# CASE NO.

6351

APPlication, Transcripts, Small Exhibits,

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

#### EXAMINER HEARING

IN THE MATTER OF:

Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico. CASE 6351

BEFORE: Richard L. Stamets

#### TRANSCRIPT OF HEARING

#### APPEARANCES

For the Oil Conservation Division:

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MR. STAMETS: We'll call next Case 6351.

MS. TESCHENDORF: Case 6351. Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico.

MR. STAMETS: Call for appearances in this

MR. COFFIELD: Conrad Coffield with the Hinkle law firm, Midland, Texas, appearing on behalf cir Southland Royalty Company, and I have three possible witnesses.

MR. STAMETS: any other appearances?

MR. KELLAHIN: Tom Kellahin of Kellahin and Fox, Santa Fe, New Mexico, appearing on behalf of Anadarko Production Company, and I have four possible witnesses.

MR. STAMETS: I'd like to have all those -- any other appearances in this case?

I'd like to have all those who may be witnesses in this case stand and be sworn at this time, please.

(Witnesses sworn.)

#### ARTHUR DARRYL JAMES

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

DIRECT EXAMINATION

#### BY MR. COFFIELD:

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Q Would you please state your name, address, occupation, and employer?

A. My name is Arthur Darryl James. I'm a District Geologist for Southland Royalty Company, Southland Royalty's Southwest District, Southwestern District. I reside at 2603 Anderson Street, Midland, Texas.

Q. Are you familiar with the application of Southland Royalty Company in this case, Mr. James?

A. Yes.

Q. Are you familiar with the property and the proposed well location in this case?

A. Yes.

Q Have you previously testified before the Oil Conservation Division?

A. I have not.

Q. Would you please briefly state your history of your educational and work background for the benefit of the Examiner?

A. I have two degrees in geology from Rutgers University. I received a Bachelor's degree in 1965 and a Master's degree in 1967.

Q. And what about your employment?

A. I have approximately eight and one-half years experience, two years with Southland Royalty and six and

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one-half years with Exxon Company, U.S.A. as a geologist.

With Exxon I have worked in New Orleans, offshore Louisiana, Stavander (sic), Norway, in west Texas.

With Southland Royalty I have worked in the west Texas, southeastern New Mexico area.

MR. COFFIELD: Are the qualifications of this witness acceptable?

MR. STAMETS: The witness is considered qualified.

Q. (Mr. Coffield continuing.) Mr. James, would you please state what Southland Royalty seeks to accomplish by this application?

A. Southland Royalty is interested in pooling all mineral interests in the north half of Section 16,

Township 19 South, Range 29 East, in Eddy County, New

Mexico.

If you refer to Plat Number One, which is a land plat of the subject area, it is on a scale of one inch to 4000 feet. This particular area is approximately 15 miles northeast of Carlsbad, New Mexico. It is referred to as the Parkway Area.

Southland Royalty's acreage is shown in yellow on the map and Anadarko's acreage, their deep rights, is shown in green on the map.

The yellow hachures are showing acreage that

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Southland Royalty can earn through farm-ins, through a farm-in from Pennzoil in the west half of Section 16, by drilling a successful well or a producing well by November 25th.

The red shaded wells are showing wells that are -- have penetrated our objective, which is the Morrow, the Morrow Sands.

Wells are underlined in red that are dry holes in this particular area.

Also shown is a proposed well in the northwest quarter of Section 16 and a possible contingent well in the southeast corner of the same section, and please note that Southland Royalty has recently completed a well in Section 15, called the SRC No. 1 Parkway State, which was completed for a CAOF of 2.7 million cubic feet of gas per day on August the 24th, 1978.

Southland Royalty is currently drilling a well in Section 23, which is located approximately two miles southeast of the subject proposed location, called the SRC 23 No. 1 State Com. This well is currently drilling below 8200 feet.

We will attempt to demonstrate in this testimony that our geologic interpretation supports a well located in the north half of Section 16 and that a contingent location exists in the south half; also that the pro-

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posed location is not dependent on the performance of the recently completed SRC No. 1 Parkway State Well that I just referred to, and that the proposed well, although it has significant risk, is profitable and reasonable to drill at this time.

- All right, Mr. James, go on into what has been marked as Exhibit Two and explain what this represents.
- Exhibit Two is a type log. It is the SRC Parkway State Com Well that I just mentioned in Section 15 that was recently completed on August 24th.

The sands that are objectives in this area are shaded in yellow on this log. This log is a FDC C&L, or a density neutron log, compensated.

The perforations labeled Perforations 3, and shaded in red are the perforations that the well is currently completed in. The well will be on-stream today or within the next couple of days.

we first completed the Lower Morrow Sand in this well, which are from perforations labeled Number 1, which tested at 600,000 cubic feet a day on a 1/2 inch choke after a slight acid treatment.

To improve deliverability we perforated, we added perforations to this, labeled Perforations No. Two. The well immediately increased to 1.75 million cubic feet a day and almost immediately after that was cut by a sig-

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nificant amount of water, drastically cutting our producing rate.

We ran a temperature survey, which indicated that the majority of the gas was coming from perforations labeled No. 1 and that gas and water were coming from perforations labeled No. 2, with the gas coming from the upper part of the perforations.

We cemented these perforations off and set a plug and went up and completed in the current producing zone, perforations No. 3.

- Anything further on that exhibit?
- Okay, go on to what we've marked as Exhibit Three and explain what this represents.
- Exhibit Number Three is a structural cross section that goes from the Hondo Union TX Well, Section 17, to our proposed location in Section 16, and to the SRC Parkway No. 1 State in Section 15, that I just referred to.

The red areas on the cross section are showing the areas that we believe to be gas prospective, or gas occurring. The blure areas are areas that we believe to be water occurring.

Note that in the SRC Parkway Well the lower set of sands have a gas/water content in them. These sands

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 ڲؙؙڹؿ؞ٷٙؖ are referred to as the -- the lower set of sands are referred to as the "E" Sands by Southland Royalty, and the particular sand I'm referring to is referred to as the "E-2" Sand.

Below it is the "E-4" Sand that I referred to earlier that we first completed in.

Plans are in that well, after depletion of the current zone that we're completing in, the Upper Sands sequence, shaded yellow, we will upon depletion drill down through the cement and the plug and recomplete in this lowermost sand.

Southland Royalty recognizes three sand sequences within the Morrow. The uppermost sand sequence is not colored in the log. It is a marine sand sequence that we do not think is prospective in this area.

The middle sequence of sands are shown and we do believe these sands to be prospective and they're the primary objective of this proposal.

The grey shaded area is a marine shale that coccurs and separates the middle sand sequence and the lower sand sequence that we call "E" Sands. This is a widespread marine shale that is a very good structural mapping horizon," and I will be showing you maps that are mapped on the base of this particular shale.

I will be referring back to this particular

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exhibit.

Q Okay. Then go on now to Exhibit Four and explain to the Examiner what this represents.

map, shaded in green, or the green contours, is a structural map, mapped on the base of the shale I just referred to.

Also, this is an Isolith of effective porosity, or that is porosity greater than eight percent, that occurs within the Middle Morrow Sand sequence.

Porosity thicknesses greater than twenty feet are shaded in red on this particular map. The line of cross section is shown on this map with the proposed location, and also the contingent location is shown.

Mot the proposed location is up-dip approximately 125 feet to the SRC Parkway Well and is also up-dip to a well in Section 17, the TX Hondo Union State -- or Hondo Union State TX No. 1 -- which has produced 1.15 billion cubic feet of gas at 1/1/78 and is currently producing more than a million a day. It had an average monthly producing rate for the month of June of 1.05 million cubic feet a day.

Our reservoir engineers are giving this particular well 3.2 billion cubic feet of gas, an EUR.

Our location is interpreted to be in a thicker enough dip location to both these wells, but note a well in

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the northwest corner of Section 16, the Hondo Exxon State
No. 1 Well. It had 29 feet of porosity greater than eight
percent, but the porosity was scattered, the sands were
shaley and low perm and it was a dry hole.

MR. COFFIELD: That is Section 17, isn't it?

It's in Section 17.

Also shown is a recent well, the Amoco "EV"

State in Section 5, two miles to the north. This well

also is a dry hole with scattered porosity and low permeability in this particular sand sequence.

One additional well, you will note the dry hole in Section 20. It did not have this sand present.

And a well in the south half of Section 20, the Petroleum Corporation Parkway West Unit No. 5 Well, is a fairly new well, and it is not yet on stream, that I know of, but it had a CAOF 2.827 million cubic feet a day. Also, a well in Section 29 immediately south of this well, Petroleum Corporation Parkway West Unit No. 2 is producing at more than a million cubic feet a day from this sand and it has a cumulative as of the 1st of this year of 1.3 billion cubic feet of gas.

The well in Section 29 did not -- is not completed in this sand. I apologize but my exhibit is in error. That should not be colored red. That well is completed in the Strawn and Atoka and is a marginal well.

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MR. RAMEY: Now which well was this?

A. It's a well in Section 28. It's in the north-west quarter.

MR. STAMETS: Mine is colored in a brown.

A. It should not be colored at all.

MR. STAMETS: It should not be colored at all.

Okay.

A. I apologize for that.

MR. STAMETS: Let me ask you a question while we're at this point. The well in the southwest corner of Section 20, Parkway West Unit, now that is colored in red and that is a Morrow completion, is that right?

A. That's right, it's completed in this sand.

MR. STAMETS: Okay, even though it is outside

vour cutoff for the 20 feet.

A. That's right.

MR. STAMETS: And 2.8 million, I would presume it's a fairly decent Morrow well?

A. Yes, sir, we believe it to be a good well.

I didn't mean to imply that you needed 20 feet of effective porosity to have a well. There are other factors, such as having the porosity continuous and good permeability.

I would like to mention that this particular sand sequence, the Middle Morrow Sands, have no water prob-

I do not know of any water occurring in this sand sequence throughout this area.

The next exhibit --

It's marked Exhibit Five, I believe, isn't it, Mr. James?

- Exhibit Five.
- Would you explain that?

Exhibit Five is a similar set of maps. structural map, shaded in green, is the same structure map I showed you previously. And this is also an Isolith map of net porosity greater than eight percent, but this is a map of the "E-2" Sand. If you'll refer back to Exhibit Number Two, the structural corss section, you can see this particular sand.

The red areas are areas that we believe to be gas saturated within this sand. The blue areas, water saturated. The yellow areas are showing areas that we do not know. They're down-dip from proven gas or up-dip from proven water. They could either be gas saturated or water saturated.

The proposed location, again, is 125 feet up-dip to the SRC Parkway Well, and this Parkway Well, I mentioned had a gas/water contact, so we believe we are in a very good up-dip position to be prospective within this zone. Note the well, Hondo Union State -- the Hondo Union

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TX State No. 1 Well, again, in Section 17, the well that's on the cross section, this well had water occurring in the perforations structurally up-dip to the gas/water -- to gas that was proven to be present in the SRC Parkway Well, indicating that there has to be a separation, which we interpret to be a permeability barrier.

There are no wells completed in this particular area in this particular sand, and by not drilling the well in the north half of Section 16, gas would never be recovered with present completions.

Now refer to what has been marked as Exhibit Q. Six and explain what that represents.

Exhibit Six is a similar map. It's the same structural map where the contours are again highlighted in green. It is a map, also, it is an Isolith map of the "E-4" porosity greater than eight percent.

If you will refer back to the structural cross section you will see that this was a sand that Southland originally completed in, or tested, rather, in the SRC Parkway Well. This sand is very restricted. As you can see, there is only one well in this particular area that has this sand present.

Although risky, we think this sand also is prospective at the proposed location.

Go on to Exhibit Seven, please, Mr. James, and Q.

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explain what that is.

Exhibit Seven is a map, a base map, of the area, of a larger area. It's on a scale of approximately one inch equal to 16,000 feet.

Over in the lower righthand part of the map is the subject area in Township 19 South, 29 East.

Southland Royalty has participated in or has operated a total of fifteen wells in this immediate area in the last year and a half. Of these fifteen wells Southland is an operator of ten of them. Two wells are currently drilling. The well I mentioned previously, the SRC No. 123 State Com in the Parkway area, and another well that's operated by Gulf, the Gulf No. 1 -- pardon me, the Gulf No. 3 Pacheco Well, over in the -- about five or six miles, or eight miles east -- pardon me, west of our subject area.

Of the thirteen wells that have been completed we have been successful in eleven of them; two have been dry holes. Three of the wells have been significant wells. Those wells are underlined in red. The Gulf No. 1 "GM" State, SRC No. 1 Palmillo State, and the SRC No. 2 Palmillo State.

The No. 1 Palimillo State and No. 2 Palmillo State are interpreted to be in the same channel trend as the subject area.

In the southeastern -- in southeastern New

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Mcxico Morrow development risk has been approximately 85 percent, where wildcat risk has been approximately 50 percent. Now, this risk is misleading because although it is very likely to have a successful Morrow well, it is less likely to have a significant Morrow well.

What I'm trying to say is mean Morrow well is much higher than the mode; the mean is the average and the mode is the most frequently occurring Morrow well. So the risk in exploration in Morrow in southeastern New Mexico, in my opinion, is not in finding so much a successful well, but it is in finding a well that will be profitable. The wells that I refer to that are shown on this base map are more of a development nature. There's a lot of activity within this area, and the well is developing at a very brisk pace.

Over in the Parkway Well there has not been any activity recently outside of Southland Royalty, and we feel the risk over here is a little bit higher than a risk in the area that we have been developing that I mentioned on this base map.

We are estimating risk in this well as follows:

Success probability of 68 percent. This is based on two

primers which we feel are important in this type of strati
graphic prospect, reservoir and size. We estimate the prob
ability of finding sufficient quantities of reservoir quality

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rock is 80 percent and the probability of finding sufficient size of entrapped gas to be profitable 85 percent.

Other risk parameters, such as trap, source, and hydrocarbon risks are not considered important in this prospect.

Okay, Mr. James, refer to what has been marked as Exhibit -- or did you have any more on that one?

> A. No.

MR. STAMETS: What was the overall success probability?

68 percent, sir.

Refer to what has been marked as Exhibit Eight and please explain that.

Exhibit Eight is a brief geological report that we'd like to submit. It is merely a summary of the geological supportive data that I've given in my testimony.

I have no further comments on this particular exhibit.

All right, then go ahead and refer to what's been marked as Exhibit Nine and explain it.

Exhibit Nine is our AFE for the proposed well in Section 16.

How does the amount and the figures on this particular AFE compare with other AFEs for other wells of which you have personal knowledge in this area?

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A. They are proper and in line with wells we have drilled and completed very recently in this immediate area.

The AFE is proposed for the 11,600 foot Morrow test. It's a completed well cost of \$636,000 and a dry hole cost of \$296,000.

Q Please refer to what has been marked as Exhibit Number Ten.

A. Exhibit Ten is an economic analysis of the proposed well. The first page is a summary. These economics are based on --

MR. STAMETS: Oops, oops --

the record.)

A. Exhibit Number Ten.

MR. STAMETS: All right, I don't have one.

MR. COFFIELD: Well, here's one here.

(There followed a discussion off

these are our base case economics and are based on Summit joining at its 25 percent working interest; Lowe Interests joining at its 36.33 percent interest; and Anadarko joining at its 25 percent interest; Pennzoil farming out, retaining one-eighth overriding royalty, Pennzoil farms out to Southland Royalty, and Pennzoil backs in as to Southland Royalty's interest for a 50 percent working interest after

payout, for a net investment of \$193,000 to Southland Royalty profit undiscounted before tax of \$652,000. This results in a PI, defined as profit undiscounted, divided by net investment of 3.39.

Payout takes .85 years with a rate of return of 82 percent.

These economics are based on a gas price of \$1.65 per Mcf, an initial producing rate of 2.09 million cubic feet of gas per day, a first year decline of 25 percent, a life of 16.82 years, and Southland's working interest of 31.25 percent. Southland Royalty's net revenue interests of 23.4375 percent before payout, which is reduced to 13.67 percent after payout.

Mr. James, do you -- to your knowledge what support, if any, has Anadarko offered in connection with the drilling of this --

Anadarko has offered support in the way of a dry hole contribution of \$2.50 per foot. A dry hole contribution is often used by offset and nearby operators to deduce the monetary risk testing risky or wildcat acreage. A dry hole contribution is not payable for a completed well even though such a well may never pay out.

The risk involved in this prospect is not primarily finding a successful well, which we think there's a better than 50 percent chance, as I stated earlier, but

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primarily in finding gas deposits in amount sufficient to prove economic.

Support in the form of a dry hole contribution we do not feel is reasonable in this particular area, in this particular prospect.

Mr. James, from your knowledge of the prospect and the general area involved in this particular case, do you have an opinion and a recommendation to the Division as to a penalty factor which should be applied by the Oil Conservation Division in connection with the forced pooling of the Anadarko interest?

A. We are requesting the penalty of 200 percent in this matter, which we feel is justified by the risk involved in drilling a well that we feel is a high risk development type well.

We believe the proposed well to be drillable, a technically strong prospect, and that a prudent operator would drill this well without delay.

economics, I failed to say earlier, our economics are based strictly on finding -- are based on the Middle Morrow Sands, and not on the other two objectives. The Middle Morrow Sands are the sands that are producing in the Union Texas Well, which is our west offset, west approximately one mile, one plus miles offset, and our Southland Royalty No. 1 Park-

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way State, which is again about a mile plus offsetting to the southeast.

- 0. Mr. James, have these exhibits been, to which you've made reference, been prepared by you or under your supervision?
  - A. They have. Yes, they have.
- Q In your opinion will the approval of this application by Southland Royalty prevent the drilling of unnecessary wells, otherwise prevent waste and protect correlative rights?

#### A. Yes.

MR. COFFIELD: Mr. Examiner, I move the admission of the exhibits to which we've made reference.

MR. STAMETS: Exhibits One through Ten will be admitted.

Any questions of the witness? Mr. Kellahin?
MR. KELLAHIN: If the Examiner please.

#### CROSS EXAMINATION

#### BY MR. KELLAHIN:

Q. Mr. James, I'm not a geologist. You're going to have to help me with some of these percentages that you've attributed to the different risks involved in drilling this well, so I can understand how you have reached a recommendation of a 200 percent penalty factor for Anadarko.

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Have you made a percentage calculation with regard to the potential risk of drilling a dry hole?

What is that risk?

A. That risk would be 68 percent less 100 percent, which I won't try to do in my head.

MR. STAMETS: How about 32 percent?

- Q. You have a 32 percent risk of drilling a dry hole.
  - A Yes, sir.
  - Q. Now I'm not talking about an economic holse.
  - A A dry hole.
- Q A dry hole. Okay. I believe you told me in relation to Exhibit Number Seven that there were some fifteen wells drilled in this area in which Southland was the operator of ten, I believe.
  - A. That's right.
- Q And that of the thirteen wells currently completed, there are apparently two still drilling.
  - A. That's right.
- Q. Of the thirteen wells currently completed eleven were producers and two were dry holes.
  - A. That's right.
- Q. My math certainly is not as good as yours, but that would indicate to me that the risk of drilling a dry hole is something about 20 percent, is it not?

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Well, sir, again, though, this particular area is an area with much activity. I don't know the exact rig count but perhaps four rigs are currently drilling Morrow wells in this area, and there is much more control and much more recent activity and it is more of a development type area, and that's why our success rate has been very analagous to the success rate for the development wells within the Morrow trend throughout Eddy and Lea Counties in this particular area.

The difference I was trying to bring out was that the Parkway area is an area that has not had this drilling activity and outside of the well we have just drilled and completed and the well we have proposed, and the well we are currently drilling, there has been no activity, no recent activity, within the last year or so.

Well, let me ask you some more questions because I'm still having trouble putting this in perspective.

The statute under which the Oil Conservation Division imposes a penalty simply reads as follows: It says, "may include a charge for the risk involved in drilling of such well, which charge for risk shall not exceed 200 percent of the nonconsenting working owner or owners prorated share of the cost of drilling and completing the well." That's the ceiling.

Now, if that is the maximum, then could not

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we reserve that maximum for the wildcat Morrow well which is truly a speculative venture? That would be the most riskiest venture you could undertake, would it not?

A. Yes, I believe that would be a speculative well.

- Q All right.
- A. But may I say something else?
- Q But this is something less. This is something less than that kind of wildcat Morrow well, isn't it?
- A. Well, could you be more specific in the type of well you're talking about? Are you talking about a \$3-million or \$3-million well in southern Lea County?
- Q No, sir, I'm talking about this well you propose to drill in Section 16. That is not a speculative wildcat Morrow well, is it?
- A. We feel that is not that type of wildcat well yet.
- All right, by what percentage, then, would
   you reduce the 200 percent risk factor to attribute for
   the fact that this well is not that kind of high risk well?
- A. I would not want to reduce the risk factor for the --
- Q. Well, I know you don't want to, but how, you know, what would be fair in reducing it so that it would properly reflect the type of actual risk being taken?

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A. We feel that 200 percent penalty is -- is fair in this case.

Q All right, sir.

A. And that the well has enough risk, otherwise Anadarko would have joined in the drilling of this well with us, that we requested.

Which will be brought out later.

You're not, if I understand you correctly, you're not willing to reduce the penalty factor even though Southland as an operator is batting 90 percent on its Morrow wells in the area? You have operated ten and you only have two dry wells.

- A Well, I don't agree with that statement.
- 0. That's not correct?

A. No. I believe Southland Royalty has drilled one well and is batting 100 percent in this particular area. The 90 percent factor you're talking about, the eleven out of thirteen, was in the area eight miles to the west. So we've drilled one well in this area and we have been successful, and the well we drilled we considered a wildcat, but we were successful in it.

Q All right, sir. Let's go to something slightly different. Let's look at the immediate area of Section 16.

- A. Which map are you looking at, sir?
- Q Anyone of them that shows the offset well

locations.

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A. Okay.

Q. Your Morrow structure map, either one of them will show those wells.

A. Okay.

Q Let's look at Exhibit Four so that we're all looking at the same thing.

Now, if I understood you correctly, this

Morrow sand on Exhibit Four is what I understand to be

"A" Sands, is that Morrow "A" Sands, or the upper Morrow?

A. We refer to them as "A" Sands. They have not been referred to as "A" Sands in this particular meeting.

I've referred to them as the Middle Morrow Sand sequence.

Q Okay. What I want to get straight with you is that of the three potential Morrow zones, or sands, in this subject location and in the two offsets to the east and west, we are talking, by looking at this exhibit, of the uppermost productive sand.

A. That's right, yes, sir.

Q Okay. Now if you'll look at that exhibit

Number Four, let's talk about the well in Section 17 in the south half. That is a Morrow well at that Hondo Union.

A. Yes.

Q. There's no question that that is a successful commercial well according to your definition.

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A. That's right.

Q. As a matter of fact, that's probably the best well in the township, isn't it?

A. No, I would think the well in Section 29 is the best well in the township. That's the Petroleum Corporation of Texas Parkway West Unit No. 2.

It's approximately one and a half miles south of the well you're looking at. That's the best well in this particular --

Q. Okay.

A. That well has an EOR calculated by our reservoir engineers of 3.6 billion cubic feet of gas. Now that 3.6 billion cubic feet of gas could be a conservative number, too, because the well has not shown any decline in pressure at this time.

Q Okay. Mr. Stamets asked you earlier, and I failed to understand, why if this well in Section 29 is the best well in the area you have not drawn the productive gas -- prospective gas zone, the red color, to include more of that well?

A. There are other factors involved than just this simplified map, such as having the porosity occurring together, the actual quality of porosity, the percent of porosity, and the permeability. There are just other factors involved.

The well in Section 17, that Hondo well.

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2	A. Y	es.
3	Q. 19	e've already said that that's a good well.
4	A. Y	es.
5	Q. W	hat what is the status of this well in
6	Section 15, the	east offset?
7	A. A	re you referring to SRC's Parkway State?
8	Yes, you are.	
9	Q. Y	es.
10	А. Т	he status of that well is that it is our
11	engineering dep	artment has calculated an EOR of 1.8 billion
12	cubic feet of g	as from that well, and it is profitable but
13	it is not a sig	nificant well. It's a below average well.
14	That particular	well
15	Q. B	ut it isn't currently being produced, is it?
16	A. N	ot yet. It will be produced in the next
17	either today or	in the next couple of days will be on stream
18	ļ	t had a CAOF of 2.71 million cubic feet of
ទេ	gas a day on Au	gust 24th, 1978, as I mentioned earlier.
20	Q. I	thought that was a pretty good well.
21	A. 1	t's an acceptable well, yes. It's a good
22	well. It's not	an above average well. As I mentioned, or

as you can see, it is not a well as good as any of the other

completions that are shown on this exhibit, or in this area.

That well, however, has the potential for

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30 paying out more than three times its cost, does it not? 1 I wouldn't say three times. How many times would you say? I don't have economics on it handy, but it would pay out in excess of two times. 5 Q. All right. Okay? Okay. Let's talk about the ownership in Q. Section 16. Now, as I see from your first exhibit here, 9 10 it's Exhibit Number One. 11 MR. STAMETS: Which exhibit are you talking 12 about? 13 MR. KELLAHIN: It's Exhibit Number One of 14 Southland Royalty, the ownership plat. (Mr. Kellahin continuing.) I thought I misunderstood you but in later discussion you talked in terms

half of the section dedicated to the well. Mould you say that again, please?

of Maralo, Inc. participating in the well with the north

Yes, sir. I thought I understood you to say Q. that Maralo, Inc. would participate.

> Are you saying Maralo? A.

Maralo, or whatever it is. Q.

Oh, okay.

Q. Maralo,

A. Yes.

Q Will they participate in the north half of that section?

A. Yes.

Q If so, how?

A. Let me find my numbers. Maralo is included with Lowe Interests, and there will be later testimony that will go into this in more detail, but I will give you the number as to drilling.

MR. STAMETS: I presume you've got a landman who will more fully discuss the ownerships.

A. Yes. They have agreed in writing to join as to their 36.32 percent, which will be in an exhibit later.

Q. All right. My only point was that through farmouts, or whatever contractual agreements, Southland controls the west half of the section.

A. Southland will control the west half or earn that acreage, as T mentioned, if they can drill a well by November 25th and if that well is a productive well.

Q. Now, you said November 25th?

A. That's right.

Q. All right. How did that short length drilling period come to happen?

A. Could you save that question for a little later? There's a lot more detail than I should go into.

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		Q.	All	right	, but	$I^{t}m$	fair	in	sayi	ng	that	subj	ject
to	your	contra	actua	al com	mitmer	nts o	on the	ese	dri]	llin	ng tin	nes,	that
in	fact	South	land	does	contro	ol th	ne wes	st k	nalf	of	that	sect	cion.

- A. As to the acreage that is shown in yellow hachures, which is not all the section, as you can see.
- Q All right, let me ask you a different way. Southland could drill a well on the west half of this section, dedicate the west half as the proration unit for this well and not be required to file a forced pooling application?
- A. I would again ask you if you would hold that question specifically for our landman when he testifies in this.
- Q. Okay. The proposed location is at an orthodox location regardless of whether you dedicate the north half of the section or whether you dedicate the west half of the section.
  - A. That is obvious.
  - 0. Is that correct, sir?
- A. One reason we would like to drill or set up a unit in the north half is that we have a contingent location that I think is reasonable from my exhibits in the southeastern -- southeastern quarter of that section. But those type of questions, if you would just hold them off, please, until our landman testifies, I think would be a lot

more effective than myself in answering them.

Q If I understand your geology correctly in your Exhibits Four, Five, and Six, I believe it's the intent to take the log information from the east and west offset Morrow wells and then derive the best location between those two wells for which to drill your Morrow.

- A. That is correct.
- Q All right. Would not the fact that you are locating yourself between two, at least one producing well and one potential good Morrow well, diminish the risk?
- A I'd like to answer that question this way.

  If you will refer to Exhibit Number Four once again, you will notice that a well very close to the Hondo Union State Well in Section 17 had absolutely no sand present. That well this map is on a scale of 1 inch to 2000 feet and I do not have a scale with me, but that is probably within 600 feet, and also, the well in the north half of Section 17, although it had the sand present, the sand was not present in a manner that was productive, and I think therein lies the type of risk that you are dealing with in very variable sands within the entire Morrow trend in the north-west shelf. These variations occur both in the extent, which is vividly shown between the well, the Hondo Union TX State Well in the south southern part of Section 17, and the offsetting dry hole, which had no sand, and also in

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the properties of that sand, which is shown in the northwest quarter -- the dry hole that is shown in the northwest quarter of Section 17, as that well had the sand present but it wasn't present in the proper way.

That's the type of risk you deal with with the Morrow and because it's a stratigraphic type prospect, it's very elusive and difficult to map it effectively and predict where it will or will not be.

- Q Well, regardless of the fact that the Morrow is elusive and difficult to locate, as a matter of fact in this specific area of the four wells that immediately offset your proposed location, two of them are potentially commercial and two are dry holes.
- A. That is true, but again I will say, look at the distance between the wells and the distance between our proposed location, and those -- the distance between them is such that there could very easily be no sand present, or poor sand present.

go down two miles, straight two miles, you would see that this sand channel biforcates into two, leaving absolutely no sand present there. The same thing could occur in Section 16. It is this type of risk again, that we are dealing with in the Morrow and it is because of this type of risk that we are asking for the maximum penalty.

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	Q.	Okay.	So,	apart	from	the	fact	that		or	ĺ
dispite	the f	fact tha	t you	ı're 1	ocati	ng be	tween	two	pot	entia	11у
commerci	ial Mo	orrow we	11s,	you d	o not	beli	.e <b>ve</b> t	hat t	he	Exami	ner
ought to	redu	ice the	pena!	lty fa	çtor 1	becar	se of	that	: fa	ct?	

- A. No, sir, not in my opinion.
- Q. Okay. Mr. James, you talked in terms of different percentages on this success probability, and I think your bottom line percentage was 58 percent.
  - A. Yes, sir.
- Q. All right. The statute under which the Division attributes a risk doesn't set forth exactly how you go about assessing the risk. We talked in terms of a dry hole, now, and you've said that that dry hole, the risk of a dry hole is only 32 percent.
  - A. That's right.
  - 0. Is that correct?

That the risk of encountering a substantial or significant reservoir was 80 percent? What was the 60 percent figure attributed to?

- A. The probability of finding a sufficient size of entrapped gas to be profitable; in other words, the size risk, the 80 percent.
- Q All right. 80 percent means you have an 80 percent chance of finding a significant reservoir a particular size?

A. No, the 80 percent means that if we assume --it means that --

Q All I'm asking is, is 80 percent the risk of not finding the reservoir or is it the risk --

A. No, it's the risk of not finding enough gas to be commercial, be profitable.

Q. Okay.

A. To make you a present value profit at your discount rate; that's what it means.

MR. STAMETS: Okay, now I want to get this clear. Does that mean that if you drill this well ten times, eight times you would get a profitable well, or eight times you'd get a loser?

A. Would you say that again? I sure don't want to answer that wrong.

MR. STAMETS: All right. I'm trying to figure out whether the 80 percent is good or the 80 percent is bad.

A. It's good.

MR. STAMETS: Okay, so 80 percent of the time you're going to get a good well that will pay out.

A. No, that does not mean that. There's a kind of a -- a set of dependent variables. For example, most companies conventially use source, trap, reservoir, presence of hydrocarbons, and they will assign risks to each one of those things, a probability of success for each one of

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those favorable things happening, because more than one of them has to happen to be successful, they have to be multiplied together to arrive at your overall success probability.

MR. STAMETS: And that's how you arrive --

A. Yes.

MR. STAMETS: -- at your 68 percent; that's --

A. Yes.

MR. STAMETS: -- made up of a number of variables, which range up to 80 percent.

A. That's right. If you will turn to the economic analysis, which is Exhibit Ten --

MR. STAMETS: Exhibit Ten.

A. -- you'll find it. Turn to page two, you'll see these risk parameters listed for you in this particular case.

MR. STAMETS: Is that under Item Two?

A. That's right. While all these risk parameters are listed on this particular page, I would like to emphasize again that the numbers that I gave you from this page are un-risk numbers. This risk is strictly here as a way of documenting it for us, or for our management.

Q. (Mr. Kellahin continuing.) May I ask you a question about that, Mr. James?

A. Yes, sir.

Q I'm not sure I understand this. I thought

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Exhibit Ten represented the economics between you and Pennzoil and whatever other partners you have of interest.

A. No, that's not correct. The economics in Exhibit Ten are -- refer only to Southland Royalty, no one else. And it's the base case, and I'll state again the terms of that base case, if you'd like me to.

Q Please do.

A. That makes the assumption that Summit joins as to its working interest; Anadarko joins: Lowe Interests joins; and Pennzoil farms out its interest to give Southland Royalty a working interest, retaining a one-eighth overriding royalty. When this well pays out, or if this well pays out, Pennzoil has the option to back in as to its interest, which will be only pertaining to Southland Royalty's interest for fifty percent working interest after payout.

And our net revenue interest in that case, assuming they would back in, would be -- before payout we would have 23.44 percent and after payout it would be reduced to 15.67 percent.

Q. And I assume one of the factors that could go into a penalty, the risk factor, would be the occurrence of mechanical problems, blowouts in wells, that kind of things. Have you assigned in your penalty factor any provisions for mechanical risk?

A. We haven't assigned it specifically but it is,

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of course it's considered in the risk we're asking. But although I believe those type of risks are -- are minimal in this area.

- Q. Because there is low risk of mechanical problems, would you reduce the 200 percent factor to be charged against Anadarko?
- A Not because of that, no, sir. Again, we are asking for the maximum penalty based on the variable or elusive nature of the Morrow Sands, the presence and quality of the Morrow Sands being present from a geologic standpoint primarily.
- Q. Even though that's the maximum allowed and even though this is a low mechanical risk area?
  - A. Yes.
- Q Okay. Now if we divide Section 16 into the four quarter sections, I assume by locating the well in the northwest quarter of that section, that is your first choice of a drilling site within the entire section.

# Is that correct?

- A. That's a good -- that's correct, that's a good site, or a site that we favor, yes.
- Q. And in descending order of priorities the next best location, according to Exhibit Number Four, it would be the southeast quarter.
  - A. Yes.

Q Your contingent location.

A. If our geology is correct and when we drill the well if it performs like we anticipate.

Q All right. Before exercising the contingent location on the south half you would want the information from the production history based upon the well in the north half, would you not?

A. Probably, yes.

Q. All right, sure. In drilling the well in the north half would it not be prudent to wait until you had the production history on the well in Section 15 before you committed yourself to that location?

A. I disagree with that.

Q Well, if you'll do it in the south half why will you not do it in the north half?

A. I don't necessarily say we would do it in the south half. I would say that information is -- is useful, but the information may be completely useless if the geology says that the well in the south half is completely different from the well in the north half.

We feel that production history from the Parkway well is virtually irrelevant in this particular case. We are basing our goology and our economics and our risk entirely on the well looking like the Hondo Union TX Well NO. 1 in the southwest quarter of Section 17, and we

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feel we are a prudent operator in this area, as indicated by the number of wells we've participated in, our success rate, and we feel that Southland Royalty and maybe a few other operators in this area, you know, are aggressive and are rapidly developing it. We do not — it is in my opinion, a prudent operator would not wait for information from the Southland Royalty Parkway — Southland Royalty No. 1 Parkway State Well in Section 15; a prudent operator would drill the well timely, as we have it planned.

- Q And in fact that's the real heart of the dispute with Anadarko, is it not?
  - A. Yes.
- Q It was their proposal to you that they wait and have production history on the Parkway well?
  - A. That is correct.
- Q And it was your decision that you would proceed without that information.
  - A. That is correct.
- Q Okay. Now, you've said it twice and I want to make sure I understand you, I believe you've told me that your risk factor is not based upon information derived from the Parkway well, is that correct?
- A. Our risk factor is based on information derived from every control point on this map.
  - Q. And you in fact have used the Parkway log as

a control point.

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That is correct, as we have all the other control points.

Okay. Now, let's go back to the picking of Q. possible sites in Section 16. What would be your third choice? We still have a couple of locations you could --

Well, if you want me to help Anadarko develop A. their acreage, I'll be glad to.

> All right. Q.

A good location, I think, would also be present in the northeast part of Section 16.

> Can I put that down as a third choice? Q.

If you like, go alread.

And then that would leave the fourth choice Q. being the southwest quarter, would it not?

> Well, I suppose. A.

All right.

If you'd like to do that. Again, you're on 320-acre proration units.

> Well, I understand that. I understand. Q.

Okay.

The fourt choise would be the most risky Q. location, would it not, within the section, I assume.

Oh, let's see. That's not exactly correct there because our contingent location is strictly based on

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us being successful with the well at the proposed location. You know, you could come up with all types of locations and rank them, I suppose, but our contingent location is again based, you know, on being successful as we have proposed.

I'm not trying to rank these locations as to one being more risky or less risky.

## Well --

Again, I sure would like to state this one more time, at the risk of being redundant, that the Morrow is so clusive that, sir, you could come up with more than one location that would probably be acceptable, but we feel the location that we have hit is the best location. It's the location we've cleared and we're ready to drill, more than six weeks ago.

But dispite the fact that that location is Q. the best location within the section, and that there may be other locations within the section that pose a greater risk, you are still not willing to reduce the penalty factor?

A. Not for that reason, no. MR. STAMETS: We'll recess the hearing until 1:15.

> (At this time the noon recess was taken.)

MR. STAMETS: The hearing will please come

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to order. Mr. Kellahin, I believe you had some more questions.

MR. KELLAHIN: Yes, sir, and over the lunch hour I've reconsidered that and I'll pass the witness.

## CROSS EXAMINATION

# BY MR. STAMETS:

- Q Let's see. Mr. James, does Scuthland Royalty have the right to drill this well?
  - A. Yes, sir.
- Q Now you said the well has to be drilled by 11-25.
  - A. Yes, sir.
- Q Does that mean it has to be down and completed or started?
  - A. No, it has to be started.
  - Q. Okay.
  - A. Commence operations by that time.
- Q. And looking at your Exhibit Four and the other map exhibits, I believe that that does show in the instance of Section 17 that there are at least two dry holes closer to a good producing well than your proposed location, is that correct?
  - A. Yes, sir.
  - Q. Okay. On Exhibit Number Ten, now, you have

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shown a life for this well, a projected life, of 15.82 years, is that correct?

- A. Yes, sir.
- Q. Is that based on the other wells in the area? Where does that number come from? That seems rather a lengthy period of time for a Morrow well.
- A. That number came from our -- the primers that were put into our computer program by our engineers, and it allowed itself to calculate its own life. And I agree, it's a little bit longer than -- or it is longer than most wells in this particular area. Most wells in this area are more like thirteen to fourteen years, I think, considering a 5 Bcf well as a kind of an average well.

MR. STAMETS: Any other questions of the witness?

MR. COFFIELD: Yes.

MR. STAMETS: Mr. Coffield.

### REDIRECT EXAMINATION

# BY MR. COFFIELD:

Q Before lunch, Mr. James, Mr. Kellahin had several questions of you relative to what really got to the matter of land control in the west half of Section 16, and the advantageous position or not, as the case may be, for Southland Royalty. And we indicated we were going to have

a land witness later. However, with respect to the west half as compared to the north half dedication, would you please review again the geological reasons why the north half is much better?

A. We like the north half better than the south half primarily because it is up-dip structurally, which any of the structure map exhibits will show you that. And being up-dip structurally makes the "E" Sands, specifically the "E-2" and "E-4", makes them attractive. Structure is not particularly important in the -- or not as important as finding reservoir quality sand in the middle Morrow sequence, as no water occurs in these sands.

So primarily the north half is better geologically because it's up-dip, which makes the "E" Sands more attractive; more prospective.

- 0 In the north half?
- A. In the north half.
- with respect to your recommendation in connection with a 200 percent penalty, other than forced pooling, how other -- what are some of the other normal routine ways which an interest might be joined in the -- in the drilling of a well?
- A. Commonly another operator will join with you under an operating agreement or they will farm out to you under terms that are common in this area, which are one-

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eighth overriding royalty before payout and their working interest can be converted -- fifty percent of their working interest can be converted proportionately reduced after payout and under a nonconsent operating agreement.

Okay. Would it be your opinion that a 200 percent penalty under a forced pool order would be approximately equivalent to a nonconsent approach under a joint operating agreement where there was a 300 percent nonconsent factor --

MR. KELLAHIN: If the Examiner please, I'm going to object to that question and any response. I think it's irrelevant; what the parties may agree to contractually is not at all of interest to the Examiner. The penalty factor is assessed by statute and the parture (sic) is set forth in 65-3-14, and what Southland may agree to do with some other party is really not relevant.

MR. COFFIELD: I submit that it is relevant, Mr. Examiner, in view of the practice in the industry and procedures that are followed generally.

A number of years ago the penalty factor as permitted under the statute was increased from what it was previously to the 200 percent now to bring it more in line with the practices in the industry.

MR. STAMETS: We'll allow Mr. James to answer the question and we'll take the response for what it's worth.

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A. If I understand your question correctly, what is common or what I have found to be common during the past two years with Southland Royalty is that a 200 percent penalty in the Morrow trend is commonly awarded, or is normally -- is the normal penalty that you have.

- Q 200 percent --
- A. Yes.
- Q Over the costs?
- A. Yes.

Q So then my question was, is that comparable to a forced pooling order, the 200 percent?

- A. Yes.
- Q Okay. What about the comparison of an average type farmout agreement about which you spoke?
  - A You mean economic comparison?
- Q. Economic comparison of the farmout procedures, and what not, to a forced pool order?
- nough numbers. For farming out under the terms that Pennzoil farmed out, which is one-eighth overriding royalty convertible to a fifty percent working interest proportionately reduced at payout and a 3.2 percent well in this case, would be approximately \$580,000.

Now under a 200 percent penalty clause, incurring no risk, it would be approximately \$700,000, so that SALLY WALTON BOY!
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is primarily the reason why we're asking that a penalty be awarded, a 200 percent penalty be awarded, is that incurring no risk, a substantial amount of money can still be obtained if the well is 3.2 Bcf. If the well is higher, more money will be obtained at no risk. If the well has a lower EUR, of course, less money would be obtained.

MR. COFFIELD: I have no further questions.

MR. KELLAHIN: Mr. Examiner, can I -
MR. STAMETS: Mr. Kellahin.

#### RECROSS EXAMINATION

#### BY MR. KELLAHIN:

Q You've indicated that you would prefer a north half dedication for land control and that you meant by land control the ability to maintain a position up structure within Section 16, is that true? Am I correct?

what I mean -- I think, I'm not quite sure
what your question is, but what I meant to say if I did
not say it, is that the north half, based on all three
zones, is the most attractive location, and if you look
just at the Middle Morrow Sands, perhaps if you say structure
is more important, other locations would also be favorable,
but based on all three zones, in our interpretation the
north half is the optimum location geologically. Does that
answer your question?

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Yes, it does. If you follow that to its logical conclusion, would it not be better, then, to turn the proration units up and down where you could then obtain two wells in the north half of the section? Putting both wells up structure?

We like the two locations that we have selected because, again, as I stated, the "E" Sands are more risky than the Middle Morrow Sands. The Middle Morrow Sands are our primary objective and for that reason we like a location best in the northwest quarter; if that well is successful and the geology came in exactly like we had it, we feel that a completion in the "E-2" Sand or the "E-4" Sand in the northwest quarter would drain that particular gas at substructure, but that a southwest quarter well would be needed to adequately drain the gas from the Middle Morrow Sands.

You said the southwest quarter; you meant the southeast quarter.

- Southeast quarter, I'm sorry, yes, sir.
- If you take your two choices as locations, the significance of the proration unit is not material. Both locations would be standard locations regardless of whether you stood the units up or laid them down.
- If we stood the units up, a well drilled in the northwest quarter and as successful as we have antici-

pated it might be, we would be providing a direct offset for Anadarko to drill a well in the southeast quarter to drain gas from the Middle Morrow Sands, as I've just stated.

Q And that is my point. The only reason you're seeking to force pool Anadarko is so that you can preclude them from developing the northeast quarter and at the same time request the Commission to assess a penalty factor for a risk.

A. No. I'd like to state this, that we think
the best location is in the northwest quarter and the second
best location, assuming that location is successful for
drainage and conservation, would be in the southeast quarter
and that Southland Royalty is a prudent operator by performance in this area, and that we feel we would develop these
reserves in a manner that would be advantageous to the
State.

MR. KELLAHIN: No further questions.

MR. STAMETS: Any other questions of the witness? He may be excused.

## WAYNE NEWKUMET

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

DIRECT EXAMINATION

SALLY WALTON BOYD
GRIFFEB SH DATHAND REPORTER
SANTHER BLUDGE (606) 471-2462
SANTHER BLUDGE (606) 471-2462

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BY MR. COFFIELD:

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Would you please state your name and address, occupation, and employer?

Yes. I'm Wayne Newkumet. My address is 4304 Nelson Road, Midland, Texas, and I'm with Southland Royalty Company as a landman.

Mr. Newkumet, are you familiar with the application of Southland Royalty Company in this case?

Yes, sir.

Have you previously testified before the Oil Conservation Division as a petroleum landman?

No, sir.

Would you please state for the Examiner a review of your educational background and work experience as a petroleum landman?

Okay. In May of 1976 I graduated from the University of Oklahoma with a degree in petroleum land management. I went to work for Texas Pacific Oil Company in Midland, Texas; was with Texas Pacific for two years working in west Texas and New Mexico areas, and I went with Southland Royalty Company nine months ago and have been with them since, working primarily in the southeastern New Mexico area.

MR. COFFIELD: Are the witness' qualifications acceptable?

MR. STAMETS: Yes.

Q (Mr. Coffield continuing.) Mr. Newkumet, would you please refer to what has previously been marked as Exhibit One and explain to the Examiner Southland Royalty Company's interests in this area and their position?

A Okay. Again, this is a land plat of the area. If you'll note Section 23, Southland Royalty has approximately 520 acres under lease from the State of New Mexico. That is the only piece of property that Southland had, drillable piece of property that they had in the area even six months ago. We have leveraged our way into this area through farmins from various companies, Cities Service, Maralo, or I should say the Lowe Interests, Pennzoil, the Metcalfs, et al, and have acquired the position in Section 15 that we do have, and also the position to earn Pennzoil's acreage in Section 16, the 200 acre farmout.

And again I might state that farmout option to drill will expire November 15th of this year.

Q All right, Mr. Newkumet, refer to what has been marked as Exhibit Number Eleven and explain what this is.

A. Okay, Exhibit Number Eleven, the letter dated July 21st, 1978, in which Southland Royalty formally proposed the formation of the one section working interest unit composed of Section 16 and the drilling of a Morrow

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Sante Pr. New Mark

test thereon.

We propose that the working interest owners within the section, working interest owners being Summit Energy, Pennzoil, Anadarko -- I take that back, not Pennzoil It would be Summit Energy, Anadarko, Maralo, M. Ralph Lowe, and Erma Lowe.

The letter set out the depth of the test, the percentage working interest, the estimated dry and completed costs, and advised the partners that a joint operating agreement and AFE would be furnished in the near future.

not to join to farmout under the terms stated in the letter.

We consider those terms to be the standard southeastern New

Mexico farmout terms for this type of a project.

Southland also advised that a rig was coming available in the very near future and requested that each party make a decision at its earliest convenience.

In this letter the southeast quarter of Section 16 is shown to be the location and subsequent geology showed that to be the inferior location and subsequent telephone conversations and correspondence, we advised the partners that the northwest quarter would be the selected location.

- Q. All right, go on to what's been marked Exhibit
  Twelve and comment on this exhibit, please.
  - A. Okay. Exhibit Twelve is a letter dated August

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29th, 1976 where Southland forwarded all -- to all parties copies of the formal AFE and which you've seen, and one copy of the operating agreement for the unit and the drilling of the well in the northwest quarter.

Southland did advise that this was a -- somewhat of a rush deal and requested that each party advise of any comments, considerations, and execute the AFE and operating agreement as soon as it was possible.

- Q Go on to what's been marked as Exhibit Thirteen and comment on this exhibit, please.
- A. Exhibit Thirteen is a letter dated September 14th, 1978, to Anadarko alone, requesting that they join the Morrow test by executing the AFE and operating agreement.
- Q Okay, now go to Exhibit Fourteen and comment on that exhibit.
- A Okay, Exhibit Fourteen is a letter dated September 15th, 1978, and a similar nature as the prior letter, but merely requested that Anadarko join, again; notify immediately if they would if they did plan on joining, and also for the sake of clarification stated that the well location would be the northwest quarter, the proration unit would be the north half.
- 0. Now go to Exhibit Fifteen, which is actually Fifteen-a through d, and comment on these items.

A. Okay. Exhibit Fifteen-a through d would be the AFEs which were sent out by the letter of August 29th to the parties. We received signed AFEs back from all the parties with the exception of Anadarko.

Are the base figures in these AFEs the same
as the ones which were -- which are stated on Exhibit Number
Nine?

A Let's see, Exhibit Nine would be -- okay.

Yes, it would be an identical sheet of paper with the exception that it has a place for each company's signature at the bottom.

Q. Okay, go to what's been marked as Exhibit Sixteen and comment on that exhibit.

A. Exhibit Sixteen would be the proposed operating agreement between the working interest partners. We have been advised verbally by the other parties, all parties with the exception of Anadarko, that they would join by executing the operating agreement at -- in the very near future.

Q. And as far as you understand that would be the operating agreement in this?

A. Yes, there have been no comments. I did request comments on the operating agreement if any of the parties had any problem with it, and they responded that there's no problem with it.

	Q.	In	this	Exhi	bit	Sixteer	n to	which	I	understand
is	attached	an ac	ccount	ting	prod	cedure,	what	are	the	overhead
cha	arges whic	ch are	e spec	cifie	d i	that?				

- A. Okay, those rates would be \$2300 for the drilling well rates, \$2300 a month, and \$230 a month for the producing well rates.
  - Q. How do these compare?
- A. Okay, these, I believe, compare very well with rates assigned in other similar operating agreements in this general area. You can refer to I don't know exactly which exhibit it is, but it's the one with the large area that showed all the wells and what not. Most I've examined those operating agreements for most of those wells and they had very similar charges in their operating agreements. I believe that was what, Exhibit Seven. There it is, what was that, Seven?
  - O Seven.
  - A. Okay.
- Q Is it Southland's recommendation that that prorated charge be applied in this case?
  - A. Yes, sir.
- Q. What is the nonconsent penalty specified in the joint operating agreement?
- A. Okay, that is -- it is stated in a different way but it is a 100 percent -- we call it a 100 percent/300

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percent penalty provision, which would be very similar to the penalty provision that we're asking for here. It would recoup 100 percent of the well costs plus 200 percent -- a 200 percent penalty.

Q Okay. As a matter of your own personal knowledge, do you know whether Anadarko Production Company has joined in the execution of operating agreements on wells in the area which are similar in form to this?

A Yes, the --

MR. KELLAHIN: I'm going to object, if the Commission -- if the Examiner please, that that's irrelevant, what Anadarko may or may not have done in other areas.

A Well, it's direct -- excuse me.

MR. STAMETS: I tend to agree with Mr. Kellahin. Do you have any rebuttal, Mr. Coffield?

MR. COFFIELD: No, that's --

MR. STAMETS: Okay, we will not listen to the question.

(Mr. Coffield continuing.) All right. Please refer to what has been marked as Exhibit Seventeen.

A. Could I go back to Exhibit Sixteen for one minute?

Q Yes.

A. And mention that on Exhibit One, your land plat, the area shaded in green, we've already spoken of that

as being Anadarko's acreage. In fact, that is owned one-half by Summit Industries, Incorporated, out of Ft. Worth, and as I mentioned before, they have previously agreed to the drilling of that well. They wish to join us in that well. They have signed the AFE and they have verbally advised that they do plan on signing the operating agreement in its present form.

- Q Okay, any other comments on it?
- A No, sir.
- Q Okay, go to Exhibit Seventeen and comment on that exhibit.
- A. That is a letter dated September 19th, 1978, in which Anadarko advised that they would -- again advised that they would not join in the well, but in the alternative would offer a token dry hole contribution, which we feel is totally unacceptable, as Mr. James previously discussed.
- Q All right, Mr. Nuwkumet, have you personally had any other contact with representatives of Anadarko Production Company as to their willingness to join or farm out or whatever, in connection with this proposed well?
- A. Okay. Naturally, since Anadarko is a partner of ours in, well, in particular, in this well in Section 15, we've had -- I've had several discussions with their division landman about the formation of this Section Sixteen unit: various conversations occurring at the time the well in Sec-

tion 15 was drilling in which we discussed the formation of the unit, possibilities of the operating agreement, and what not.

MR. STAMETS: When you talk about the Section 16 there, I presume what you're referring to would be a 640-acre working interest unit --

A. Working interest unit.

MR. STAMETS: -- consisting of all of Section 16, even though only one will might be drilled?

A. That's correct, sir.

On August 31st, I believe it's probably relevant here, Southland invited representatives of Anadarko to attend an informal meeting, which we showed all of our geology and geophysics -- not geophysics, but our geology in the area, in attempts to have them formulate some type of idea as to what they proposed to do, whether they wished to join in the well or farm out. We were attempting to help them arrive at some kind of a decision.

In early September, I'm not sure of the date,
I might say there that Dan Kernagan (sic) of Anadarko, in
early September a similar meeting was arranged for Ralph
Lang (sic), also of Anadarko, in which we attempted to do
the same thing, showed him information and attempted to show
them that it was the logical place to drill a well and join
in.

On October -- well, it was the day before yesterday, I again contacted Anadarko's division landman and in attempt to try to work out -- well, a last ditch effort to try to work outsomething, whether -- I requested that is there any possible alternative that we could work out to this -- to this problem, whether they could farm out or maybe some other method of contribution that they could arrive at.

- Q Any responses to all this?
- A. Were all negative.

Well, the only encouraging response that we had was the dry hole contribution.

Q. Okay. All right, Mr. Newkumet, refer to what has been marked as Exhibit Eighteen and comment on that exhibit, please.

A Okay. Exhibit Eighteen is a letter dated September 26, 1978, to the overriding royalty interest owners under the northeast quarter of Section 16. We requested that they agree to consent to the communitization of your interests as to the north half proration unit.

- Q Have they indicated willingness to --
- A. Yes, I spoke with Mrs. Green by telephone on September 9th where she advised that she would have the pooling under consideration and she would merely like to have her attorney check it out before she agreed to anything,

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or signed any of the others.

- So at this point you do not know, is that --
- I do not know but I anticipate they will all consent to communitization.
- Failing in which are you asking that the Division include the overriding royalty interest owners if they do in fact not consent?
  - Yes, sir.
- Mr. Newkumet, in your opinion from your past contacts with Anadarko representatives, do you believe it's likely that you will obtain voluntary commitment of Anadarko in connection with the proposed well, either by way of joining in the Well or by way of farming out?
  - Not at the present time, I don't.
- And, likewise, in connection with the everriding royalty interest owners, do you believe it likely that you're going to obtain their voluntary commitment?
  - Yes, I do. I believe they will.
- But I trust that you still, as you said a little while ago, want --
- If in fact they do not voluntarily agree, we would hope that their interests would be pooled.
- Are Exhibits Eleven through Eighteen true copies of correspondence, AFEs, and the joint operating agreement, as taken from your own files and over which you

In your opinion will the approval of the ap-

have authority for supervision and control?

Yes, sir.

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posed that the interests would participate based on a onesixteenth override. When this agreement was actually formed that override was increased to an eighth, was it not?

- A Was it actually increased to an eighth?
- a Yes.
- A. I didn't understand your question. Could you
- Q Yeah. What -- is the override now a sixteenth or an eighth? What was the agreement?
- A. I'll put it this way. If Anadarko would have agreed to farmout previous to today's date, we would have in fact granted them the eighth override, and this was discussed in one of our -- in one of my conversations with Anadarko's representatives.
- Q. Either in the end of August or the first part of September, there was the two meetings?
- A. This was probably before that. I would say the mid -- mid-August.
- Q. Do you recall when Southland filed its application for compulsory pooling with the Oil Conservation Division?
- A. No, I don't have that exact date. Mr. Coffield filed that. He would probably have it.

September 20th, 1978

Q. Would you refer to Exhibit Number Fourteen for me, Mr. Newkumet?

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A. Okay.

Q. It was in this letter and not prior to this date that you first advised Anadarko that you would be dedicating the north half of Section 16 to the proposed well, is that not true?

A. This would be the first written correspondence to that effect; written. It was verbally discussed before that several times.

Q. When was that first discussed with Anadarko orally and with whom did you talk?

A. Well, I spoke with Frank Klam. I would venture to guess about the middle of August, again; somewhere in that time. It was sometime before we showed the representatives our geology.

Q. In discussing the operating agreement, Mr.

Newkumet, did you make reference to the nonconsenting penalty provided for in that operating agreement?

A. Uh-huh.

Q. Was it your testimony that you equated those penalty provisions in the operating agreement with the statutory penalties that the Division imposes on nonconsenting owners?

A. Without going through a detailed mathematical analysis, I would still say that they're very similar to a 200 percent nonconsent penalty provision, which would be

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allowed by the Commission.

A. If they are substantially different, they're substantially more.

- Q. Who is more?
- A. The -- in the operating agreement.
- Q. What does the penalty agreement in the operating agreement provide with regards to the casing point election?
  - A. What does it provide for?
- Q Yeah, explain to me the effect of the casing point relection and what affect it has on this penalty.
- A. Okay, I will have to read over it just to make sure.
  - Q We'll come back to that.
    (There followed a discussion off the record.)
- A. It might be best if we just read that paragraph aloud.
- Q Well, I'll simply direct the Examiner's attention to that paragraph; he can read it just as well as we can.
  - A. Okay.

MR. STAMETS: That's on page nine, option two.

A. Chacked as option two.

MR. STAMETS: Okay.

- Q. Let me ask you -- let me ask you some questions about the Exhibit One, that --
  - A. Land plat.
  - Q -- land plat.

It would appear to me, Mr. Newkumet, that

Southland could form a one section working interest unit

without Anadarko, drill a well as you propose to locate it,

and still dedicate the west half of this section to that

well, without the necessity of force pooling any party.

Is that not correct?

A. If -- if we could form a one section unit and all parties would join, I presume -- now, barring all geologic comments, I presume it would have the same affect on our interests, yes.

Q Okay. It appears from Exhibit Thirteen, which is your letter to Anadarko saying we now have received signed AFEs from all working interest parties -- partners, with the exception of Anadarko, I assume by that that you have contractual commitments from all the parties in the section excluding Anadarko, that would allow you, in fact, to dedicate the west half to a well drilled somewhere in the west half without the necessity of Force pooling.

A. No, sir.

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Q. Why not?

A. That's not right.

Q All right, tell me why not.

A. These interests as shown on the AFE are assuming a one section working interest unit with Anadarko's joinder.

Q All right. What precludes you from forming a unit and dedicating the west half?

A. I think there's probably three reasons for that.

Q. Okay.

A Number one, -- let's make it two reasons.

Number one, Maralo, Incorporated, or the Lowe interests,

would not pick up their share of the well if they had to pay

37-1/2 percent of the well, which they would if the west

half was designated. They would, however, join in a one
section unit where the, had 18.75, or half of that, 18.75

percent.

Number two, Summit Energy as a consenting party in there, has one-half interest with Anadarko in the northeast quarter, and they do wish to join in this well. In other words, for them to have an interest, the north half would have to be dedicated.

MR. KELLAHIN: I have no further questions.

Thank you.

# CROSS EXAMINATION

#### BY MR. STAMETS:

Mr. Newkumet, have you had any correspondence from Anadarko indicating that they'd prefer that you dedicate the west half of Section 16 to this well?

No. No, sir.

Have you had any conversations with any Anadarko people that they would prefer that you dedicate the west half of this section?

No, sir, although their refusal to join would be an indirect indication that they want us to dedicate the west half.

Have you had other letters from Anadarko besides this one of September the 19th?

Relative to this? With this prospect I think that is the only letter, right.

And that doesn't say anything about they'd like to see you drill the west half?

No, sir. I don't recall any correspondence at all on that point.

But in fact if you did drill the west half, Anadarko would have no interest in the well at all, is that correct?

That's true.

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`	1	MR. STAMETS: Any other questions of the										
	2	witness? He may be excused.										
	3	Do you have anything further, Mr. Coffield?										
<b>K</b>	4	MR. COFFIELD: No, we do not.										
• •	5	MR. STAMETS: Mr. Kellahin?										
æ	6	MR. KELLAHIN: Yes, sir.										
	7	MR. STAMETS: What's the EUR?										
as to the	8	MR. JAMES: Estimated ultimate recovery.										
	9	MR. STAMETS: Thank you.										
	MR. KELLAHIN: Call Mr. Ralph Lang.											
N BO	11											
ALTO ATTANN PREASES	12	RALPH LANG										
LY W.	13	being called as a witness and having been duly sworn upon										
SALLY Canpried	his cath, testified as follows, to-wit:											
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9k 46	16	DIRECT EXAMINATION										
r.	17	BY MR. KELLAHIN:										
₹ ~ '	Q Mr. Lang, would you please state your name											
÷ × *	19	by whom you re emproyed, and rit what capacity:										
₩ 8 a	20											
ge 🐑 .	ployed by Anadarko Production Company as a geological engi											
ey v	22	Q. Mr. Lang, you have not previously testified										
<b>3</b> 1000	23	before the Oil Conservation Division, have you?										
<i>i</i>	24	A. That is true.										
ů :;	25	Q. Would you tell the Examiner where you obtained										

your degree and what year and what field?

A. I obtained a degree as a geological engineer from Colorado School of Mines in 1972.

- Q. Subsequent to graduation in 1972 where have you been employed and in what capacity?
- A. I was employed by Ralph Lang, Senior, as a geological engineer for two years and for Marathon Oil Company as an exploration geologist for almost two years, and I've been employed by Anadarko Production Company as a geological engineer for two years.
- Q. In your capacity as a geological engineer for Anadarko have you had an opportunity to study the area in question?
  - A. Yes, I have.
- Q. And were you present this morning during the examination of Mr. Darryl James, the expert witness presented on behalf of Southland Royalty Company?
  - A. Yes, I was.
- Q. And during the lunch hour did you have an opportunity to review those exhibits?
  - A. Yes.
- Q. Let me ask you some questions. First of all, would you explain to us why Anadarko Petroleum Company has elected not to join Southland Royalty in drilling of a well for which the north half of Section 16 would be dedicated?

Anadarko would like to see several months

from members of Southland Royalty Company?

A. They didn't seem to think that the risk justified -- I'll put that another way. They didn't seem to believe that they had much chance of drilling a dry hole and therefor, the offer seemed to be irrelevant to them.

Mr. Lang, are you able to express an opinion with regard to the risk penalty to be assessed by the Division against Anadarko with regards to this particular well?

A. Well, based on Southland's figures in their Exhibit Number Ten, it appears to me that a risk penalty of 50 percent appears to be about 2 percent or so high, based on their figures.

MR. STAMETS: So we all know what we're talking about now, what do you mean by 50 percent?

A. I believe they should recover their cost plus
50 percent of their costs.

MR. STAMETS: For every dollar they spend, get a dollar and a half back.

A. That's right, based on their own figures.

MR. STAMETS: Okay, then while we're stopped here, let's make sure that the record reflects that the witness is qualified, considered qualified.

MR. KELLAHIN: I apologize, I don't believe we tendered him as an expert.

A. I'm sorry.

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MR. STAMETS: I was waiting until you asked his opinion.

- Q. (Mr. Kellahin continuing.) I'll direct your attention to what I have marked -- or what has been marked and introduced as Southland Exhibit Number Four, and ask you to look at that exhibit, Mr. Lang.
  - A. Yes, I see the exhibit.
- Q Do you recall Mr. James' testimony with regard to a preference of location within Section 16?
  - A. Yes.
- Q Do you have any disagreement with those locations?
- M. Well, I would prefer a location in the south-west quarter of Section 16 because it's closer to the two producing wells. It all looks to me like it would be productive, though, the whole section does.
- Q Does Anadarko have any preference with regard to the orientation of the proration units to be dedicated to any well drilled in Section 16?
- A. Well, I would prefer that they us stand-up units instead of lay-down units.

We used a stand-up unit in Section 15.

Q. When did you first become aware that Southland Royalty intended to dedicate the north half of this section to the subject well?

When they -- I believe, when they notified us

	il		and they are a series and a notified up
	2	they were going	ng to try to force pool us.
to the	3	Q.	I believe that would be the letter dated
	4	September the	14th, by Southland?
\$4.	5	A.	Yes.
•	6	Q	Is that the correspondence to which you refer?
	7	A.	Yes, I didn't hear about it on the 14th,
<b>F</b>	8	though.	
	9	Q.	15th, I'm sorry.
<b>6</b> € € 2	10	A.	Yeah, I didn't hear about it on the 15th. It
100 E 11-2	11	was later than	n that.
WALTON BHYMTHAND Benca (605 B. New Medd	12		MR. KELLAHIN: I have no further question.
SALLY WALTON BOYD DESTRIED SHAFFHAND REPORTER 020 Plaza Blanca (505) 411-246 Santa Pe, New Medico 87501	13	Thank you.	
SALLY CENTIFIED 30 20 Plaza Santa Fi	14		MR. STAMETS: Any questions of the witness?
<b>ģ</b> . 4-5	15		MR. COFFIELD: Yes.
7 -	16		MR. STAMETS: Mr. Coffield.
<b>K</b> 2020	17		
	18		CROSS EXAMINATION
<b>5</b>	19	BY MR. COFFIE	LD:
ķ .	20	Q.	I'll refer here to what we have previously
i.	21	marked as Exh	ibit Five.
ņ. 1 c	22	А.	Yes, sir.
Ş	23	Q.	Mr. Lang, based on what's represented here,
	24	geological da	ta, and so forth, if a well were located in
<b>2</b> 1 2	25	the southwest	quarter, would that not be much closer to the

gas/water contact?

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Yes, but I believe this is -- could I have the cross section for that?

That's Exhibit Three.

Yes, Exhibit Three, and this is a map of the "E-2" Sands. There's a permeability area indicated on this cross section, Exhibit Three. Now, we have no control on the location of that permeability barrier, none whatsoever. It could be anywhere out there, and so I'm not too sure where it is and it's -- I'm not positive that in addition, that the "E-2" Sand has a water table as shown in our Southland Royalty Company Parkway No. 1 State.

Mr. Lang, do you have another interpretation other than this?

No.

Then based on this interpretation, then, would a southwest quarter location be more or less likely to encounter the gas/water contact?

Well, we'd have to measure, but the southwest quarter location would be about here, and it looks like it would be -- well, would be closer than the north, but I don't necessarily agree with that interpretation.

But did you not tell me you don't have an interpretation contrary to this?

I don't agree with that interpretation.

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	Q.	Mr.	Lang,	I b	elieve	you	also	tes!	tifie	ed	that	-
you	believe	that	the en	tire	section	on aj	ppears	to	you	to	be	a
prod	ductive -	lik	ely to	be :	produc	tive	•					

A. Up in the upper sands, in the Middle Morrow Sands.

Q And you also testified that Anadarko offered a dry hole contribution. With that in mind, is a dry hole contribution of any real significance?

A. Well, if their interpretation was incorrect it would be of some significance.

MR. COFFIELD: I have no other questions.

#### CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Lang, I gather from your testimony that Anadarko has two objections in this instance. In the first case, they would like to see more production.

A. Yes, sir.

Q And in the second case, you don't agree with the manner in which the tracts are oriented.

A. Yes, sir.

Q But if they were oriented in your proposed manner, then you wouldn't have to agree.

A. This is true.

Q. Now, do you just not like the way they're

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oriented, just as a matter -- do you have something personal against it?

- A. No.
- Q North half tracts or is there some basic reason? Do you feel like waste will occur if the north half is dedicated or correlative rights will be violated?
- A. No, sir. I feel much more strongly that we want to see production out of the well in 15 before Anadarko commits its capital to the drilling of a well in Section 16.
  - Q So your concern is primarily economic?
  - A. Yes, sir.

MR. STAMETS: Any other questions? The witness may be excused.

MR. KELLAHIN: Call Mr. Frank Klam.

#### FRANK KLAM

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

#### DIRECT EXAMINATION

#### BY MR. KELLAHIN:

- Would you please state your name, by whom
  you're employed, and in what capacity?
- A. My name is Frank Klam. I am Division Landman for Anadarko Production Company.

Mr. Klam, you have not previously testified before the Commission, have you?

A. No.

Q. Would you please outline briefly for the Examiner when and where you obtained your degree and what has been your work experience in the field of land transactions concerning oil and gas?

A. Okay. I graduated from the University of Texas in 1972 with a business degree, majoring in petroleum land management.

I went to work for Amoco Production Company in their Arklatex Division, handling East Texas, northern Louisiana, south Arkansas.

In 1976 I went to work for Anadarko in their Houston Division, which encompasses an areal extent from New Mexico to Alabama, including offshore, and I've been in that capacity the last two years.

Q Okay. I show you what has been introduced as Southland Royalty Company's Exhibit Number One and ask you if you're familiar with the ownership with regards to the land transactions in the area in question?

A. Yes, sir.

MR. KELLAHIN: We tender Mr. Klam as an expert in the area of land management and oil and gas leases.

MR. STAMETS: The witness is considered qual-

ified.

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Q \*Mr. Kellahin continuing.) Mr. Klam, in regard to the west half of Section 16, in your opinion can Southland form a one section working interest without the participation of Anadarko, for which they could then drill a well on the west half and thereby dedicate the west half of Section 16 to that unit?

- A. Yes, sir.
- Q. How could that be accomplished?
- A. Okay, the general reason for forming working interest units in a larger areal extent than the -- than the size of a com unit, is, of course, to spread out your interest equally over a larger area.

In other words, instead of having a large interest in one and a small, you kind of cover an entire area.

And in this instance, an entire section by

forming a working interest unit under the model form oper
ation agreement, which is standard in this area, the

participating parties interest would be based on their

interest as to a total of that participating party's interest.

In other words, even though it's 640 acres, by excluding Anadarko, which owns a net 160 acres, they would base their interest on a net 480 acres, and it would encompass the same -- to not the same extent, but it would

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still extend their interest over the entire area. Then at such time, if they drilled a well in the west half of 16, it was productive, and a com unit was formed covering the west half of 16, they would come to Anadarko as the working interest group and join with Anadarko on the east half of 16. In that case their interest would be reduced by 50 percent and Anadarko would have their 50 percent.

And this is very common in areas where -where some of the people want to join; some of the people
don't want to join.

And in another case, should Anadarko elect to farm out, there is a provision in the operating agreement to handle acreage contributions, so it would all be covered by the operating agreement.

MR. KELLAHIN: I have no further questions of Mr. Klam.

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

Mr. Coffield, do you have any questions?
MR. COFFIELD: Yes, I do.

### CROSS EXAMINATION

BY MR. COFFIELD:

Mr. Klam, the terms that you just spelled out as to what you say Southland Royalty Company could do, has

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that ever been proposed by Anadarko Production Company?

A. No.

And would Anadarko Production Company execute such an agreement?

A. A lot would depend -- we're still waiting on the production from the well in Section 15. It's -- it's very diffiult to make up your mind when you know there's some information that's not available, that would be available.

Q. But that comes in an area of geological enterpretation, I trust, and not in the area of land.

No other questions.

MR. STAMETS: Any questions of the witness?

MR. KELLAHIN: I have one further question.

MR. STAMETS: Mr. Kellahin.

#### REDIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Klam, when did you first become aware that Southland Royalty wanted to dedicate the north half of Section 16 to the well?

A. Okay. Without -- in some of the previous historical data that Mr. Newkumet gave, I would like to bring out that Anadarko originally put this area together, Section 15 and 16, and attempted to get something worked out,

and we actually brought in Southland to take this and let them take over operations since they had a larger interest. Now, when -- after we drilled this well, they sent in the operating agreement, I think on July 20 -- or the sent the proposal on July 21st, at which time the well had just reached TD, and was, I think, still testing, and our decision then was -- was let's wait and see what's going to happen on this well, and this is still our contention.

In subsequent correspondence they wanted to tie us down and say will you join or farm out, and it made us kind of seem like that we were kind of being bad guys and wouldn't do anything, and I never had anything in writing proposing the dry hole contribution, so that's the time that I wrote them back saying that we still want to wait for production history on this well and if they felt compelled to drill this well, that we would offer them a dry hole contribution, which was an acceptable type of support for a well from an offset operator.

I think it was the subsequent letter, they sent two letters, one day right after another, which I don't understand, but the next letter is when they proposed the north half of the section, and that was -- I think I -before I received that letter I talked to Mr. Newkumet and he said it was coming, and that was the first time that we had heard about the north half being the proposed com unit.

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	Q.	What was the	approximate date when you first
learned	the	north half was	to be dedicated to the well?
	A.	It had to be	sometime after September 14th.

Q. Okay.

MR. KELLAHIN: I have no further questions.

MR. STAMETS: Any other questions of the witness? He may be excused.

MR. KELLAHIN: I have nothing further to put on.

MR. STAMETS: Do you have anything on redirect,
Mr. Coffield?

MR. COFFIELD: Nothing.

MR. STAMETS: Anybody have a closing statement? Mr. Kellahin?

MR. KELLAHIN: It's our contention, Mr. Stamets, that Southland Royalty Company can without the necessity of a forced pooling order, form a west half unit for the drilling of this well, and they can thereby exclude dealing with Anadarko.

testimony, is that they don't want to give Anadarko a direct offset. He said he wanted to dedicate the nort h half to the well. Under cross examination it is apparent that units could either be stood up or laid down; that the well locations would not be affected by the changing of the unit,

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and from that it is apparent their only interest is to penalzie Anadarko for their unwillingness to undertake this venture for the north half dedication.

Anadarko has explained their reasons for not joining in the well at this time; that although the potential test from the offset in Section 15 are certainly good, they would like additional information with some production history, and it's certainly a reasonable and prudent justification for not drilling the well.

That does not preclude Southland Royalty from forming a west half unit.

pooling of the north half of Section 16, we believe the record is replete with evidence to show that the risk penalty to be assessed against Anadarko is minimum. That testimony came out from Mr. James in various fashions. You can take any one of those percentages that he gave you and show that the risk of this venture should not result in a penalty to Anadarko of more than 50 percent.

You can look at the risk of a dry hole. Mr. James' testimony is that the potential of a dry hole was 32 percent.

If you equate the 32 percent risk of drilling a dry hole to the penalty factor, it's something less than 50 percent. If you turn it around the other way and look

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You're looking at a success rate on Southland's operation, I believe his testimony was that out of eleven wells they had two dry holes, and that's not all that great, but it seems to me for every three wells they drilled they get two producers. You can back that into the penalty; it can't be more than 50 percent.

Mr. James admitted that this certainly wasn't the most risky venture in the world; that the maximum statutory penalty of 200 percent, I think should not apply in this case. We are offset on the east and the west by one producer and one potential producer that diminishes that risk.

Their geology itself demonstrates that the entire section is reasonably productive from the "A" Sands in the Morrow. Do we give him a penalty of 200 percent against Anadarko for a well that has this potential? I think not.

That's all I have.

MR. STAMETS: Mr. Coffield?

MR. COFFIELD: Mr. Examiner, we feel that our geological -- geologic interpretation and data entirely supports a well location located in and dedicated to the

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north half of Section 16, and that the west half would be significantly more risky, and Mr. James testimony in that regard was consistent throughout.

The proposed location is not dependent, we feel, under any criteria on the performance of other wells in the area, such as has been suggested by the Anadarko witness. We certainly would point out that a dry hole contribution in this circumstance is totally inadequate to cover the situation as far as Southland is concerned.

Again, as far as Southland is concerned, it is reasonable to dedicate the north half and it's reasonable to drill at this time. Simply because Mr. James was saying one location is less risky doesn't mean that possibly, realistically speaking and disregarding the 200 percent penalty that's the limit in the statute, if it might not be reasonable to say on even more risky locations that more than 200 percent would really be a logical sort of award. But that's simply all the statute allows and insofar as concerns the location in the north half, we feel the 200 percent is entirely justified.

MR. STAMETS: If there is nothing further, the case will be taken under advisement.

(Hearing concluded.)

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#### 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 the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill, from my notes taken at the time of the hearing.

Sally W. Boyd. C.S.R.

do hereby certify that the foregoing is
a complete resource the proceedings in
the Examiner hearing of Case No. 1978
heard by me on
Cil Conservation Division

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#### STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

CASE NO. 6351 Order No. R-5841-A

APPLICATION OF SOUTHLAND ROYALTY COMPANY FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

#### NUNC PRO TUNC ORDER

#### BY THE DIVISION:

It appearing to the Division that Order No. R-5841, dated November 6, 1978, does not correctly state the intended finding and order of the Division,

#### IT IS THEREFORE ORDERED:

- (1) That Finding (13) on Page 2 be and the same is hereby corrected to read in its entirety as follows:
  - "(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 1979, the order pooling said unit should become null and void and of no effect whatsoever."
- (2) That the second paragraph of Order (1) on Page 3 be and the same is hereby corrected to read in its entirety as follows:

"PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of February, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;"

(3) That the third paragraph of Order (1) on Page 3 be and the same is hereby corrected to read in its entirety as follows:

"PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of February, 1979, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator

-2-Case No. 6351 Order No. R-5841-A

obtains a time extension from the Division for  $\ensuremath{\operatorname{gcod}}$  cause shown.

(4) That the correction set forth in this order be entered nunc pro tunc as of November 6, 1978.

DONE at Santa Fe, New Mexico, on this 15th day of May, 1979.

STATE OF NEW MEXICO QIL CONSERVATION DIVISION

JOE D. RAMEY, / Director

#### 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. 6351 Order No. R-5841

APPLICATION OF SOUTHLAND ROYALTY COMPANY FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

#### ORDER OF THE DIVISION

#### BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 11, 1978, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 6th day of November, 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 Southland Royalty Company, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the N/2 of Section 16, Township 19 South, Range 29 East, NMPM, West Parkway Field, Eddy County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.
- (4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.
- (5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

-2-Case No. 6351 Order No. R-5841

- (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 136 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.
- (11) That \$2300.00 per month while drilling and \$230.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.
- (12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.
- (13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 1978, the order pooling said unit should become null and void and of no effect whatsoever.

-3-Case No. 6351 Order No. R-5841

#### IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the N/2 of Section 16, Township 19 South, Range 29 East, NMPM, West Parkway Field, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

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

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of February, 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 Southland Royalty Company is hereby designated the operator of the subject well and unit.
- (3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.
- (4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.
- (5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to

Case No. 6351 Order No. R-5841

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 data the schedule of estimated well costs is furnished to him.
  - (B) As a charge for the risk involved in the drilling of the well, 136 percent of the prorata 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 \$2300.00 per month while drilling and \$230.00 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.

-5-Case No. 6351 Order No. R-5841

- (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 of first deposit with said escrow agent.
- (13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

SEAL

STATE OF NEW MEXICO
OFL CONSERVATION DIVISION

JOE D. RAMEY Director



November 9, 1978

Anadarko Production Company P. O. Box 2497

Midland, Texas 79702

Attention: Frank Klam

Summit Energy, Inc. 1925 Mercantile Dallas Bldg. Dallas, Texas 75201

Attetnion: Paul White

Maralo, Inc. 130-2200 W. South Loop Houston, Texas 77027

Attention: John Burke

Gentlemen:

Compulsory Pooling Case #6351, Order No. R-5841 N/2 Sec. 16, T19S, R29E Eddy County, New Mexico SRC 18549 J/O

Attention: Richard L. Stamets /

Oil Conservation Commission

Hobbs, New Mexico 88240

State of New Mexico

P. O. Box 1980

As required under the New Mexico Oil Conservation Division's Order No. R-5841, attached is a copy of the AFE for the drilling of the SRC State Comm. 16 No. 1.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

A. W. Newkumet

Landman

AWN:1h

xc: G. W. Slaughter xc: Meta Wilber

1100 WALL TOWERS WEST (915) 682-8641 MIDLAND, TEXAS 79701

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### Southland Royalty Company RECEIVED

November 9, 1978

NOV 14 1978

TO THE WORKING INTEREST OWNERS (See Addressee List Attached)

0. C. C.

Re: Compulsory Pooling Order No. R-5841 Case 6351 N/2 Sec. 16, T19S, R29E Eddy County, New Mexico SRC 18549 J/O

Gentlemen:

Attached for your files is one copy of the Order of the Division dated November 6, 1978, in connection with the referenced Compulsory Pooling Hearing. Please note that the Order allows the working interest parties a 136% penalty factor and drilling well charges of \$2300 per month and producing well charges of \$230 per month.

Edition to

At the present time, all working interest owners and overriding royalty interest owners under all of Section 16 have consented to the drilling of the well and communitization of the N/2 Section 16 with the exception of Anadarko Production Company. It should be recognized that Anadarko could file an application for a de novo hearing before the full Commission within thirty (30) days from the date of the Order.

Anadarko also could agree to join persuant to paragraphs three and four, page three, of the Order. Even though Anadarko has previously furnished an AFE for the drilling of the well, another copy of the AFE will be sent out today so that the requirements of paragraphs three and four will be fulfilled. Additionally, as satisfaction of the requirement, you and the Commission will be furnished another copy of the AFE by carbon copy of the letter to Anadarko.

For your information, the SRC State "16" Comm. No. 1 will be spudded within the next few days.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Landman

1100 WALL TOWERS WEST (915) 682-8641 MIDLAND, TEXAS 79701

Summit Energy, Inc. 1925 Mercantile Dallas Bldg. Dallas, Texas 75201

Attention: Paul White

Pennzoil Company 5th Floor Wall Towers West Midland, Texas 79701

Attention: James Chapman

Maralo, Inc. 130-2200 W. South Loop Houston, Texas 77027

Attention: John Burke

xc: G. W. Slaughter

xc: Meta Wilber

xc: Oil Conservation Commission /
State of New Mexico

P. O. Box 1980

Hobbs, New Mexico 88240

Attention: Richard L. Stamets

## STATE OF NEW MEXICO EMERGY 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. 6351 Order No. R-5841

APPLICATION OF SOUTHLAND ROYALTY COMPANY FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

#### ORDER OF THE DIVISION

#### BY THE DIVISION:

This cause came on for hearing at 9 a.m. on October 11, 1978, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 6th day of November, 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, Southland Royalty Company, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the N/2 of Section 16, Township 19 South, Range 29 East, NMPM, West Parkway Field, Eddy County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.
- (4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.
- (5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the 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 136 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.
- (11) That \$2300.00 per month while drilling and \$230.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.
- (12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.
- (13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 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 Pennsylvanian formation underlying the N/2 of Section 16, Township 19 South, Range 29 East, NMPM, West Parkway Field, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

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

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of February, 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 Southland Royalty Company is hereby designated the operator of the subject well and unit.
- (3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.
- (4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.
- (5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to

actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

- (6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner 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, 136 percent of the prorata 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 \$2300.00 per month while drilling and \$230.00 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 of first deposit with said escrow agent.
- (13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO OIL CONSERVATION DIVISION

JOE D. RAMEY

Director

SEAL.



# ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

JERRY APODACA

NICK FRANKLIN SECRETARY

May 16, 1979

POST OFFICE BOX 2008 STATE LAND GEFICE BUILDING SANTA FE, NEW MEXICO BASON BUSS 827-2434

Mr. Conrad Coffield Hinkle, Cox, Eaton,	Re:	CASE NO. 6351 ORDER NO. R-5841-A
Coffield & Hensley Attorneys at Law P. O. Box 3580		Applicant:
Midland, Texas 79702		Southland Royalty Company
Dear Sir:		
		copies of the above-referenced cered in the subject case.
Yours very truly,  JOE D. RAMEY  Director	<i></i> .	••
JDR/fd		
Copy of order also ser	nt to:	<b>:</b>
Hobbs OCC X Artesia OCC X Aztec OCC		
Other Tom Kellahin		

# STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

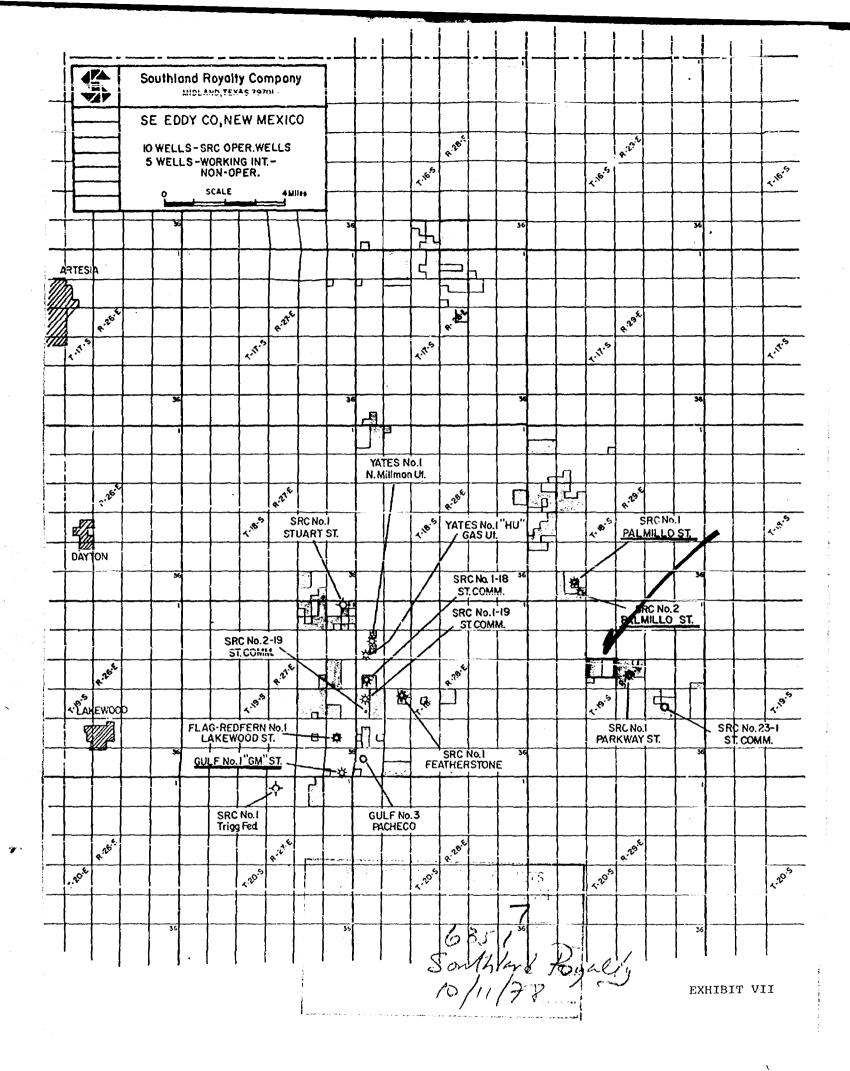
JERRY APODACA GOVERNOR

NICK FRANKLIN BECRETARY

November 7, 1978

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

	: CASE NO. 6351
Mr Conrad Coffield Hinkle, Cox, Eaton,	ORDER NO. R-5841
Coffield & Hensley	•
Attorneys at Law P. O. Box 3580	Applicant:
Midland, Texas 79702	
,	Southland Royalty Company
Dear Sir:	
	copies of the above-referenced entered in the subject case.
Yours very truly,  JOE D. RAMEY  Director	
	•
JDR/fd	
Copy of order also sent (	to:
Hobbs OCC x Artesia OCC x Aztec OCC	
Other Tom Kellahin	





## GEOLOGIC REPORT

The S.R.C. State Comm "16" No. 1 is an 11,600' proposed Morrow sand test located in Section 16, T-19-S, R-29-E, 1980' FNL & 1980' FWL of the section. The middle Morrow and the lower Morrow clastic intervals are prospective on the proposed drillsite.

The lower Morrow, or "E" sands consist of a sequence of northwestsoutheast trending deltaic clastic units. The "E" interval has

been subdivided into correlative sand packages. Two of these units

are prospective on the well location; the E-2 sand unit, and the E-4

unit. The E-2 consists of a widespread system of sands which trend

northwest-southeast. The S.R.C. Parkway State Comm No. 1 well, Section

15, T-19-S, R-29-E, is downdip and is located in the same porosity

channel as Section 16. The Parkway well had 8 ft. of gas on top of

15 ft. of water in the E-2, making the proposed location in the proven

gas leg of the reservoir. The E-4 sand is a restricted sand unit

trending from the northwest through the location to the southeast.

The proposed well is located updip to the S.R.C. Parkway well which

is productive in the E-4 sand.

The middle Morrow, or "A" sands are comprised of a series of northwest of Mand Resoutheast trending deltaic deposits. No water problems have been encountered in these sands. Abundant porosity is the essential parameter for production. The S.R.C. Parkway well had a CAOF of 2.714 MMCFGPD

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EXHIBIT VIII

in the Middle "A" section. In Section 17, one mile to the west, the Hondo Union Texas State No. 1 had a CAOF of 2.876 MMCFGPD and has produced 1.15 BCFG through 1-1-78. The Section 16 proposed well is located on a thick sand channel trend between these two wells and should encounter reservoir sands more porous than the adjacent wells.

Dennis J. Eimers



# **Soutisland Royalty Company**

COMPANYM NO 1

AFE NUMBER 10 PROPERTY NUMBER \_\_\_\_\_\_\_\_\_ ADD X CHANGE TO DELETE

AFE DATE 8/25/78 NAME S.R.C. STATE COMM "16" No. 1

ORIGINAL X SUPPLEMENTAL PRODUCER DRY HOLE SRC OPERATOR X MANUAL TE

AUTHORITY IS REQUESTED TO:

WILDCAT X DEV.

Drill and complete as Morrow gas well to T.D. 11,600 ft.

ר	m	· π		
LOCATION:	196	30' FNL 1980' FWL Section 16, T-19-S, R-29-E, EDDY	COUNTY, NEW MEY	(ICO
		70 (111 1300 131 130 131 131 131 131 131 131	ESTIMATE	COST
FOOTAGE		TANGIBLE - 249	PRODUCING	DRY HOLE
•	01 01	Conductor or Drive Pipe	\$	\$ '
4501		Casing 11 3/4" 42# H-40 ST&C @ \$15.00	7,300	7,300
2,250'		8 5/8" 24# K-55 ST&C @ \$8.96	20,200	20,200
800'		8 5/8" 24# S-80 STAC @ \$9.71	7,800	7,800
2,570'	-	4 1/2" 11.6# N-80 LT&C @ \$5.95	15,300	
3,140'	-	4 1/2" 11.6# K-55 LT&C @ \$4.55	14,300	
- 3,3701		4 1/2" 11.6# N-80 LT&C @ \$5.95	20,000	
2,520'	08	4 1/2" 11.6# S-95 LT&C @ \$6.86	17,300	
11,6001		Tubing 2 3/8" EUE 4.7# N-80 @ \$3.15	36,800	
	C3 10	Wellhead including hi-low valve	25,000	1,600
	04 11	Packer and special equipment	4,000	
	04 17	Artificial Lift		
	05 13	Tank Battery and gas process equip	40,000	
•	16 14	Other Equipment	5,000	2,100
• •	15	TOTAL TANGIBLE 100%	\$ 213,000	\$ 39,000
	. 16	SRC3125	\$ 66,562	\$ 12,188
		INTANGIBLE - 248		
	01-13	Drilling 10.000 ft. @ \$ 13.75 /ft.	137,500	137,500
	01 18	Rig, Day Work 16 Days @ \$ 3,550 /day	56,800	56,800
	01 19	Rig Moving Costs	***	#==
		Completion Rig 10 Days @ \$ 850 /day	8,500	
		Roustabout & Miscellaneous Labor	3,500	1,000
		Auto, Trucking, Barge, Tug	4,000	2,000
•		Roads, Canals, Location, Damages, Cleanup	12,000	10,000
		Mud, Oil, Water, Chemicals	43,000	41,600
		Drill Stem Tests	2,000	2,000
	05 25	Electric Logs & Bond Logs	20.000	20,000
		Cement, Centralizer, Scratchers, Service	30,000	25,000
	03 28	Bits, Fuel	4,000	4,000
	28 29	Rental Equipment	17,000	5,000
		Core & Analyses		
		Bottle Tests & Sidewall Cores		~~~
		Perforate	7,000	
		Acid & Frack	16,000	
		Geological & Engineering	5,000	2,000
	03 35	Nud Logger	10,000	10,000
	10 35	Cost of Control Insurance (SRC Only)_489	5,700	5,700
	10 37	Miscellaneous & Unforseen	38,000	32,000
ŀ	1412-18	District & Overhead Expense	3,000	2,000
	39	TOTAL INTANGIBLE 100%	\$ 423,000	s 35 <b>7,</b> 000
	. 40	SRC .3125	\$ 132,188	ş 111,562
•	. (1	GRAND TOTAL COSTS	S 030,000	500,000
•	42	SRC3125	\$ 198,750	\$123,750

AUTHORIZATION REQUESTED

- AUTHORIZATION APPROVED

COMPANY:

EXHIBIT IX

S.R.C. STATE COMM "16" NO. 1 EDDY COUNTY, NEW MEXICO

OPERATING EXPENSE

WORKING INTEREST

INITIAL PROD. RATE

GAS REQUIRED TO PAYOUT

# WELL COSTS:

	CWC	DHC
GROSS	\$636 M	\$396 M
SRC NET	\$199 M	\$124 M
	вро	APO
W.I.	31.25%	15.625%
NRI	23.44%	13.67%
ECONOMIC SUMMARY:		/
GROSS PRODUCTION	3243 MMCFG	20 MBC
SRC NET PRODUCTION	506 MMCFG	3 MBC ( 0
NET INVESTMENT	\$193 M	Y Wh
PROFIT UNDISC., BEFORE TAX	\$652 M	, 'Jr
PROFIT UNDISC. : NET INVEST.	3.39	2.5.10
PAYOUT BEFORE TAX	0.86 YEARS	134. 1
ROI	82%	γ ζν.
PROFIT DISC. @ 15%, AFTER TAX	\$170 M	M 1W
LIPE	16.82 YEARS	VL AN
INITIAL PROD. RATE	2.09 MMCFG/D	· · · · · · · · · · · · · · · · · · ·
PRODUCT PRICES - OIL	\$12.64	0
- GAS	\$1.65	<del>-</del>
ESCALATION RATES - GAS	3% PER YEAR	
- OIL	5% PER YEAR	

PER YEAR

2.1 MMCFGPD & 19 BC

0.3125 451 MMCFG

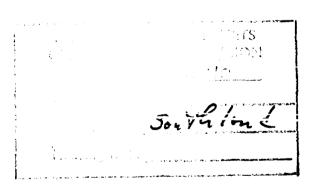


EXHIBIT X

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Ċ	TURKEY TRACK (MORROW) TIME:	08/25/78 16:47CDT MICOM16
C	SOUTHLAND ROYALTY COMPANY • ECONOMICS SUMMARY	V
C	· ·	
:	1. NOT DISCOMMEN	
C	A. BEFORE INCOME TAX AND DEVELOPMENT COST FUTURE NET INCOME RISK COST RATIO	844598. 66563. 12.69
C	B. BEFORE TAX & AFTER LAND, DRILLING AND DEVELOPMENT FUTURE PROFIT INVESTMENT PROFIT TO INVESTMENT RATIO	652098. 192500. 3.39
	2. FUTURE NET INCOME (BEFORE TAX) DISCOUNTED AT 9 PERCENT	637261.
C	RISK PARAMETERS ARE: TRAP 1.000 RESERVOIR 0.800 HYDROCARBON 1.000 SIZE 0.850	
C	RISK FACTOR 0.680 FUTURE NET INCOME ADJUSTED FOR RISK OBJECTIVE TEST: RISKED INVESTMENT + 25 PCT VARIANCE WITH OBJECTIVE	433338. 194301. 239037.
€ .	3. BEFORE TAX PAY OUT IN YEARS	88.0
C	4. DISCOUNTED AT 15 PCT.(AFTER TAX) MONETARY VALUE RISK COST ECONOMICALLY FEASIBLE IF RISK FACTOR	169599. 33281.
Œ	IS HIGHER THAN	0.164
G	5: ESTIMATED RETURN ON INVESTMENT(AFTER TAX), IF SUCESSFUL, PCT.	82.
G	6. COST PER EQUIVALENT MCF	0.363
oggerenter.	7. DATA: LIFE(YEARS):	16.82
C.	NUMBER OF WELLS: PRODUCING DRY	1
U	RENEFICIAL INTEREST DEPTH	0.166324 11600.
G	NET RESERVEC: OIL, BBLS : GAS, MCF :	3203, 505559,
<b>T</b>	RISK: DRY HOLE COST 66563. ACREAGE COST BROKERAGE COST 0. SEISHIC COST TOTAL RISK COST	0. 0. 66563.

PRODUCT PRICES: OTL 12.640 GAS

1.650

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DATE: 00/25/70 TIME: 16:4700T FILE: MICONIA PROJ: 0

# RESERVES AND ECONOMICS

AS OF DATE: 8/ 1/1978

:C							
	YEAR	GROSS OIL	GROSS GAS	W.I. REVENUE	OPER. EXPENSE	NET INCOME	CUM. NET PW
С		MB	MF	M\$	M\$	M\$	M\$
G	1ST M	0.584	. 63.800	24.586	0.773	23.813	
	1978	2,929	304,160	117.587	3,758	113.829	111.810
10	1979	5,288	621.362	184.357	6.086	178.271	276.591
C	1980	3,536	494.100	116.009	4.170	111.839	371,431
1	1981	42.392	393.313	94.271	3.819	90.452	441.802
C	1982	. 1.638	313,409	76.733	3.553	73.180	494.034
	1983	1,136	249.996	62.545	3,354	59.191	532,794
~	1984	0.797	199.616	51.043	3.209	47.834	561,530
C	1985	0.569	159.549	41.707	3.106	38.601	582,805
	1986	0.410	127,652	34.109	3,038	31.071	598.515
C	1987	0.300	102.233	27.921	2.999	24,922	610.977
	1988	0.222	81.956	22.875	2.983	19.892	618.542
C	1989	0.167	65.765	18.756	2,984	15.772	624.780
	1990 ·	0.126	52.824	15.389	3.002	12.387	629.138
	1991	0.097	42,469	12.637	3.031	9.606	632,294
C	1992	0.074	34.177	10.380	3.070	7.310	634.498
	S TOT	19., 681	3242,581	886.319	52.162	834.157	634,498
C	AFTER	0.119	57.419	18.038	7.597	10.441	637.261
C	TOTAL	19.800	3300.000	904.357	59.759	844.598	637.261
	CUM!	0,	0.	I	NVESTHENT	192.500	197,266
C	ULT.	19.800	3300.000	N	ET VALUE	652.098	439.995
C	NET OIL NET GAS LIFE (Y	RESERVES,		.559 W		VENUE (M\$) VENUE (M\$) UE (N\$)	
E	GROSS W	ELLS	•	1. B	ISCOUNT RA	те, гст	7.000
C	W.I. FR	ACTION	0.31	2500 NI	ET INTERES	T FRACTION	0.234375

SRC 16 NO. 1 TURKEY TRACK (MORROW) EDDY CO, NM

DATE: 08/25/78 TIME: 16:47CDT FILE: MHCON16

C LEASEHOLD COST (\$); C INTANGIBLE COST (4): LEASE & WELL EQPT COST (4): 117500. GEN. & ADMIN. COST (\$): 19250. C TOTAL COST (\$): 211750. C DISCOUNTED CASHFLOW (9%): 637261. CASHFLOW LESS COST (\$): 425511. EQUIVALENT BARRELS . 69198. COST PER BARREL 3.06 EQUIVALENT MCF 530096. COST PER MCF 0.40

> MHCOM16 16:45CDT 09/25/76 101 SRC 16 NO. 1

102 TURKEY TRACK (MORROW)
103 EDDY CO, NM
107 SRCOM1 9
141 1 .8 1 .85 0 11600 0 0
210 15.63 12.5 980 2 0 8 1 78
220 0 0 0 12.64 6.9 0
230 0 63808 0 1.65 6.9 1
410 CPD 0 50 M/D 3300 MMF
510 LIN B/MM 10 2 0 GPT
610 3 PEG 0 GPT
611 5 PEC 0 GPT
650 5 PED 0 GPT
710 31.25 25 0 0 0 636 M\$NTWI
801 DHC 0 YRS G 39 174 0
805 DEVCST 0 YRS G 357 66 20
901 NOLOSS

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## **Southland Royalty Company**

July 21, 1978

Summit Energy, Inc. 1925 Mercantile Dallas Bldg. Dallas, Texas 75201

Attn: Keaton Brazile

Anadarko Production Company Two Greenway Plaza East Suite 410 Houston, Texas 77046

Atin: Flank Klam

Maralo, Inc. and M. Ralph Lowe, Inc. 220 W. Loop South, Suite 130 Houston, Texas 77027

Attn: John Burke

Re: SRC Parkway, W. Prospect Sec. 16, T-19-S, R-29-E Eddy County, New Mexico F/O 274

CILCOL

Hooring Dale\_

6351

### Gentlemen:

Pursuant to our recent telephone conversations and other correspondence, this is to formally propose the formation of a one section working interest unit comprised of Section 16 for the drilling of an 11,600' Morrow test at a legal location in the SW/4 of Section 16. Southland, as operator, requests that you join in the drilling of the well or in the alternative, farm out your interest to Southland and the remaining working interest owners under the terms and conditions outlined in the paragraph hereinbelow.

Working interest percentages in the unit would be as follows:

BEFORE FOR A STANSSES

Summit Energy 25%
Anadarko Production Co. 25%
Maralo, Inc. 18.75%
Southland (Pennzoil) 31.25%

Estimated costs for the well are as follows:

\$375,000 Dry Hole \$600,000 Completed cost

We are now preparing a Joint Operating Agreement and formal AFE which will be furnished you in the near future.

If your decision on this proposal is to farm out, Southland proposes the following terms and conditions:

1100 WALL TOWERS WEST (915) 682-8641 MIDLAND, TEXAS 79701

- 1. Within 90 days of acceptance of a mutually acceptable Farmout Letter, Southland to commence a Morrow test in the SW/4 Section 16 and timely drill same to adequately test the Morrow formation.
- 2. By drilling and completing same as a producer Southland to earn your interests within the proration unit subject to a 1/16 X 8/8 ORR with an option to convert same to a 50% W.I. after payout, both proportionately reduced. In addition, Southland to earn a 50% interest in your acreage outside the initial well proration unit (W/2), with the section.

Southland is very interested in commencing this well in the very near future as a rig is becoming available and in that regard we request you evaluate this proposas and advise of your comments and your management's decision at your earliest convenience.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

A. W. Newkumet

Landman

AWN: 15



August 29, 1978

TO THE WORKING INTEREST OWNERS

بدالاتمان الم

Re: Operating Agreement and AFE

Sec. 16, T195, R29E

Eddy County, New Mexico

Parkway W. Area

SRC F/O 274

Gentlemen:

Attached are two copies of the AFE and one copy of the draft Operating Agreement for the formation of the referenced unit in the drilling of the initial Morrow test thereon. Please indicate your approval to join this test by executing the AFE and returning to this office at your

In addition, please advise of any comments or recommended changes you may have to the Operating Agreement such that same may be made in the formal agreement drafted for signatures. For your information, this is essentially the same Operating Agreement that Southland has been using in the general area in which some of you are working interest

As we have discussed, this is a rush deal, as Southland will have a rig available to drill this test within approximately two to three weeks, so your early attention to the above matters will be greatly

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Wayne Theobernet A. W. Newkumet

Landman

AWN: 1h

Enclosures

xc: R. W. Petrie

Southbard Port

1100 WALL TOWERS WEST (915) 682-8641 MIDLAND, TEXAS 79701

## ADDRESSEE LIST

Pennzoil Company P. O. Drawer 1828 Midland, Texas 79702

Attention: Mike McCollough

Summit Energy, Inc. 112 North First Artesia, New Mexico 88210

Attention: Paul White

M. Ralph Lowe, Inc. Erma Lowe Maralo, Inc. 2200 W. Loop South, Suite 130 Houston, Texas 77027

Attention: John Burke

Anadarko Production Company P. O. Box 2497 Midland, Texas 79702

Attention: Frank Klam



# **Southland Royalty Company**

**September 14, 1978** 

Anadarko Production Company Two Greenway Plaza East Suite 410 Houston, Texas 77046

> Proposed One Section Working Interest Unit, Sec. 16, T19S, R29E Eddy County, New Mexico SRC F/O 274

## Gentlemen:

In connection with the captioned, and in reference to my letter to Anadarko dated July 21, 1978, wherein Southland formally proposed the formation of a working interest unit under Section 16, and which requested your support of a Morrow test to be drilled thereon; and a letter from myself to Anadarko dated August 29, 1978, transmitting an AFE, along with the proposed Operating Agreement, for the drilling of said Morrow test to be located 1980' FN&WL, Section 16, T19S, R29E.

We have now received signed AFE's from all working interest partners with the exception of Anadarko. It is my understanding, from our recent telephone conversations, that Anadarko has now made the final decision not to join or farmout to the proposed well. If this letter correctly states your decision, Southland, as Operator, requests you confirm such decision by signing in the space provided below and forwarding one copy to the letterhead address, at your earliest convenience.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

AWN:1h		
xc: Conrad E. Coffield	BEFORE CHASE	TO PERMITTS  HOLLOW
OUR DECISION IS NOT TO JOIN OR FARMOUT AS STATED A day of September, 1978.	ABOVE AND SO	STANTEY this 6351 Southland Royalt
ANADARKO PRODUCTION COMPANY		10-11-7.8.
By: 1100 WALL TOWERS WEST (915) 682-8641 MIDLAND.	TEXAS 79701	



# **Southland Royalty Company**

September 15, 1978

Anadarko Production Company Two Greenway Plaza East Suite 410 Houston, Texas 77046

Attn: Frank Klam

SRC State Comm. 16 No. 1 Re:

Proposed One Section Working

Interest Unit

**Sec.** 16, T19S, R29E

Eddy County, New Mexico

>SRC F/0 274

Gentlemen:

Our previous conversation and correspondence, in connection with the captioned, leaves some doubt as to the proration unit to be designated to the well and other details of Southland's proposal. For the sake of clarification, this letter is to detail Southland's proposal.

- A full section unit comprised of Section 16 to be formed for the drilling of a Morrow test thereon.
- The well location, as shown on the AFE, furnished you by my letter of August 29, 1978, is proposed at 1980' FN&WL, Section 16.
- The North One-Half (N/2) Section 16 is to be designated as the proration unit for the well.

Southland again requests Anadarko's joinder in the well by executing the AFE and Operating Agreement previously furnished. (Maralo, Inc., et al, and Summit Energy, Inc. have indicated their joinder in this well by executing the AFE's furnished).

As you are aware, Southland has a drilling rig becoming available <u>immediately</u> for this location and requests your response by Wednesday, September 20, 1978.

Yours very truly,

Landman

AWN: 1h

xc: Maralo, Inc.

xc: Summit Energy, Inc.

Mr. Conrad Coffield xc:

1100 WALL TOWERS WEST (915) 682-8641 MIDLAND TEXAS 79701.

ib. COMPARYMRO 2 EXHIBIT XV A 心心 balldand Royalty Company AFE NUMBER SWALL TONERS VAST, ASDRAND HAAS 19701 PROPERTY HUMBER ID X CHVHUE TAL DEFETE TAL E DATE B / 25/ 78 NAME S.R.C. STATE COM "16" No. 1 HOINAL & SUPPLEMENTAL PRODUCER TO DRY HOLE TO SEC OPERATOR & MANUAL TE ITHORITY IS REQUESTED TO: ICATION: 1980' FIL 1980' FEL Section 16, T-19-S, R-29-E, EDDY COUNTY, NEW MENICO ESTIMATED COST PRODUCTRG TANGIBLE - 249 OTAGE ene Conductor or Drive Pipe 7,300 450' . 7,300 oter Casing 11 3/4" 42# H-40 STGC 0 \$15.00 8 5/8" 24# K-55 ST&C 0 \$8.96 8 5/8" 24# S-80 ST&C 9 \$9.71 20,200 20,200 2,2501 7,800 7,800 £00' 4'1/2" 11.6# N-80 LTGC @ \$5.95 15,300 2,570' 14,300 66 4 1/2" 11.6# K-55 LTEC @ \$4.55 3,140' 4 1/2" 11.6# N-SO LTGC @ \$5.95 4 1/2" 11.6# S-95 LTGC @ \$6.06 10 Tubing 2 3/8" NUD 4.7# N-60 @ \$3.15 20,000 2,370' 17,300 2.520' 36,800 1,600 on Wellhead including hi-low valve 25,000 7,600 en Packer and special equipment
Artificial Lift 4,000 es is Tank Battery and gas process quip 40,000 10 14 Other Equipment 2,100 5,000 TOTAL TANGIBLE 100% \$ 213,000 39,000 Summitt Energy, Inc. 25% <u>53,250</u> 9,750 INTANGIBLE - 248 ft: 6 \$ 12.75 or a Drilling 10,000 /ft. 137,500 137,500 on is Kig, Day Work 16 Days @ 5 3,550 56,800 56,800 el 18 Rig Moving Costs

el 20 Completion Rig 10 Days 0 S 850

el 21 Roustabout & Miscellaneous Labor 8,500 <u>3,500</u> 1,000 \*\* Auto, Trucking, Barge, Tug \*\* Roads, Canals, Location, Damages, Cleanup 4,000 2,000 12,000 10,000 os 24 Mud, Oil, Water, Chemicals 43,00C 41,000 es 25 Drill Stem Tests
es 25 Electric Logs & Bond Logs 2,000 2,000 20,000 20,000vi Cement, Centralizer, Scratchers, Service 30,000 25,000 or as Bits, Fuel 4,000 4,000. 33 33 Rental Equipment 17,000 \* Core & Analyses son Bottle Tests & Sidewall Cores ss n Perforate 7,000 mm Acid & Frack 16,000 on a Geological & Engineering 5,000 2,000 ons Mud Logger 10.000 10,000. 10 1 Cost of Centrol Insurance (SEC Only)\_489\_ \_5,700. \_\_5\_7.00\_ un Miscellaneous & Unforseen 38,000. mm m District & Overhead Expense \_3\_000\_ 2,000. 5 423,000 TOTAL INTARGIBLE 100% \$ 357,000 Summitt Energy, Inc. 25% \$ 105,750 \$ 89,250 GRAND TOTAL COSTS \$ 636,000 \$ 396,000 \$ 99,000 Summitt Energy, Inc. 25% AUTHORIZATION REQUESTED AUTHORIZATION APPROVED W 16 COMPANY: Swamid Energy, De my: Bank Dullet DATE: 9-7-78

515.0044

EXHIBIT XV B COMPANYMNO pulifand Royally Company PWALE FORCES WAST, ASSESSED TEXAS 29701 AFE NUMBER D X CHVHCE "DEFELE "A. E DATE B / 25 / 70 HAME S.R.C. STATE COM "16" No. 1 IGHAL & SUPPLEMENTAL TO PRODUCER TO DRY HOLE TO SEC OPERATOR A MANUAL THE TRORITY IS REQUESTED TO: Drill and complete as Morrow gas well to T.D. 11.600 ft. LOCAT X DEV. CATION: 1980' FIL 1980' FIL Section 16, T-19-S, R-29-E, EDDY COUNTY, NEW MEXICO ESTIMATED COST 'TANGIBLE - 249 PRODUCTRG DRY HOLE es Conductor or Drive Pipe 7,300 450' on or Casing 11 3/4" 42# H-40 STAC 0 \$15.00 7,300 20,200 2,2501 0) 8 5/8" 24% K-55 STAC 0 \$8.96 20,200 6 5/8" 24# S-80 STEC 3 \$9.71
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61 4 1/2" 11.6# K-55 LTEC 6 \$4.55 800' 7,800 7,800 2.570' 15,300 14,300 3,2601 67 4 1/2" 11.6% N-80 LTGC & \$5.95 68 4 1/2" 11.6% S-95 LTGC 0 \$6.86 3,370' 20,000 2.5201 17,300 4 1/2" 11.00 5-30 DAGE
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on Rig, Day Work 16 Days 0 \$ 3,550 /day 137,500 137,500 56,800 56,800 \* Rig Moving Costs\_ Completion Rig 10 Days @ \$ 850
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\*\*\* Roads, Canals, Location, Damages, Cleanup 4,000 2,000 13,000 1.0,000 es 24 Mud, Oil, Water, Chemicals 43,000 41,000 es s Drill Stem Tests 2,000 5,000 \* Electric Logs & Bond Logs 20,000 20,000 end Cement, Centralizer, Scratchers, Service 30,000 men Bits, Fuel 4,000 4,000 mental Equipment 17,000 6,000 • >>> Core & Analyses on Bottle Tests & Sidewall Cores \*\* 22 Perforate 2,000. man Acid & Frack \_16\_000\_ esu Geological & Engineering \_\_5,.000\_ \_\_2,000 as Hud Logger .10.000 -10.00010 11 Cost of Control Insurance (SEC Only)\_489\_ \_\_5,200.\_\_ \_5,200.\_ nn Miscellaneous & Unforseen .000. \_32,000\_.. um m District & Overhead Expense \_3\_000.. \_\_2.,000\_ \$ 423,000 \$ 357,000 TOTAL IRTARGIBLE 100% Erma Love 4.6875% 22,312.50 \$<u>26,437.50</u> GRAND TOTAL COSTS \$ 636,000 Erma Lowe. AUTHORIZATION REQUESTED AUTHORIZATION APPROVED COMPANY: \_\_\_

DATE: September 9, 1978

400044

AFE NUMBER

DOX CHANGE TO DELETE TO PROPERTY HUMBER "E DATE 8 / 25 / 78 NAME 5.R.C. STATE COME ")6" NO. 1 RIGINAL X SUPPLEMENTAL TO PRODUCER TO DRY HOLE TO SEC OPERATOR TO MANUAL THE JTHORITY IS REQUESTED TO:

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	8 5/8" 24# K-55 STAC @ \$8.96	20,200	20,200
	8 5/8" 24# S-80 STCC @ \$9.71	7,800	7,800
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3,379	4 1/2" 11.65 N-80 LTEC 8 05.95	20,000	
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7'600, 05 63	Tubing 2 3/8" FUE 4.7# N-80 9 \$3.15	36,800	
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04 1k	Packer and special equipment	4,000	
	Artificial Lift		
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10 14	Other Equipment_	5,000	2,100
. 13	TOTAL TANGIBLE 100%	\$ 213,000	\$ 39,000
16	M. Ralph Lowe, Inc. 9.375%	\$ 13,312.50	\$ 2,437.50
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	INTANGIBLE - 248		
61 17	Drilling 10,000 ft 6 13.75 /ft	137,500	137,500
118	Rig, Day Work 16 Days @ \$ 3,550 /day	56,800	56,800
01 33	Rig Moving Costs		
61-30	Completion Rig 10 Days 0 \$ 850 /day	8,500	
	Roustabout & Miscellaneous Labor	3,500	1,000
0) 22	Auto, Trucking, Barge, Tug Roads, Canals, Location, Damages, Cleanup	4,000.	2,000
	Mud, Oil, Kater, Chemicals	12,000	70,000
	Drill Stem Tests	43,000	41,000
	Electric Logs & Bond Logs	2,000	2,000
	Cement, Centralizer, Scratchers, Service	20,000 30,000	20,000 25,000
	Bits, Fuel	4,000	4,000
	Rental Equipment	17,000	6,000
	Core & Analyses:	17,000	1
	Bottle Tests & Sidewall Cores		
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. 69.31	Geological & Engineering	5,000	2,000
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AUTHORIZATION APPROVED

IN: Mary Railoh Lowe, Free Ident
DATE: 78



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

# MODEL FORM OPERATING AGREEMENT



## OPERATING AGREEMENT

## DATED

August 28 , 1978 ,

OPERATOR SOUTH	LAND ROYALTY COMPANY	
CONTRACT AREA!	11 of Section 16, T-19-	-S, R-29-E
		,
COUNTY XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	OFEddy	_STATE OF New Mexico

SRC STATE COMM, "16" No. 1

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN

APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED

MAY BE ORDERED DIRECTLY FROM THE PUBLISHER

KRAFTBILT PREDUCTS, BOX 800, TULSA 74101

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# **OPERATING AGREEMENT**

THIS AGREEMENT, entered into by and between Southland Royalty Company

, hereinafter designated and

referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

#### WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

.23

# ARTICLE I. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

# ARTICLE II.

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

- [X] A. Exhibit "A", shall include the following information:
  - (1) Identification of lands subject to agreement,
  - (2) Restrictions, if any, as to depths or formations,
  - (3) Percentages or fractional interests of parties to this agreement,
  - (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
    - (5) Addresses of parties for notice purposes.
- [X] B. Exhibit "B", Form of Lease.
- [X] C. Exhibit "C", Accounting Procedure.
- [X] D. Exhibit "D", Insurance.
- M E Exhibit "E". Gas Balancing Agreement.
- F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated ractimes.

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

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# ARTICLE III. INTERESTS OF PARTIES

#### A. Oil and Gas Interests:

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

#### B. Interest of Parties in Costs and Production:

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

# ARTICLE IV.

## A. Title Examination:

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

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

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

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

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

#### B. Loss of Title:

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

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone 70 the entire loss and it shall not be entitled to recover from Operator or the other parties any development \*except when such costs are incurred in connection with an operation conducted under Article VI B.2; in which event, such costs are to be borne by the drilling parties in the proportions elected by such parties.

AR

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

- (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost; and
- (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and
- (d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded: and
- (e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties in the same proportions in which they shared in such prior production; and
- (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.
- 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:
- (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;
- (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of interecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and
- (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.
- 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

### ARTICLE V. OPERATOR

## A. ADESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

- 3 -

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

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

#### C. Employees:

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

### D. Drilling Contracts:

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

### ARTICLE VI. DRILLING AND DEVELOPMENT

#### A. Initial Well:

November On or before the 15 day of \_ , 19<u>78,</u> Operator shall commence the drilling of a well for oil and gas at the following location:

1980' FN&WL Section 16, T19S, R29E, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to an approximate depth of 11,200' or a depth sufficient to test the Morrow formation, whichever is the lesser depth.

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

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

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

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#### B. Subsequent Operations:

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- 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.
- 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

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

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

- (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface confirment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such non-Consenting Party's chart of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this A-ticle, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (b) 300% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any each contributions received under Article VIII.C., and

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

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

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

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

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

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

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

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

## C. Right to Take Production in Kind:

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

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

Each party shall execute such division orders and contracts as may be necessary for the sale of its

interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment direct from the purchaser thereof for its share of all production.

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17 18 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the

foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended

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30 31 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as Exhibit "E", or is a separate Agreement.

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#### D. Access to Contract Area and Information:

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

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## E. Abandonment of Wells:

48 49 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours fexclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

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2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C". less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

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

# ALTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

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

#### B. Liens and Payment Defaults:

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

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

### C. Payments and Accounting:

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

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

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### D. Limitation of Expenditures:

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

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

- 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.
- 3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty Five Thousand Dollars (\$25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Twenty Five Thousand Dollars (\$25,000.00).

## E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of One-Eighth (1/8)

due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

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

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

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

#### G. Taxes:

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

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

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

#### H. Insurance:

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

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

#### ARTICLE VIII.

### ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

## A. Surrender of Leases:

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

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

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

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

## B. Renewal or Extension of Leases:

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

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

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

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

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases. The provisions of this paragraph shall apply only to leases, or portions of leases, located within the Unit Area.

### C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation.

Made shall promptly tender an assignment of the acreage, without warrants of the Drilling Parties in the proportions said Drilling Parties shows the cost of drilling the well. If all parties hereto are Drilling Parties and the contract Area and the parties are present tender, such acreage shall become a part of the Contract Area and the parties of all money contributions it may obtain in support of any well or any other operation on the Contract Area.

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

#### D. Subsequently Created Interest:

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

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

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

#### E. Maintenance of Uniform Interest:

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

- 1. the entire interest of the party in all leases and equipment and production; or
- 2, an equal undivided interest in all leases and equipment and production in the Contract Area.

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

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

## F. Waiver of Right to Partition:

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

#### G. Preferential Right to Purchase:

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

# ARTICLE IX. INTERNAL REVENUE CODE ELECTION

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

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

# ARTICLE X. CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand

[\$5,000.00]

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#### ARTICLE XI. FORCE MAJEURE

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

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

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

# ARTICLE XII.

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

# ARTICLE XIII. TERM OF AGREEMENT

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

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Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 60 days from the date of abandonment of said well.

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

# ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

### A. Laws, Regulations and Orders:

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

#### B. Governing Law:

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

# ARTICLE XV. OTHER PROVISIONS

#### A. Sale of Royalty Gas

It is recognized by the parties hereto that in addition to each party's share of working interest production, such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Unit Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Unit, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.



	RTICLE XVI. CELLANEOUS
This agreement shall be binding upon and s respective heirs, devisees, legal representative	shall inure to the benefit of the parties hereto and to their ves, successors and assigns.
	number of counterparts, each of which shall be considered
	shall be effective as of 28th day of August,
	PERATOR
	SOUTHLAND ROYALTY COMPANY
	By:
	Attorney-In-Fact
***	
NON-	OPERATORS PENNZOIL COMPANY
	មិ <u>y</u> :
	SUMMITT ENERGY, INC.
	By:
	MARALO, INC.
	By:
	ERMA LOWE
•	M. RALPH LOWE, INC.
	By:
	ANADARKO PRODUCTION COMPANY
	By:
•	
	$\left(\left(\begin{array}{cc} \lambda & \lambda \\ \lambda & \lambda \end{array}\right)\right)$
	20 30 0 20 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0

Attached to and made a part of Operating Agreement dated August 28, 1978, by and between Southland Royalty Company, Operator, and Pennzoil Company, Summitt Energy, Inc., Maralo, Inc., Erma Lowe, and M. Ralph Lowe, Inc., Anadarko Production (ompany, Non-Operators.

### **OPERATOR:**

Southland Royalty Company 1100 Wall Towers West Midland, Texas 79701 Attention: A. W. Newkumet

## NON-OPERATOR:

Pennzoil Company P. O. Drawer 1828 Midland, Texas 79702

Attention: Mike McCollough

Summitt Energy, Inc. 112 North First Artesia, New Mexico 88210

Attention: Paul White

M. Ralph Lowe, Inc. Erma Lowe Maralo, Inc. 2200 W. Loop South, Suite 130 Houston, Texas 77027

Attention: John Burke

## PART I (A) - LANDS SUBJECT TO CONTRACT:

The "Unit" is comprised of 640 acres, Section 16, T-19-S, R-29-E, Eddy County, New Mexico

# PART I (B) - RESTRICTIONS AS TO LANDS, FORMATIONS AND DEPTHS:

The Unit Area shall include the lands described in Subsection (A) above and only those leases, leasehold estates and mineral interests described in Exhibit "A" Part II hereof from 5000 feet below the surface down to 100' below the total depth drilled in the test well specified in Article VI hereof.

## PART I (C) - ANADARKO PRODUCTION COMPANY INTEREST:

It is understood that Anadarko Production Company's interest in the initial well proration unit (North One-Half Section 16) is in the process of being force pooled. If operator is successful in the force pooling action, the working interest owners will proportionately share in the additional costs in connection with the force pooled interest. Costs and participation before and after the non-consent penalty anticipated to be assigned by the N.M. O.C.C. are shown below.\*

Anadarko Production Company Two Greenway Plaza East Houston, Texas 77046 Attention: Frank Klam

Cost Sharing and Ownership of Article II Test Well Equipment and Working Interest

14893	L-1513 and L-2473**	E-2943	State of New Mexico
M. Rlaph Lowe, Inc. Maralo, Inc. Erma Lowe	Southland Royalty Pennzoil Company	Summitt Energy Anadarko	Company
• 60 30 30	-0-	160 160	Net acs.
9.375% 4.5875% 4.5875% <u>100.0000</u> %	31.25% -0-	25% 25%	Percentage of junit
12.5% 6.25% 6.25%	41.666667%	33.33333% -0-	Before PO
12.5% 6.25% 6.25% 100.00%	26.041667% 15.625%	33.333333% -0-	*After PO, but before OCC Assigned Penalty is recouped
9.375% 4.6875% 4.6975% 100.0000%	15.625% 15.625%	% % % %	* After OCC Assigned Penalty is recouped
9.375% 4.6875% 4.6875%	15.625% 15.625%	2 2 5 3 3 3 4	(Assuming all parties Join)

\*\*Subject to Farmout Agreement dated March 21, 1978, between Pennzoil Company and Southland Royalty Company

# EXHIBIT "B"

Attached to and made a part of Operating Agreement dated August 28, 1978, by and between Southland Royalty Company, Operator, and Anadarko Production Company, Pennzoil Company, Summitt Energy, Inc., Maralo, Inc., Erma Lowe, N. Ralph Lowe and Anadarko Production Company, Non-Operators.

There is no Exhibit "B"

Recommended by the Council of Petroleum Accountants Societies of North America



# EXHIBIT "c'

Attached to and made a part of Operating Agreement dated August 28, 1978, by and between Southland Royalty Company, Operator, and Anadarko Production Company, Pennzoil Company, Summitt Energy, Inc., Maralo, Inc., Erma Lowe, M. Ralph Lowe and Anakarko Production Company, Non-Operators.

# ACCOUNTING PROCEDURE JOINT OPERATIONS

#### I. GENERAL PROVISIONS

#### 1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

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

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

# 2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

# 3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the a scable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's rees, court costs, and other costs in connection with the collection of unpaid amounts.

# 4. Adiustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

# 5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

# 6. Approval by Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

#### II. DIRECT CHARGES

Operator hall charge the Joint Account with the following items:

# 1. Rentals -- ! Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

#### 2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
  - (2) Salaries of First Level Supervisors in the field.
  - (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

#### 3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

#### 4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

#### 5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limita-

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

# 6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

# 7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B.. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

# 8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

# 9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

#### 10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

#### 11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

# 12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

#### III. OVERHEAD

# 1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:
  - ( X ) Fixed Rate Basis, Paragraph 1A, or
  - ( ) Percentage Basis, Paragraph 13.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The celaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not ( X) be covered by the Overhead rates.
- A. Overhead Fixed Rate Basis
  - (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 2300.00 Producing Well Rate \$230.00

- (2) Application of Overhead Fixed Rate Basis shall be as follows:
  - (a) Drilling Well Rate
    - [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
    - [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for tifteen (15) or more consecutive days
    - [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.
  - (b) Producing Well Hates
    - [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
    - [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
    - [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
    - [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
    - [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

- (1) Operator shall charge the Jant Account at the following rates:
  - (a) Development

Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

Percent ( %) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all shange credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redicting, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Mail Construction as defined in

#### 2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall negotiate a rate prior to the beginning of construction.

Total and the gross cost of any one project. For the purpose of this paragraph, the component parts

#### 3. Amendment of Rates

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

#### IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

# 1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

# 2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of eash discounts:

# A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

# (2) Line Pipe

- (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
- (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

# B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

- (1) Material moved to the Joint Property
  - (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.
- (2) Material moved from the Joint Property
  - (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or



(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

# C. Other Used Material (Condition C and D)

# (1) 'Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

#### (2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

#### D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

#### E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

#### 3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

# 4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

# V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

# 1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

# 2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

# 3. Special Inventories

Special Inventorics may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

# 4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties,

# EXHIBIT "D"

Attached to and made a part of Operating Agreement dated August 28, 1978, by and between Southland Royalty Company, Operator, and Anadarko Production Company, Pennzoil Company, Summitt Energy, Inc., Maralo, Inc., Erma Lowe, M. Ralph Lowe and Anadarko Production Company, Non-Operators.

# INSURANCE

- 1. Operator and non-consenting operators shall carry insurance as follows for the protection of the parties to this Agreement:
  - (a) Insurance which shall comply with all applicable workmen's compensation and occupational disease laws covering all employees engaged in operations under this Agreement including, if applicable, the United States Longshoremen's and Harbor Workers' Act and the Outer Continental Shelflands Act. Employers' liability insurance shall be provided with a limit of not less than \$100,000 per occurrence.
  - (b) Comprehensive general and automobile liability insurance with bodily injury limits of not less than \$100,000 for one person and \$300,000 for one accident, and with a property damage limit of not less than \$100,000 for one accident; provided, however, premiums for such insurance on Operator's exclusively owned equipment shall not be charged directly to the joint account, but shall be covered by the flat rate charges assessed for the use of such equipment.
- 2. Operator shall not carry physical damage insurance on jointly owned property, it being understood and agreed that each party will be responsible for its own interest in such properties and will assume its portion of any loss that occurs. Each party hereby waives its rights of recovery against all other parties to the Agreement and agrees that all insurance policies covering its interest in the jointly owned property will be suitably endorsed to effectuate this waiver. Operator shall promptly notify Non-Operators in writing of all losses involving damage to jointly owned property in excess of \$1,000.

If a new plant or facility is to be constructed or an existing plant remodeled under this Agreement, Operator shall obtain or cause to be obtained for the benefit of the parties hereto "All Risk" insurance, subject to a nominal deductible, to cover the project during the construction period, during all testing and until completion and final acceptance by Operator.

3. Operator shall require all contractors engaged in operations under this Agreement to comply with the applicable workmen's compensation and occupational disease laws and to maintain such other insurance as the Operator deems necessary.

# GAS STORAGE AND BALANCING AGREEMENT

Attached to and made a part of Operating Agreement dated August 28, 1978, by and between Southland Royalty Company, Operator, and Anadarko Production Company, Pennzoil Company, Summitt Energy, Inc., Maralo, Inc., Erma Lowe, M. Ralph Lowe and Anadarko Production Company, Non-Operators.

- 1. The parties to the Operating Agreement to which this gas storage and balancing agreement is attached own the working interest in the gas rights underlying the Unit Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.
- 2. In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time while the Operating Agreement is in effect take the share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.
- 3. During the period or periods when any party hereto has no market or fails to take its shale of gas produced from any proration unit within the Unit Area, or its purchaser does not take its share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent of the allowable gas production (including lawful tolerances) assigned to such proration unit by the regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production, except, however, that no party shall be entitled to take or deliver to a purchaser gas production in excess of three hundred percent of its share of such allowable unless that party has gas in storage. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.
- 4. On a cumulative basis, each party not taking or marketing its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under the Operating Agreement, less its share of gas used in lease operations, vented or lost. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties here to monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, and the total quantity of liquid hydrocarbons recovered therefrom.
- 5. At all times while gas is produced from the Unit Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of such gas production. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.
- 16. It is the intent that each party be entitled to gas produced in the proportion that its ownership interest bears to the sum of the ownership interests. It is the intent that the Unit Operator have the duty of controlling gas well production and the responsibility of administering the provisions of this agreement. Unit Operator shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance under the provisions contained herein.

- 7. To give effect to the intent of this agreement, the Unit Operator shall be governed by the following rights of each party.
  - (a) When the well's current production is less than the well allowable due to either the capacity of the well to produce or the Unit Operator causing the well to produce below allowable in order to properly balance well allowable overproduction:
    - (1) Each underproduced party (a party who has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right to take a greater amount of gas than its proportionate share of the well's current production, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interest of all underproduced parties desiring to take more than their proportionate share of the well's current production.
    - (2) Each overproduced party (a party who has taken a greater volume of gas than the quantity such party is herein entitled) shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than seventy-five percent (75%) of such overproduced party's proportionate share of the well's current production.
  - (b) When the well's current production is less than the well allowble due to combined pipeline takes or for reasons other than in subparagraph (a) above:
    - (1) Each underproduced party shall have the right as in subparagraph (a) (1) above.
    - (2) Each overproduced party shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than seventy-five percent (75%) of such overproduced party's proportionate share of the well allowable.
  - (c) When the well's current production is equal to or greater than the well allowable:
    - (1) Each underproduced party shall have the right to take a greater amount of gas than its proportionate share of the well allowable, provided that the right to take such greater amount bears to the total interests of all underproduced parties desiring to take more than their proportionate share of the well allowable.
    - (2) Each overproduced party shall have the right as in sub-paragraph (a) (2) above.
  - (d) The Unit Operator, at the request of any party, may produce the entire well stream, if necessary, for a deliverability test not to exceed seventy-two (72) hours duration required under such requesting party's gas sales contract and may overproduce in any other situation provided that such overproducing would be consistent with prudent operations.
- 8. Each party taking gas shall furnish, or cause to be furnished, the Unit Operator a monthly statement of gas taken. After commencement of production, Unit Operator shall furnish a current account monthly of the gas balance between parties hereto including the total quantity of gas produced, the portion nereof used in Unit operations, worked or lost, and the total quantity of gas delivered to a market.

- 9. Each party taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.
- , 10. The provisions of this agreement shall constitute a separate agreement and be separately applicable to each provation unit and/or reservoir to the end that production from one reservoir in a gas well may not be utilized for the purpose of balancing underproduction from other reservoirs.
- 11. When gas sales from a reservoir in a gas well permanently cease, Unit Operator shall be responsible to determine the final accounting of underproduction and overproduction and each overproduced party shall account to and compensate each underproduced party with a sum of money equal to the amount actually received, less applicable taxes, by any overproduced party from the sale of that part of the total cumulative volume of gas produced which the underproduced party was entitled to take and payment for such overproduction shall be in the order of accrual.
- 12. The term "proration unit" means the area or portion of the Unit Area fixed for the producing reservoir by applicable field rules or, in the absence thereof, the area established in statewide rules and regulations by the regulatory body having jurisdiction.
- 13. This Gas Balancing Agreement shall apply except to the extent it is in conflict with the Operating Agreement to which it is attached.

Attached to and made a part of Operating Agreement dated August 28, 1978, by and between Southland Royalty Company, Operator, and Anadarko Production Company, Pennzoil Company, Summitt Energy, Inc., Marale, Inc., Erma Lowe, M. Ralph Lowe and Anadarko Production Company, Non-Operators.

# EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

- (1) The operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevent orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.
- (7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

# Anadarko

PRODUCTION COMPANY

Easlern

Two Greenway Plaza East, Sulte 410 + Houston, Taxas 77046 + (713) 626-7610

September 19, 1978

Southland Royalty Company 1100 Wall Towers West Midland, Texas 79701

Attention: Mr. Wayne Newkumet



Proposed SRC State Re: Comm 16, No. 1 Eddy County, New Mexico

Dear Sir:

In response to your recent correspondence proposing the drilling of the subject well in Section 16, T19S, R29E, Eddy County, New Mexico, Anadarko feels that this well should not be drilled until a sufficient production history can be evaluated from the SRC Comm No. 1 well, which is yet to be put on stream. Our decision not to join at this time is based solely on the fact that without additional information to determine the quality of the well presently shut-in in Section 15, a prudent decision can not be made for an offset well.

Should Southland feel compelled to drill the proposed well without this information, we will be glad to support your endeavor with a dry hole contribution in the amount of \$5.00 per foot, reduced in proportion to Anadarko's interest in the offset acreage, or \$2.50 per foot net.

The AFE and Operating Agreement previously furnished to Anadarko is being returned.

BEFORE DYAMBLER STAMETS Cit. Cost in

ANADARKO PRODUCTION COMPANY

Southland Royalt

A. Frank Klam Division Landman

Yours very truly,

AFK/lm -Enclosures

cc: Maralo, Inc.

2200 West Loop South, Suite #130

Houston, Texas 77027

Summit Energy, Inc. 1925 Mercantile Dallas Bldg. Dallas, Texas 75201

Dan Kernaghan



CERTIFIED MAIL - RETURN RECEIPT REQUESTED

**September** 26, 1978

Mrs. Grandville W. Green 600 Satalite El Paso, Texas 79912 Mrs. Samuel Watkins 600 Satalite El Paso, Texas 79912

Estate of Florence W. Johnston P. O. Box 1305
Santa Fe, New Mexico 85701

Attention: J. H. E. Johnston

Re: SRC State Comm. "16" No. 1 N/2 Sec. 16, T19S, R29E Eddy County, New Mexico SRC F/O 274

Dear Ladies & Gentlemen:

Our records indicate you as heirs, or devisees, of Roy Samuel Watkins, Deceased, own an oil & gas production payment under State of New Mexico Oil & Gas Lease #E-2943 which covers the East One-Half (E/2) Section 16, T195, R29E. The Oil & Gas Lease is now owned jointly by Anadarko Production Company and Summitt Energy, Inc. who will be working interest partners with Southland Royalty Company in the referenced well.

In order to drill the referenced well under State of New Mexico law, a proration unit must be formed, and consent obtained from all owners including overriding royalty owners and production payment owners under the proration unit. In the absence of voluntary consent on the part of the owners, the State will "force pool" all interests within the proration unit. The proration unit will be the North One-Half (N/2) Section 16 and your interests will be proportionately reduced as to your interest in the N/2 of the section.

The proration unit, or communitized area, shall be developed and operated as a unit with the understanding and agreement that all hydrocarbons produced from the communitized area shall be allocated among the leases within the communitized area in the proportion that the number of surface acres covered by each of such leases and included within the communitized area bears to the total number of acres contained in the communitized area.

The above communitization is subject to the Commission of Public Lands approval of same.

1100 WALL TOWERS WEST (915) 682-8641 MIDLAND, TEXAS 79701

Southland Royald

635/

10-11-73

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If you are agreeable to committing your interest to the communitization as described above, please execute in the space provided below in the presence of a notary public and return to this office at your very earliest convenience. Please call me collect if questions should arise at Area Code 915/682-8641.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

A. W. Newkumet Landman

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AWN:1h	•
AGREED TO AND ACCEPTED thisday of_	, 1978.
MRS. GRANDVILLE W. GREEN MRS.	SAMUEL WATKINS
ESTATE OF FLORENCE W. JOHNSTON	•
<u>By:</u>	•
STATE OF COUNTY OF	
Before me, the undersigned authori within named MRS. CRANDVILLE W. GREEN with delivered the foregoing instrument as h	ty, on this day personally appeared the ho acknowledged that she signed and er free and voluntary act and deed.
Given under my hand and seal of of theday of	fice at this A.D., 1978.
My Commission Expires:  Nota Coun	ry Public in and fortv.

STATE OF	,	
COUNTY OF	•	
	outhority, on this day personally a who acknowledged that she signed a free and voluntary act and deed.	
Given under my hand and seal	of office at	this
the day of	, A.D., 1978.	
My Commission Expires:		
	Notary Public in and for	
	County,	
STATE OFI	· ·	
COUNTY OF		
Before me, the undersigned a within named JOHNSTON, who acknowledged that ( ment as his/her free and voluntar	for the ESTATE OF FLORENCE) to signed and delivered the forency act and deed.	appeared the NCE W. eqoing instru
Given under my hand and seal day of	of office at this	is the
	÷ .	· •
My Commission Expires:	Notary Public in and for	-
	County,	

xc: Mr. Conrad Coffield HINKLE, COX, EATON, COFFIELD & HENSLEY P. O. Box 3580 Midland, Texas 79702

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Dockets Nos. 34-78 and 35-78 are tentatively set for hearing on October 25 and November 8, 1978. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - OCTOBER 11, 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;

CASE 6338: Application of Charles C. Loveless for an unorthodox well location, Eddy County, New Mexico.

Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the South line and 1980 feet from the East line of Section 23, Township 17

South, Range 26 East, Kennedy Farms Field, Eddy County, New Mexico, the E/2 of said Section 23 to be dedicated to the well.

CASE 6040: (Reopened and Readvertised)

In the matter of Case 6040 being reopened pursuant to the provisions of Order No. R-5552 which order created the North Teague-Devonian Pool, Lea County, New Mexico, with a special gas-oil ratio limitation of 4000 to 1. All interested parties may appear and show cause why the limiting gas-oil ratio for said pool should not revert to 2000 to 1.

CASE 6339: Application of Amoco Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 22, Township 23 South, Range 28 East, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. 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 6321: (Continued and Readvertised)

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 714 feet from the South line and 2062 feet from the West line of Section 16, Township 18 South, Range 31 East, Eddy County, New Mexico, the W/2 of said Section 16 to be dedicated to the well.

CASE 6320: (Continued and Readvertised)

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 710 feet from the North line and 2330 feet from the West line of Section 32, Township 18 South, Range 27 East, Eddy County, New Mexico, the W/2 of said Section 32 to be dedicated to the well.

- CASE 6340: Application of Supron Energy Corporation for downhole commingling, Eddy County, New Mexico.

  Applicant, in the above-styled cause, seeks approval for the downhole commingling of Atoka and Strawn production in the wellbore of its Shelby Federal Well No. 1 located in the NE/4 of Section 13, Township 22 South, Range 24 East, Eddy County, New Mexico.
- CASE 6341: Application of Supron Energy Corporation for dual completions and downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the dual completion of its Jicarilla A Well No. 8 located in the NW/4 of Section 23; its Jicarilla E Well No. 7 located in the SE/4 of Section 15; and its Jicarilla E Well No. 8 located in the NW/4 of Section 15, all in Township 26 North, Range 4 West, Rio Arriba County, New Mexico, to produce gas from the Mesaverde formation through a separate string of tubing and to commingle Gallup and Dakota production in the wellbures of said wells.
- Application of Supron Energy Corporation for a dual completion and downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Jicarilla J Well No. 10 located in the SE/4 of Section 26, Township 26 North, Range 5 West, Rio Arriba County, New Mexico, to produce gas from the Pictured Cliffs formation through a separate string of tubing and to commingle Tocito and Dakota production in the wellbore of said well.
- Application of Supron Energy Corporation for a dual completion and downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Jicarilla H Well No. 8 located in the SE/4 of Section 11, Township 26 North, Range 4 West, Rio Arriba County, New Mexico, to produce gas from the Pictured Cliffs formation through a separate string of tubing and to commingle Callup and Dakota production in the wellbore of said well.

- CASE 6344: Application of Supron Energy Corporation for a dual completion and downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Jicarilla F Nell No. 1 located in the SM/4 of Section 27, Township 26 North, Range 4 West, Rio Arriba County, New Mexico, to produce gas from the Pictured Cliffs formation through a separate string of tubing and to commingle Mesaverde and Dakota production in the wellbore of said well.
- CASE 6345:
  Application of Supron Energy Corporation for downhole commingling, Rio Arriba County, New Mexico.
  Applicant, in the above-styled cause, seeks approval for the downhole commingling of Gallup and
  Dakota production in the wellbore of its Jicarilla H Well No. 7 located in the SW/4 of Section 19,
  Township 26 North, Range 4 West, Rio Arriba County, New Mexico.
- CASE 6346: Application of Supron Energy Corporation for downhole commingling, Rio Arriba County, New Mexico.

  Applicant, in the above-styled cause; seeks approval for the downhole commingling of Pictured Cliffs and Chacra production in the wellbore of its Jicarilla K Well No. 14 located in the SE/4 of Section 11, Township 25 North, Range 5 West, Rio Arriba County, New Mexico.
- CASE 6347: Application of Supron Energy Corporation for downhole commingling, Rio Arriba County, New Mexico.

  Applicant, in the above-styled cause, seeks approval for the downhole commingling of Chacra and Dakota production in the wellbore of its Jicarilla K Well No. 17 located in the SW/4 of Section 12, Township 25 North, Range 5 West, Rio Arriba County, New Mexico.
- CASE 6348: Application of Supron Energy Corporation for downhole commingling, San Juan County, New Mexico.

  Applicant, in the above-styled cause, seeks approval for the downhole commingling of Mesaverde and Dakota production in the wellborg of its Starr Well No. 3 located in the NE/4 of Section 5, Township 26 North, Range 8 West, San Juan County, New Mexico.
- CASE 6349: Application of Consolidated Oil & Gas, Inc. for downhole commingling, Rio Arriba County, New Mexico.

  Applicant, in the above-styled cause, seeks approval for the downhole commingling of B.S. MesaGallup and Basin-Dakota production in the wellbore of its Hoyt Well No. 1-5 located in Unit H of
  Section 5, Township 26 North, Range 4 West, Rio Arriba County, New Mexico.
- CASE 6350: Application of Petro-Lewis Corporation for an unorthodox well location, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval of the unorthodox location in the Mesaverde formation for its Florance Well No. 7 located 2028 feet from the North line and 1040 reet from the West line of Section 4, Township 25 North, Range 3 West, Tapacito Field, Rio Arriba County, New Mexico, the NW/4 of said Section 4 to be dedicated to the well.
- CASE 6351: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico.
  Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Penns 1vanian formation underlying the N/2 of Section 16, Township 19 South, Range 29 East, Eddy County,

  New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof
  as well as actual operating costs and charges for supervision. 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 6352: Application of Southland Royalty Company for three dual completions, San Juan County, New Mexico.

  Applicant, in the above-styled cause, seeks approval for the Jual completion of its Decker Well No.

  2A located in Unit I of Section 26, Township 32 North, Range 12 West, and its Grenier "A" Well No.

  1A in Unit C of Section 26, Township 30 North, Range 10 West, to produce gas from the BlancoPictured Cliffs and the Blanco Mesaverde pools and its Patterson "B" Com Well No. 1R in Unit C of
  Section 2, Township 31 North, Range 12 West, to produce gas from the Aztec-Pictured Cliffs and Blanco
  Mesaverde pools, all in San Juan County, New Mexico, with separation of the zones in each of the
  above wells to be achieved by means of a polished bore receptacle and mandrel.
- CASE 6353: Application of Union Texas Petroleum for two unorthodox well locations, Roosevelt County, New Mexico.

  Applicant, in the above-styled cause, seeks approval for the unorthodox locations of its Milnesand
  Unit Well No. 241 to be drilled 2630 feet from the North line and 100 feet from the East line of
  Section 24, Township 8 South, Range 34 East, and its Milnesand Unit Well No. 1901 to be drilled 1310
  feet from the North and West lines of Section 19, Township 8 South, Range 35 East, Milnesand San
  Andres Pool, Roosevelt County, New Mexico.
- CASE 6354: In the matter of the hearing called by the 011 Conservation Division on its own motion for an order creating and extending vertical and horizontal limits of certain pools in Chaves, Eddy, Lea, and Roosevelt Counties, New Mexico:
  - (a) CREATE a new pool in Eddy County, New Mexico, classified as a gas pool for Bone Springs production and designated as the Ross Draw-Bone Springs Gas Pool. The discovery well is D. B. Baxter Ross Draw Unit Well No. 5 located in Unit K of Section 27, Township 26 South, Range 30 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 30 EAST, NMPM Section 27: SW/4

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(b) CREATE a new pool in Chaves County, New Mexico, classified as a gas pool for Atoka production and designated as the South Sand Ranch-Atoka Gas Pool. The discovery well is Depco, Inc. Beall Federal Well No. 1 located in Unit C of Section 17, Township 11 South, Range 30 East, NORM. Said pool would comprise:

TOWNSHIP 11 SOUTH, RANGE 30 EAST, NMPM Section 17: E/2

(c) EXTEND the Angell Ranch-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 27 EAST, NMPM Section 25: All Section 36: N/2

TOWNSHIP 20 SOUTH, RANGE 27 EAST, NMPM Section 1: E/2

(d) EXTEND the Bluitt-San Andres Associated Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 38 EAST, NMPM Section 16: N/2 Section 17: NE/4

(e) EXTEND the Buckeye-Abo Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM Section 3: W/2

(f) EXTEND the East Burton Flat-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 29 EAST, NMPM Section 5: E/2

(g) EXTEND the East Chisum-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 11 SOUTH, RANGE 28 EAST, NHPM
Section 9: NW/4 SE/4
Section 10: W/2 SW/4
Section 21: NE/4 NW/4

- (h) EXTEND the vertical limits of the Comanche Stateline-Yates Pool in Lea County, New Mexico, to include the Tansill formation and redesignate said Comanche Stateline-Yates Pool as the Comanche Stateline Tansill-Yates Pool.
- (i) EXTEND the Corbin-Queen Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 33 EAST, NMPM Section 35: NW/4

(j) EXTEND the Crooked Creek-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 24 EAST, NMPM Section 16: N/2

(k) EXTEND the South Empire-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM Section 25: S/2

TOWNSHIP 17 SOUTH, RANGE 29 EAST, NHPM Section 30: N/2

TOWNSHIP 18 SOUTH, RANGE 28 EAST, NMPM Section 13: N/2

TOWNSHIP 18 SOUTH, RANGE 29 EAST, NMPM Section 7: \$/2
Section 18: All

(1) EXTEND the West Four Mile Draw-Norrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 26 EAST, NMPM Section 6: \$/2

(m) EXTEND the Gladiola-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 12 SOUTH, RANGE 38 EAST, NMPM Section 5: NW/4

(n) EXTEND the Herradura Bend-Delaware Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 28 EAST, NMPM Section 31: W/2 E/2 Section 32: NE/4 NE/4

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM Section 5: W/2 NW/4

(o) EXTEND the Hume-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 34 EAST, NMPM Section 5: S/2 Section 8: E/2

(p) EXTEND the Indian Flats-Delaware Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 28 EAST, NMPM Section 35: S/2 SW/4

TOWNSHIP 22 SOUTH, RANGE 28 EAST, NMPM Section 2: N/2 NW/4

(q) EXTEND the South Kemnitz-Upper Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 34 EAST, NMPM Section 33: SW/4

(r) EXTEND the Kennedy Farms-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 26 EAST, NMPM Section 33: E/2

(s) EXTEND the East Lusk-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM Section 16: NE/4

(t) EXTEND the Many Gates-Morrow Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 9 SOUTH, RANGE 30 EAST, NMPM Section 31: All

(u) EXTEND the North Mescalero-Cisco Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 32 EAST, NMPM Section 11: NW/4

(v) EXTEND the Millman-Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM Section 18: All

(w) EXTEND the Monument-Paddock Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM Section 21: NE/4

(x) EXTEND the South Peterson-Fusselman Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 5 SOUTH, RANGE 33 EAST, NMPM Section 31: E/2

(y) EXTEND the Quail Ridge-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 34 FAST, NMPM Section 16: S/2

(z) EXTEND the Red Lake-Pennsylvanian Cas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 27 EAST, NMPM Section 19: E/2 Section 20: W/2

(aa) EXTEND the Sand Dunes-Cherry Canyon Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 31 EAST, NMPM Section 23: E/2 SE/4 and NW/4 SE/4

(bb) EXTEND the Sand Ranch-Atoka Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 29 EAST, NNPM Section 23: N/2

(cc) EXTEND the North Shugart-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM Section 21: W/2

(dd) EXTEND the North Shugart-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM Section 21: W/2

(ee) EXTEND the Tomahawk-San Andres Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 7 SOUTH, RANGE 32 EAST, NMPM Section 30: NE/4
Section 31: SE/4
Section 32: NW/4

(ff) EXTEND the Tubb Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM Section 6: NW/4

TOWNSHIP 22 SOUTH, RANGE 38 EAST, NMPM Section 31: SW/4

(gg) EXTEND the North Turkey Track-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANCE 28 EAST, NMPM Section 25: W/2

TOWNSHIP 18 SOUTH, RANGE 29 EAST, NMPM Section 29: N/2 Section 31: S/2

(hh) EXTEND the Twin Lakes-San Andres Associated Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 28 EAST, NMPM Section 25: S/2 SW/4

TOWNSHIP 9 SOUTH, RANGE 28 EAST, NMPM
Section 1: SW/4 NE/4, NW/4 SE/4, SW/4 NW/4 and NW/4 SW/4

(ii) EXTEND the Vacuum Grayburg-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 36 EAST, NMPM Section 19: NW/4

Page 6 of 6 Examiner Hearing - Wednesday - October 18, 1978

# DOCKET: EXAMINER HEARING - WEDNESDAY - OCTOBER 18, 1978

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

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

- ALLOWABLE: (1) Consideration of the allowable production of gas for November, 1978, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
  - (2) Consideration of the allowable production of gas for November, 1978, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

LAW OFFICES

HINKLE, COX, EATON, COFFIELD & HENSLEY
1000 FIRST NATIONAL BANK TOWER

OF COUNSEL SEP 22 1079 CLARENCE E-HINKLE

PAUL W. EATON, JR.
CONRAD E. COFFIELD
MARGLE L. MENSLEY, JR.
STUART D. SHANOR
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Post Office Box 3580

MIDLAND, TEXAS 79702

(915) 683-4691

W. E. BONDURANT, UR. (1914-1973)

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

DOUGLAS L.LUNSFORD PAUL M. BOHANNON J. DOUGLAS FOSTER K.DOUGLAS PERRIN C. RAY ALLEN JACQUELINE W. ALLEN T. CALDER EZZELLJUR.

September 20, 1978

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN & ALLEN LICENSED IN TEXAS

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

Dear Dan:

Transmitted herewith you will find triplicate executed copies of an Application for Southland Royalty Company for compulsory pooling of working interest and overriding royalty interests in the NE% of Section 16, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

It is my understanding that the docket setting for October 11 is still available for this matter, and accordingly, we request that it be heard on that date.

I trust that the enclosed copies of the Application are all that is needed in order for this to be set for the October 11 hearing. However, if anything is needed in addition, please let me know.

Very truly yours,

HINKLE, COX, EATON, COFFIELD & HENSLEY

Conrad E. Coffield

CEC:rf Enclosures

xc: Mr. Wayne Newkumet Southland Royalty Company 1100 Wall Towers West Midland, Texas 79701

# BEFORE THE OIL CONSERVATION DIVISION STATE OF NEW MEXICO

APPLICATION OF SOUTHLAND	)	1 351
ROYALTY COMPANY FOR COMPULSORY	)	case 6351
POOLING, EDDY COUNTY, NEW MEXICO	)	-

Southland Royalty Company, by its undersigned attorneys, hereby makes application for an Order pooling all mineral interests (including working interests and overriding royalty interests) in the Pennsylvanian formation underlying the NE% of Section 16, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show:

- 1. Applicant is entitled to proceed with the drilling of a well located on the N½ of Section 16, Township 19 South, Range 29 East, N.M.P.M. under the authority of Applicant's ownership of oil and gas leasehold interests or under farmout agreements from others. Anadarko Production Company is the owner of part of the working interest in the NE% of Section 16, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico and Frances M. Watkins and the Heirs or Devisees of Roy Samuel Watkins, Deceased, are the owners of overriding royalty interests in the NE% of Section 16, Township 19 South, Range 30 East, N.M.P.M., Eddy County, New Mexico.
- 2. Applicant proposes to drill a well 1,980 feet from the North line and 1,980 feet from the West line of Section 16, to a depth of 11,600 feet or to a depth sufficient to test the Pennsylvanian formation and seeks to dedicate the N½ of said Section 16 to the well. Applicant has requested Anadarko Production Company, as owner of part of the working interest in the NE¾ of Section 16, to agree to participate in the drilling of said well or to farmout or otherwise commit their interest to said well, but Anadarko Production Company so far has refused to do so. Likewise, Applicant has requested

Frances M. Watkins and the Heirs or Devisees of Roy Samuel Watkins, Deceased, as owners of overriding royalty interests in said NE% of Section 16, to agree to pool or combine their respective interests under the well, but they have so far refused to do so.

- 3. The pooling of all interests in the Pennsylvanian formation in the N½ of Section 16 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.
- 4. Applicant requests that this matter be heard at the October 11, 1978 examiner's hearing.

HINKLE, COX, EATON, COFFIELD & HENSLEY

By:

Conrad E. Coffield

Post Office Box 3580

Midland, Texas 79702

Attorneys for Southland
Royalty Company

LAW OFFICES POST OFFICE BOX 3580

HINKLE, COX, EATON, COFFIELD & HENSLEY

1000 FIRST NATIONAL BANK TOWER

MIDLAND, TEXAS 79702 (915) 583-4691

OF COUNSEL CLARENCE E.HINKLE

W. E.BONDURANT, JR. (1914-1973)

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

ONLY ATTYS. COFFIELD, MARTIN, BOZARTH, BOHANNON, FOSTER, ALLEN, ALLEN & BURFORD LICENSED IN TEXAS

May 9, 1979



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

> Case No. 6351 Re: Order No. R-5841

Dear Dan:

LEWIS C. COX, JR.

PAUL W. EATON, JR.

STUART D. SHANOR

JAMES H. BOZARTH

DOUGLAS L.LUNSFORD PAUL M. BOHANNON

J. DOUGLAR FOSTER

K.DOUGLAS PERRIN C. RAY ALLEN

RICHARD E.OLSON

JACQUELINE W ALLEN T. CALDER EZZELL,JR. WILLIAM B. BURFORD JOHN S. NELSON

C.D. MARTIN PAUL J. KELLY, JR.

CONRAD E.COFFIELD HAROLD L. HENSLEY, JR.

> During my examination of the title in connection with lands involved in this case I noticed the copy of this Order, and it was my belief that the date was misprinted as 1978 when it should have been 1979. Connie handled this case and he concurred with me that he thought that was the intent.

Therefore, I have prepared a Nunc Pro Tunc Order for entry in this matter if you concur with me.

Sincerely yours,

HINKLE, COX, EATON, COFFIELD & HENSLEY

C. D. Martin

CDM:rf Enclosure

# STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

CASE NO. 6351 Order No. R-5841

APPLICATION OF SOUTHLAND ROYALTY COMPANY FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO MAY 1 1 1979

OIL CONSERVATION DIVISION SANTA FE

NUNC PRO TUNC ORDER

# BY THE DIVISION:

It appearing to the Division that Order No. R-5841, dated November 6, 1978, does not correctly state the intended finding and order of the Division,

# IT IS THEREFORE ORDERED:

(1) That Finding (13) on Page 2 be and the same is hereby corrected to read in its entirety as follows:

"(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 1979, the order pooling said unit should become null and void and of no effect whatsoever."

La count paragraph of

(2) That Order (1) on Page 3 be and the same is hereby corrected to read in its entirety as follows:

"PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of February, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;"

(3) That the correction set forth in this order be entered nunc pro tunc as of November 6, 1978.

(2) that the thirt pringraph of Order (1) on Page 3 be and the same is hereby corrected to read in its entirely as follows:

7 Monary, 1979;

DONE at Santa Fe, New Mexico, on this \_\_\_\_ day of May, 1979.

STATE OF NEW MEXICO OIL CONSERVATION DIVISION

JOE D. RAMEY Director

SEAL

MAY 1 1 1979

OIL CONSERVATION DIVISION SANTA FE

# STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

CASE NO. 6351 Order No. R-5841

APPLICATION OF SOUTHLAND ROYALTY COMPANY FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO

NUNC PRO TUNC ORDER

# BY THE DIVISION:

It appearing to the Division that Order NogANTAFF41, dated ober 6, 1978, does not correctly of the NogANTAFF41, dated November 6, 1978, does not correctly state the intended finding and order of the Division,

# IT IS THEREFORE ORDERED:

- (1) That Finding (13) on Page 2 be and the same is hereby corrected to read in its entirety as follows:
  - "(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 1979, the order pooling said unit should become null and void and of no effect whatsoever."
- (2) That Order (1) on Page 3 be and the same is hereby corrected to read in its entirety as follows:

"PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of February, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;"

(2) That the correction set forth in this order be entered hung pro tunc as of November 6, 1978.

AIL CONSERVATION DIVISION GANTA FE

DONE at Santa Fe, New Mexico, on this \_\_\_\_ day of May, 1979.

STATE OF NEW MEXICO OIL CONSERVATION DIVISION

JOE D. RAMEY Director

SEAL

MAY 1 1 1979

MAY 1 1 1979

OIL CONSERVATION DIVISION
SANTA FE

force pooling Oct 1:

Southland familty Co.

N2 16 195 29E 2Rby

1980 FNCE FWX Penn John

Charles Coffield hidland

Hold fortranscript

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:

Order No. I	R- 5841	
APPLICATION OF SOUTHLAND ROYALTY COMPANY FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.		
ORDER OF THE DIVISION	U	
BY THE DIVISION:		Ì
This cause came on for hearing at 9 a.m.	on Oct	ober 11
19 78 , at Santa Fe, New Mexico, before Exami		
NOW, on thisday ofOctober	19 <sup>78</sup>	_, the Divisio
Director, having considered the testimony, th		}
recommendations of the Examiner, and being fu	ally adv	ised in the
premises,		
FINDS:		
(1) That due public notice having been	given as	required by
law, the Division has jurisdiction of this ca	ause and	the subject
matter thereof.		
(2) That the applicant, Southland Royal	ty Compa	any ,
seeks an order pooling all mineral interests	in the	Pennsylvanian
formation underlying the	N/2	
of Section 16 , Township 19 South	Range	29 East
NMPM, West Parkway Field, Eddy		_Ccunty, New
Mexico.		

CASE NO. 6351

-2-Case No. Order No. R-

- (3) That the applicant has the right to drill and proposes to drill a well \_at a standard location thereon
- (4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.
- (5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the 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 136 per 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.
- 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.

-3-Case No. Order No. R-

# and \$230 permonth while drilling and \$230 permonth while producing

- able charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.
- (12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.
- (13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 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 Pennsylvanian formation underlying the $\frac{N/2}{}$
of Section 16 , Township 19 South , Range 29 East ,
NMPM, Wut Parkwon Field, Eddy County, New Mexico
are hereby pooled to form a standard 320- acre gas spacing
and proration unit to be dedicated to a well to be drilled
at a standard location thereon.
PROVIDED HOWEVER, that the operator of said unit shall

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

provided further, that in the event said operator does not commence the drilling of said well on or before the first day of february, 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 Southland Royalty Company is hereby designated the operator of the subject well and unit.
- (3) That after the effective date of this order and within 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

-5-Case No. Order No. R-

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

- (7) That the operator is hereby authorized to withhold the following costs and charges from production:
  - (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
  - (B) As a charge for the risk involved in the drilling of the well, Berron 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.

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- 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 Order No.

- (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 there 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 <u>Eddy</u> County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.
- (13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

# STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

CASE NO. 6351 Order No. R-5841-A

APPLICATION OF SOUTHLAND ROYALTY COMPANY FOR COMPULSORY POCLING, EDDY COUNTY, NEW MEXICO.

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# NUNC PRO TUNC ORDER

# BY THE DIVISION:

It appearing to the Division that Order No. R-5841, dated November 6, 1978, does not correctly state the intended finding and order of the Division,

# IT IS THEREFORE ORDERED:

- (1) That Finding (13) on Page 2 be and the same is hereby corrected to read in its entirety as follows:
  - "(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before February 1, 1979, the order pooling said unit should become null and void and of no effect whatsoever."
- (2) That the second paragraph of Order (1) on Page 3 be and the same is hereby corrected to read in its entirety as follows:

"PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of February, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;"

(3) That the third paragraph of Order (1) on Page 3 be and the same is hereby corrected to read in its entirety as follows:

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"PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of February, 1979,, 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."

(4) That the correction set forth in this order be entered nunc pro tunc as of November 6, 1978.

DONE at Santa Fe, New Mexico, on this \_\_\_\_\_day of May, 1979.

STATE OF NEW MEXICO OIL CONSERVATION DIVISION

JOE D. RAMEY, Director