6320: Application of Texas Oil & 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 Coquina Federal Com. 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 Oil & 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 Osado-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 Gas Pool, Eddy County, New Mexico, to be dedicated to its Lucas Store JZ Well No. 1 located at an unorthodox location 1980 feet from the North line and 860 feet from the West line of said section. Also 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 H of Section 4 and Unit E of Section 3, respectively.

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 Guero-Chaco production in the wellbore of its Hicarilla 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.

Exhibits 1 through 5

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. 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 in the Wolfcamp and
Pennsylvania formations as a gas well, which is to be lo-
cated 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

By: 

Joel M. Carson

LOSEE, CARSON & 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 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 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

By: 

Joel M. Carson

LOSEE, CARSON & 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 MATTER OF THE APPLICATION OF :
YATES PETROLEUM CORPORATION FOR :
COMPULSORY POOLING, EDDY COUNTY, : CASE NO. 6323
NEW MEXICO :
_____ :

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 lo-
cated 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

By: 

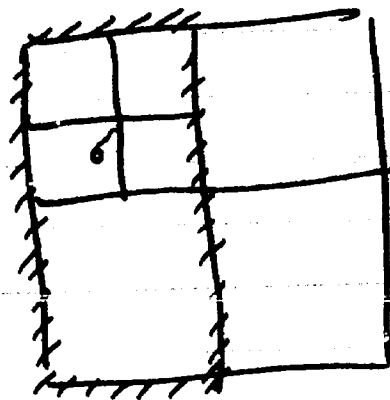
Joel W. Carson

LOSBE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

Application of
Lucas Petroleum Corporation for
and an unorthodox gas well location
Compulsory Pooling, Eddy County,
N.M.

Applicant in the above-styled
cause seeks an order pooling all
mineral interest in the Wolfcamp
and Pennsylvanian formations
underlying the W/2 of Section
23, T17S, R28E, Empire -
Pennsylvanian, Pool, Eddy County,
N.M.; to be dedicated to its
Lucas Store J2 Well No. 1 located
at an unorthodox location 1980 FNL
and 860 FNL of said section.
Also to be considered ... etc.



Called in by Jerry Lopez
8-14-78

DRAFT

dr/

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,
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 Gas Pool, Eddy County, New
Mexico.

(3) That the applicant has the right to drill and propose to drill at 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.

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

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

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

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

(8) That any non-consenting working interest owner 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.

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

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

\$2500.00 per month while drilling and
\$278.00 per month while producing

(12) That _____ per month should be fixed as a reasonable charge^s for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge^s 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 Gas Pool, 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 ~~to be drilled~~ ^{to be drilled} Lucas Store JZ Well No. 1 ^{to be drilled} ~~located at an unorthodox location 1980 feet from the North line and 860 feet from the West line of said Section 23, 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, 210 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs. *\$7500.00 per month while drilling and \$278.00 per month while producing are*

(9) That per month is hereby fixed as a reasonable 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.

(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 ~~60~~ days from the date ^{any funds are deposited} ~~of this order~~ ~~placed with such agent.~~ ^{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.