CASE 6773: SOUTHLAND ROYALTY COMPANY FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO

CASE NO.

6773

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

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. 6773
Order No. R-6244

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 January 3, 1980, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 29th day of January, 1980, 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 E/2 of Section 20, Township 19 South, Range 27 East, NMPM, 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 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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

(10) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $3000.00 per month while drilling and $300.00 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 April 30, 1980, 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 E/2 of Section 20, Township 19 South, Range 27 East, NMPM, 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 30th day of April, 1980, 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 30th day of April, 1980, 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, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That $3000.00 per month while drilling and $300.00 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

S E A L

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 January 1980

EXAMINER HEARING

IN THE MATTER OF:

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

CASE 6773

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: William F. Carr, Esq.
CAMPBELL & BLACK P. A.
Jefferson Place
Santa Fe, New Mexico 87501

For Mr. Enfield: Owen Lopez, Esq.
MONTGOMERY, ANDREWS & HANNAHS
Paseo de Peralta
Santa Fe, New Mexico 87501

I N D E X

E X H I B I T S

MR. STAMETS: We will call next Case 6773.

MR. PADILLA: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico.

MR. CARR: May it please the Examiner, my name is William F. Carr, Campbell and Black, P. A., Santa Fe, appearing on behalf of the applicatn, and I have two witnesses to be sworn.

MR. STAMETS: I'd like to have them both stand and be sworn at this time, please.

MR. LOPEZ: Mr. Examiner, my name is Owen Lopez, with the Montgomery Law Firm, Santa Fe, New Mexico, appearing on behalf of Robert N. Enfield, and I have one witness to be sworn.

MR. STAMETS: Are there any other appearances in this case? I'd like to have all the witnesses stand and be sworn at this time.

(Witnesses sworn.)

MR. STAMETS: Mr. Carr, you may proceed.

STEPHEN G. SELL

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your full name and place of residence?

A. Stephen G. Sell, 3800 Cimarron, Midland, Texas.

Q. Mr. Sell, by whom are you employed and in what capacity?

A. Southland Royalty Company as a landman.

Q. Have you previously testified before this commission, had your credentials accepted and made a matter of record?

A. No, I have not.

Q. Will you summarize for the Examiner your educational background and work experience?

A. I have a Bachelor of Business Administration degree from Texas Christian University. I have worked for Southland Royalty for the past two and a half years in the capacity of a landman.

Q. And what is your title with Southland?

A. Landman.

Q. Are you familiar with the application in this case?

A. Yes.

Q. And the subject area?

A. Yes.

MR. CARR: Are the witness' qualifications acceptable?

MR. STAMETS: They are.

Q. Would you briefly state what Southland Royalty is seeking through this application?

A. We are seeking to communitize the east half of Section 20 to drill a Morrow test and we're seeking to have Mr. Enfield join or farmout.

Q. And the purpose of this hearing is to force pool all the interests --

A. Right.

Q. -- in this proposed unit.

A. Within the unit.

Q. Will you please refer to what has been marked for identification as Exhibit Number One, which is the land plat, and explain to the Examiner what this is and what it shows?

A. The green area shows the Huber farmout acreage, which will be earned on a well-by-well basis.

The blue cross hatched shows the -- Mr. Enfield's acreage.

The red outline is the initial proration unit on the east half of Section 20. The red -- the wells in red are producing Morrow wells. The purple are the Morrow dry holes.

Q. Is the proposed unit a standard unit for the Morrow?

A. Yes.

Q. And is the proposed location a standard location?

A. Yes.

Q. Will you now refer to what has been marked for identification as Exhibit Number Two, which is the communitization agreement, and review this for the Examiner?

A. In this agreement we're communitizing the east half of Section 20 as to the Morrow formation. If you'll look on Exhibit A to the communitization agreement it sets out the ownership in the east half of Section 20. Gulf Oil Corporation having the north half of the northeast quarter and the southwest quarter of the northeast quarter; S. P. Yates, the southeast quarter of the northeast quarter; J. M. Huber Corporation, which we have the farmout from, has the north half of the southeast quarter and the south-

west quarter of the southeast quarter; and Mr. Enfield has the southeast quarter of the southeast quarter.

Q What percentage of the acreage has been dedicated to this unit?

A To date we have 87-1/2 percent.

Q Everyone has joined except Mr. Enfield?

A Correct.

Q Would you now refer to what has been marked Applicant's Exhibit Number Three and explain to the Examiner what this is? This is the packet of correspondence.

A Okay. My initial correspondence requests -- was a basic request for farmouts. This occurred in late March and early April of 1979, my first request to Huber Corporation on March 30th and to Mr. Enfield on April 4th, and this was requesting farmouts.

On July 30th I approached Mr. Enfield again for a farmout once we had a specific location and I requested him to farmout or join in the east half proration unit.

Also, following that, Mr. Enfield, we had a telephone conversation immediately after that, after he had received the letter, and stating that he declined to join unless he received his proportionate share of the total Huber farm-in acreage.

And his letter of April 13th is con-

firming that -- no, excuse me, April 15th.

Again on November 16th, 1979, I sent an AFE, operating agreement, and communitization agreement covering the east half of Section 20 and requesting that he join.

After that we had another telephone conversation, approximately November the -- well, immediately after that date. Mr. Enfield declined to join or farmout.

We then proposed a 1-section working interest unit. Mr. Enfield also declined to join or farmout to 1-section working interest unit.

On December the 5th I sent a wire to Mr. Enfield and rescinded our offer of a 1-section working interest unit and reinstated our original proposal of the east half proration unit.

Q. And as of this date you've been unable to obtain voluntary pooling of interest for the drilling of the proposed well.

A. Correct.

Q. Has notice of this hearing been given to Mr. Enfield?

A. Yes.

Q. And a copy of our letter notifying him of the hearing is marked as Exhibit Number Four, is that correct?

Now, included in the material that you just reviewed for the Examiner, I believe, was an AFE for the proposed well?

A. Yes.

Q. Will you refer to the AFE and summarize the data contained thereon for the Examiner?

A. All right. The AFE is broken up into two parts, tangible drilling costs, which are $192,000 for a producing well; $26,000 for a dry hole.

Intangible is $443,000 for a producing well; $385,000 for a dry hole.

Total for a producing well is $635,000 and the total for a dry hole is $411,000.

Q. In your opinion are these figures in line with what is being charged by other operators in the area?

A. Yes.

Q. And when was this AFE originally submitted to Mr. Enfield?

A. On November the 16th.

MR. LOPEZ: Mr. Examiner, I don't want to interrupt, but if it might help, I think that on behalf of Mr. Enfield we can stipulate that we have no objection to the costs indicated on the AFE.

MR. STAMETS: Very good.

Q. Mr. Sell, when did you obtain the farmout from Mr. Huber?

A. On July the 10th.

Q. Are you prepared to make a recommendation to the Examiner as to the risk factor which should be assessed against any of those working interest owners who do not participate in the drilling of this well?

A. Well, as a normal -- normally, in most instances where we're drilling a Morrow test, a non-consenting party under the operating agreement would be charged 300 percent penalty.

Q. You mean a 200 percent penalty, 200 on top of the cost?

A. Correct.

Q. And you're requesting a 200 percent risk factor?

A. Correct.

Q. Have you made an estimate of the overhead and administrative cost while drilling and producing this well?

A. Yes, it's $3000 for a producing well rate and $300 for a -- I mean, excuse me, the other way around, $3000 for a drilling well rate; $300 for a producing well rate.

Q. And these are monthly figures?

A. Correct.

Q. Are these costs in line with what other operators in the area are charging?

A. Yes.

Q. Are you recommending that these figures be incorporated into the order which will result from this hearing?

A. Yes.

Q. Does Southland Royalty Company request to be designated operator of the subject well?

A. Yes.

A. Yes.

Q. In your opinion will granting this application be in the interest of conservation, the prevention of waste, and the protection of correlative rights?

A. Yes.

Q. Were Exhibits One through Four either prepared by you or can you testify from your own knowledge as to their accuracy?

A. Yes.

MR. CARR: At this time, Mr. Examiner, we would offer Applicant's Exhibits One through Four.

MR. STAMETS: Without objection, these exhibits will be admitted.

MR. CARR: I have nothing further on direct.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Sell, what are the combined fixed rates for drilling costs -- or costs for drilling and producing, as set out in the operating agreement for this well?

A. The combined overhead rates, or drilling well rate, is $3000 and producing is $300.

Q. So what you proposed here is the rate for those who have already agreed --

A. Correct.

Q. -- for the drilling of this well?

A. Correct.

MR. STAMETS: Okay, are there questions of this witness?

MR. LOPEZ: Yes, Mr. Examiner.

CROSS EXAMINATION

BY MR. LOPEZ:

Q. Mr. Sell, could you explain the reason why Southland chose to select the east half of Section 20 as the proration unit?

A. I am not -- I'd like to defer that to another witness. I'm not qualified to --

MR. LOPEZ: You will have another wit-

ness?

MR. CARR: We're calling another witness, yes, sir.

Q. Okay. Let me hand you what has been marked Enfield Exhibit C, and ask you if this is the model form operating agreement that you submitted to Mr. Enfield?

A. Yes, this was, after I originally proposed an east half proration unit. This is for a 1-section working interest unit.

Q. And I'd like you to turn to page twelve of that operating agreement and have you explain to me what the reasons were -- page eleven, rather.

A. Okay.

Q. And ask to explain the reason why Southland chose to delete paragraph C of the model form operating agreement.

A. Well, we chose to delete the acreage portion of paragraph C, not the cash contribution portion, simply because we requested this farmout prior to any well proposal. Our well was proposed totally on the farmout acreage. Should we give up any of our acreage, we would not -- we might as well not have taken the farmout to begin with because we did not have any acreage in the immediate area at the time.

As to that, we would not care to -- we could not give everyone in the proration unit their propor-

tionate share of the farm-in agreement. They might as well have originally taken the farmout themselves then, which they could have, as well as we did.

Q. Well, isn't it a common practice in the industry that when a wildcat well is proposed to be drilled and the operator, proposed operator, seeking voluntary participation, that more than the particular proration unit offer is made to the proposed participants for a proportionately reduced interest in the surrounding acreage?

A. Yes, it is, only when we had come and proposed a well, communitized acreage, and then subsequent to proposing the well and unitizing or communitizing that acreage we got our farmout. This would be shared proportionately with everybody within the unit; however, this is not the case.

We got the farmout prior to proposing the well in Section 20.

MR. LOPEZ: Are you going to have another witness?

MR. CARR: Yes, we will.

MR. LOPEZ: So I think I'll direct my other questions to the other witness.

MR. CARR: Fine, and Mr. Sell will be here. We'll be happy to recall him.

MR. STAMETS: Any other questions of

this witness? He may be excused.

MR. CARR: Mr. Stamets, at this time I am going to call a witness. We will qualify him; then he will be able, I believe, to respond to Mr. Lopez.

MR. STAMETS: Okay.

MR. CARR: I may then have a third witness to call.

DENNIS EIMERS

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your full name and place of residence?

A. Dennis John Eimers, 3003 Goddard Street, in Midland, Texas.

Q. And will you please spell your last name?

A. E-I-M-E-R-S. And I work for Southland Royalty Company.

Q. And in what capacity are you employed?

A. I'm an exploration geologist.

Q. And, Mr. Eimers, have you previously testified before this Commission and had your credentials accepted and made a matter of record?

A. No, I have not.

Q. Will you briefly summarize for the Examiner your educational background and your work experience?

A. Yes. I have a Bachelor of Arts degree in geology from Trinity University in San Antonio, Texas, and I have four years experience with Exxon prior to coming to Southland Royalty, and I've been with Southland Royalty for about a year and a half.

Q. Are you familiar with the application in this case?

A. Yes, sir.

Q. And are you familiar with the general area which is the subject of this case?

A. Yes, I am.

MR. CARR: Are the witness' qualifications acceptable?

MR. STAMETS: They are.

Q. Now, Mr. Eimers, have you prepared certain exhibits for introduction in this case?

A. Yes, I have.

Q. Would you refer to what has been marked Exhibit Number Five and explain to the Examiner what it is

and what it shows?

A. Okay. Exhibit Number Five is a net porosity Isopach of the middle Morrow Sands. This is what we consider to be the primary objective of the well in Section 20 that we are proposing.

You can see we have the southeast quarter of Section 20 and we're drilling in what we think is the best portion of the porosity thickness trend through the area.

Q. Will you now refer to Exhibit Number Six and review the data contained thereon for the Examiner?

A. Okay. In addition to the Middle Morrow Sands, which we feel are our primary objective, we also feel that there are two Lower Morrow Sands that are also prospective on the well site.

The first of these that we have marked as Lower Morrow Sand No. 1, and again this is a net porosity Isopach, the area highlighted in red is what we consider to be proven gas porosity and that shown in blue on the eastern portion of the map is -- is water-filled porosity. The area in white is unknown.

We feel that the Lower Morrow Sand No. 1 will be productive on the drill site location.

Q. Will you now refer to Exhibit Number Seven and review this for the Examiner?

A. Okay. This is also a net porosity

Isopach, or net effective porosity, of the Lower Morrow Sand No. 2. We feel this is also prospective on the location and the other control in the area is the well down in Section 34 and encountered the sand, which it had a slight gas show but was wet. We anticipate encountering this sand also on the location and it is prospective.

Q. Okay. Now I direct your attention to Exhibit Number Eight and ask that you review this for Mr. Stamets.

A. This final exhibit here is a type log of the well in Section 28, the Yates Pecos River Deep No. 1. It was a -- it was completed across what we call the Middle Morrow Sands and the Lower Morrow Sand No. 1. This well has made approximately 3/4 of a Bcf to date, and I believe it's still producing at about some meagre amount.

Q. Mr. Eimers, what conclusions can you draw from this data concerning the prospects of drilling a well at the proposed location?

A. Well, we feel that the proposed location is the best geological location. We consider this well to be a risky development well. We are approximately a mile from a producing well, so I don't really classify it as a wildcat; however, it is risky -- riskier than a normal development well due to the nature of -- there are a large number of dry holes in the area. We give this well through

our own risk calculations about 56 percent chance of success, of making an economical well.

Q. And are you prepared to concur in Mr. Sell's recommendation that a 200 percent risk factor be assessed?

A. I certainly do, yes.

Q. Do you have anything further to add to your testimony on direct?

A. I don't believe so.

MR. CARR: At this time, Mr. Stamets, I would offer Applicant's Exhibits Five through Eight.

MR. STAMETS: Without objection they will be admitted.

MR. CARR: I have nothing further of this witness on direct.

MR. STAMETS: Are there questions of the witness?

CROSS EXAMINATION

BY MR. LOPEZ:

Q. Mr. Eimers, let me ask you a question I directed to Mr. Sell. Could you explain the reason why Southland selected the east half of Section 20 as a standard proration unit rather than, let's say, the south half or the west half?

A. I can say why Southland did not select the west half. The proposed location as it stands 1980 from the south and east is the best geological location as we have it interpreted in order to pick up the primary objective, the Middle Morrow Sands, and the Lower Morrow Sand No. 1, and also Lower Morrow Sand No. 2. This is really the best location, the optimal location, geologically to pick up all three pay zones.

Q. Is it possible that in not selecting the south half of Section 20, that Southland took into consideration the fact they would have to bear a proportionately greater percentage of the cost of drilling the well?

A. I would defer that question, I can only speak for the geological interpretations.

Q. Who do you think I can get to answer that question?

MR. CARR: Mr. Lopez, would you restate the question? We have people here who can answer it.

MR. LOPEZ: I was wondering if it was a consideration in not selecting the south half of Section 20, the fact that Southland would thereby have to bear an increasingly proportionate share of the cost of drilling the well.

MR. CARR: I will call a third witness

who will respond to that question.

MR. LOPEZ: Well, the thrust of this questioning is going to go to that point.

MR. CARR: Okay, well, I will call Mr. Petrie and have him sworn and he can respond to that, Mr. Lopez.

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

MR. CARR: Mr. Examiner, at this time I'd like to call Mr. Dick Petrie and ask that he be sworn.

(Witness sworn.)

DICK PETRIE

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Will you state your name and place of residence?

A. Richard Petrie, 3615 Stanoline, in Midland, Texas.

Q. By whom are you employed and in what capacity?

A. Southland Royalty Company and I'm the District Landman.

Q. Have you previously testified before this Commission, had your credentials accepted and made --

A. No, I haven't.

Q. You have not?

A. No.

Q. Will you briefly summarize for the Examiner your educational background and your work experience?

A. I have a Bachelor's degree in business administration from Oklahoma State University. I have worked three years for Southland Royalty Company, two in my present capacity. Prior to that I was employed by Continental Oil Company for eleven years.

Q. Are you familiar with this application?

A. Yes, I am.

Q. And the area which is the subject matter of this application?

A. Yes, I am.

MR. CARR: Are the witness' qualifications acceptable?

MR. STAMETS: They are.

Q. Mr. Petrie, a few moments ago I believe Mr. Lopez asked a question concerning the deletion of certain language on page 12 of the operating agreement.

MR. LOPEZ: Page 11.

Q. Page 11. Would you, to avoid any misunderstanding, could you respond to that question?

A. Yes, sir. As a matter of fact, Mr. Enfield had indicated prior to the preparation of this joint operating agreement that his intention was to attempt to acquire his proportionate share of the entire farmout agreement which Southland had acquired from J. M. Huber. It was because of this stated intent that I directed Steve in the preparation of this joint operating agreement to specifically strike the language relative to acreage contributions which was contained on page eleven of their Exhibit One.

Q. Now do you have anything further you would like to add to your testimony on direct or are you prepared to stand for questioning?

A. I would like to add one other point relative to this particular provision.

It has -- it has been my experience in many cases where you have a group of people who have subjected themselves to a joint operating agreement, particularly a working interest unit or a joint operated area, that when a well is drilled and support either through cash or acreage has been granted by someone outside of that joint venture group, then, and in that event they share jointly the contribution. However, there is one point that I be-

lieve may be misleading here. It is that Southland Royalty, prior to the farm-in from J. M. Huber, had absolutely no equity or ownership in this area. They did have a geological prospect which we wanted to drill.

One other point that I believe is germane at this time, is that the farmout agreement, while it's dated July 10, 1979, was actually agreed to verbally prior to this time. So in looking at the joint operating agreement there, which they have offered as the first exhibit, they are contending, I believe, that the farmout agreement is a contribution towards the drilling of this well, when in fact it's the foundational basis of this well and is not a contribution that we generally consider dry hole or acreage contribution for that well.

MR. CARR: I have no further questions for Mr. Petrie and he's available for cross examination.

MR. STAMETS: Mr. Lopez?

MR. LOPEZ: Yes, Mr. Examiner.

CROSS EXAMINATION

BY MR. LOPEZ:

Q. Mr. Petrie, I would like to refer you to your Exhibit Number Three, I believe it is, which is the packet of correspondence.

A. Okay.

Q. Between yourselves and Mr. Enfield? Was it Exhibit Three?

And in that packet I would refer you to Mr. Enfield's letter addressed to Mr. Sell, dated August 15, 1979, and the second paragraph of that letter. I think you just testified that Mr. Enfield's position was that he would have to participate in the entire Huber farmout. I think if you'll read that paragraph of that August 15th letter, Mr. Enfield stated that he would participate on a 2-section basis and that would not include the entire Huber farmout, would it?

A. No, it would not.

Q. Do you have any evidence or information that would contradict what Mr. Enfield put in writing? In the August 15th letter?

A. I believe we have a prior letter to Mr. Enfield. You may seek to recall Steve Sell.

It's my understanding that prior to receipt of this letter that Mr. Enfield had indicated that he wanted his proportionate 1/8th share in the farmout acreage.

MR. CARR: Mr. Examiner, I would submit that the testimony is getting fairly far afield. Here again, there is a specific statute that provides that when you are unable to reach voluntary agreement to drill a well on a proration or spacing unit that you are able to come in to this

Commission and make certain showings and then if these showings stand, the Commission is required to enter an order pooling that acreage.

I submit that a lot of the matters being presented to you at this time are matters that you are really not in a position to rule upon and that we are prepared to go ahead and at whatever length Mr. Lopez desires pursue who said what and when.

But I submit that we're probably no longer relevant.

MR. STAMETS: I agree wholeheartedly. I also think it's time for a fifteen minute recess. I suggest that if there is any possibility that the two people involved in this case could agree, that they take this fifteen minutes to see if they have a basis for that agreement, and we'll resume the hearing in about fifteen minutes.

(Thereupon a recess was taken.)

MR. STAMETS: The hearing will please come to order. Mr. Carr, do you have anything further?

MR. CARR: I have nothing further of Mr. Petrie. I don't know if Mr. Lopez has.

MR. STAMETS: Are there any questions

of Mr. Petric?

MR. LOPEZ: Yes, Mr. Examiner, I would like to again ask that answer -- or ask the question with respect to whether or not in electing not to choose the south half of Section 20 as a proration unit whether Southland took into consideration the fact that it would thereby bear a proportionately larger cost of the well.

A. All the possible proration units or unitized units were considered and a decision was made with our company that the optimum location would be 1980 from the south and east lines of Section 20 and the optimum proration unit or communitized unit would be the east half of Section 20.

Q. Then I believe your Exhibits Six and Seven would suggest that it could be -- a standard location could be devised and you would therefore be on top of the formation whether you elected to select the east half as the proration unit or the south half as the proration unit, would you not agree?

A. That interpretation might be possible, for someone to draw that conclusion.

MR. CARR: If I could ask just one or two on redirect.

MR. STAMETS: Okay, Mr. Carr.

REDIRECT EXAMINATION

BY MR. CARR:

Q. How long have you -- has Southland been attempting to put together a unit for the development of the east half of this section?

A. Since the latter part of July.

Q. Are you prepared to drill a well on the east half?

A. Yes.

Q. And how soon do you plan to spud the well?

A. You mean --

Q. As soon as you receive Commission approval?

A. Yes.

Q. And do you believe that drilling a well and dedicating the east half of this section is a prudent way to develop this acreage?

A. Yes, I do.

MR. CARR: I have nothing further.

MR. STAMETS: Anything further? The witness may be excused.

That concludes your part of this, Mr. Carr?

MR. CARR: Yes, it does, Mr. Examiner.

MR. STAMETS: Mr. Lopez.

MR. LOPEZ: For the record, Mr. Examiner, we will offer Exhibits A, B, and D. Exhibit C was essentially the same as Southland's Exhibit Three, which was a compilation of the correspondence between the affected parties. Therefore, I don't see any reason to re-introduce that.

ROBERT N. ENFIELD

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

DIRECT EXAMINATION

BY MR. LOPEZ:

Q. Would you please state your name and where you reside?

A. Robert N. Enfield, Santa Fe, New Mexico.

Q. Are you self employed?

A. Yes.

Q. Are you familiar with the application in this case?

A. Yes.

Q. Have you previously testified before the Commission and had your qualifications accepted as a

matter of record?

A. Yes.

MR. LOPEZ: Are the witness' qualifications accepted?

MR. STAMETS: They are.

Q. Mr. Enfield, I refer you to what has been marked as your Exhibit A and would ask you to explain it.

A. This is a land plat of this particular area, showing the participants in the well's acreage in the area. Gulf is yellow; the Yates Corporation is green; Huber, or the Southland farmout, although they actually own additional acreage outside of that that they have purchased recently, is red; my color is orange.

As is obvious, all parties to this well have interests in every outside location except me. In other words, if anything is found they get to develop it, but I get to pay for it, which is the reason I'm having this hearing.

I have never indicated to Huber that I wanted all of their farmout. I have only indicated I'd settle for some type of 2-section spacing, or in the alternate, I would join in their 1-section unit in Section 20 and only ask for my proportionate share of their farmout in Sections 29 and 21, which amounts to about 1-1/2 percent in 21 and less than 2-1/2 percent in 28, as protection for drilling this well.

They -- the most they've ever proposed

is the split in Section 20 for a 6-1/4 percent, which I did turn down.

Q. Is it your opinion that it is the custom and practice in the oil and gas business where a high risk well or a wildcat well is proposed to be drilled, that the participants are offered interest in surrounding offset acreage for proportionately reduced percentage?

A. In twenty-five years as an independent, I have not seen one done like this. I am drilling four wells now in units down in -- all in southeast New Mexico. At the beginning, if there were farmouts, everybody was offered participation.

Q. In that connection I would refer you to what has been marked as your Exhibit C and would ask you to explain how the model form operating agreement supports your testimony in this regard.

A. Well, on page eleven under section C, it has a provision for acreage and cash contributions, which provides, in essence, if somebody contributes money and if somebody contributes acreage, those people who pay their fair share of the well, which I've agreed to, get to participate in the acreage or the cash contribution because they're taking the risk of drilling the initial well.

This is a standard form AAPL operating agreement drawn by almost all major companies, independents

joined in preparing this form. Certainly it can be changed and I would not say it hasn't been.

Q. In that connection I would also now refer you to what has been marked Exhibit D and would ask you to identify that exhibit and explain if that also supports your testimony in this regard.

A. This is a letter from Amoco directed to me amongst other major companies. Well, I'm not a major, but other people. Wherein we're proposing to form a unit, drill a 13,500 foot Morrow test, and the bottom line says, Amoco, the bottom line of the front page, without going into the details of it, "Amoco in turn will offer to the other parties participating in said well, their proportionate part of the farmouts."

I have two units with Amoco right now with this in it. I have two units of my own where I have provided this feature, because it's not fair to make people take the risk without giving them some chance.

Q. Is the major thrust of your objection, then, that the forced pooling application as proposed, if you were to voluntarily participate, require you to pay a full 12-1/2 percent, which is the total acreage which you have in the area, as opposed to Southland's being able to only participate to 37-1/2 percent and Gulf and Yates, who also you show on your Exhibit A, own substantially additional acreage off-

setting the proposed location, also are thereby able to prove up additional acreage at a proportionately reduced cost?

A. Right, while I take the proportionately increased risk. If Southland wanted to protect themselves, they could form a south half unit with this same location and have a 75 percent interest in it and not give up very much or any of their farmout.

But the one location in 20 they chose is a 37-1/2 percent interest. If they want to protect themselves even more, they can drill a west half unit; that's 87-1/2 percent Southland. In other words, they have picked -- as an operator, I wish I could do the same thing -- they have picked the best possible place to drill without paying anything, while they acquire the option to earn all of this acreage that's colored in here from Huber, while all the rest of us pay for it, although the other people do have additional acreage. I'm the only one that is being forced to take a high risk for no gain.

Q. Are you prepared to make a -- or to recommend a penalty provision with respect to the drilling of this well?

A. Based on their information and the way this is set up, 125 percent penalty.

Q. A 25 percent penalty in addition to --

A. Up to 100 percent.

MR. STAMETS: Let me get clear on what penalty you're --

A. 125 percent, 25 percent above cost.

MR. STAMETS: For every dollar they spend --

A. Right.

MR. STAMETS: -- you recommend they get back $2.25?

A. No, no. $1.25.

MR. STAMETS: Oh, I see, so you're recommending a 25 percent.

A. 25 percent penalty.

Q. Is the reason for your recommending this percentage penalty based on not only the fact that they, in your opinion, Southland deviated from normal oil and gas practices in recommending your voluntary participation, but does the fact that there is a commercial well in the east half of Section 28 affect your judgment in this regard?

A. Yes, it does affect it. It's the diagonal offset. The well has made 3/4 of a Bcf, which may not be what you're looking for, but you won't lose too much. Based on their cost figures and the present price of gas.

Q. In your opinion do Southland's Exhibits Five through Eight also support your testimony in this regard?

A. Yes. The maximum part of their structure

is right there where they're drilling. They could drill any location in the south half of 20, based on their own maps, and have the same geologic thing. I will not argue with their geologic map.

Q. Is it your opinion that the granting of Southland's application for forced pooling with no more than a 25 percent penalty assessed as a risk factor for drilling the well, is that in the interest of prevention of waste and the protection of correlative rights?

A. Yes, as far as I can see.

Q. Is there anything further you'd like to explain?

Were Exhibits A, C, and D prepared by you or under your supervision?

A. Yes. C, no, C was not, that's the model operating --

Q. Yes.

A. No, I did not prepare that. Southland prepared that.

Q. Fine.

MR. LOPEZ: I'd like to offer Exhibits A, C, and D.

MR. STAMETS: These three exhibits will be admitted.

MR. LOPEZ: I have no further direct.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Enfield, is your proposal for a 25 percent risk factor based on the fact that the other participants in this well have something to gain from the drilling of the well?

A. I don't know what agreement Southland has made with the other participants.

Q. I mean some --

A. Well, I don't know whether they're bearing part of it or not.

Q. Because they can evaluate other acreage they have in the area and you don't have any other acreage?

A. Well, I also think it's a rather low risk well, based on their own -- on their own work and the fact that there's another well diagonally offsetting it.

Q. Okay.

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

MR. CARR: I have a few.

CROSS EXAMINATION

BY MR. CARR:

Q. Mr. Enfield, how many Morrow wells have you drilled in southeast New Mexico?

A. I couldn't tell you; probably fifty. I'm not sure. I'm not saying -- please, I've been drilling wells for twenty-five years.

Q. Well, you've drilled a number of Morrow wells.

A. Yes, sir.

Q. You're familiar with the Morrow formation?

A. Yes.

Q. Is this generally a homogeneous reservoir, or how would you describe the reservoir?

A. I'm not a geologist and I don't think I'm capable of answering that question.

Q. Have you drilled commercial producers in the Morrow?

A. Yes.

Q. Have you drilled dry holes?

A. Yes, I've done that in every formation.

Q. You weren't drilling dry holes thinking you were going to get a dry hole, surely.

A. No. But sometimes I've wondered about it.

Q. Is your recommendation of 25 percent

based -- of a risk factor -- based on the chances of getting a good well or other considerations?

A. It's based on a combination of both.

Q. So it's more than just the chances of getting a --

A. Yes, I think under the circumstances, there's more than that.

Q. And do you believe that any time you drill a Morrow well you're assuming a greater than normal risk in terms of drilling wells in this area?

A. Well, to answer, the geologist's testimony, think there's a 56 percent chance of hitting, which I'd say 60-40 isn't too bad. Now that's their proposal, not mine.

Q. Would you suspect if they didn't think they could make a well that they would drill it?

A. Well, I presume everybody starts out hoping they're going to make a well.

Q. Don't you think 40 percent chance of failure is a pretty good chance of failure?

A. Well, if the -- I don't know.

Q. You don't know?

A. No. In this business don't ask me to give you figures on it, all I know is from a period of time you're apt to drill dry ones and you may drill some producers.

Q. Do you think there's a chance this will be a dry hole?

A. I think any time you drill a well there is that chance.

Q. And if you do not join in the drilling of the well, they would be taking all the risk in this regard?

A. I'd hardly say they're taking very much risk, 56 percent.

Q. Are you taking any?

A. None.

Q. Okay, I thank you very much.

MR. LOPEZ: One more question on direct.

REDIRECT EXAMINATION

BY MR. LOPEZ:

Q. Mr. Enfield, I believe you stated that you're recommending only a 25 percent penalty for the risk factor is based not only on the fact that it's not as high risk a well as would normally be drilled in the Morrow, but also, and I guess the basic thrust of your testimony is, that you were not treated right by Southland when they solicited your voluntary participation in the east half of Section 20, is that right?

A. Well, I do not think what they offered was an equitable transaction.

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

I'd like to ask a question. I believe it's of Mr. Eimers. Mr. Eimers, did you state that the offset well in Section 26 has produced 3/4 of a billion cubic feet?

MR. EIMERS: Yes.

MR. STAMETS: Do you know what the -- would you say that the approximate gas price for this well would be $3.00 a thousand?

MR. EIMERS: We're anticipating $2.30 an Mcf.

MR. STAMETS: $2.30.

MR. EIMERS: That's what we used in our economics.

MR. STAMETS: Okay. Would you -- if you got the same kind of a well that the offset well was, would you say that that would be almost a million and three-quarter thousand dollars?

MR. EIMERS: I would say it would be economical but it would not be your target. You wouldn't drill looking for 3/4 of a Bcf.

MR. STAMETS: You'd make good money at it, though, wouldn't you?

MR. EIMERS: You'd make money.

MR. STAMETS: You wouldn't drill a well for 3/4 of a billion?

MR. EIMERS: No, we wouldn't. Our target is 1.7 Bcf on that well.

MR. STAMETS: Well, all right.

Any other questions of the -- this witness? He may be re-excused.

Anybody have anything else they wish to offer in this case?

MR. CARR: I have a closing statement.

MR. STAMETS: Mr. Lopez, do you have a statement?

MR. LOPEZ: I didn't think I did.

MR. STAMETS: Mr. Carr?

MR. CARR: I think it's important at this point to emphasize that we are dealing with a particular statute that provides -- authorizes voluntary pooling, and then provides that if the working interest owners in a proration unit are unable to voluntarily pool and if one owner has the right to drill and is prepared to drill, the statute then reads that the Commission shall, it's mandatory, shall pool all or any part of such lands or interests in the spacing or proration unit.

We would submit that we stand before you obviously unable to reach voluntary agreement; that we

are prepared to drill; that we have the right to drill; and that we're entitled to an order pooling the interest.

We also would submit that to set a risk factor of something like 25 percent is absolutely absurd when you -- based on common knowledge of the characteristics of the Morrow reservoir. Mr. Enfield admitted that this was based on other considerations, economic considerations, which we submit are outside the jurisdiction of this Commission, and cannot be considered in reaching your decision.

We therefore request that the acreage be pooled and that a 200 percent risk factor be assessed.

MR. STAMETS: The case will be taken under advisement.

(Hearing concluded.)

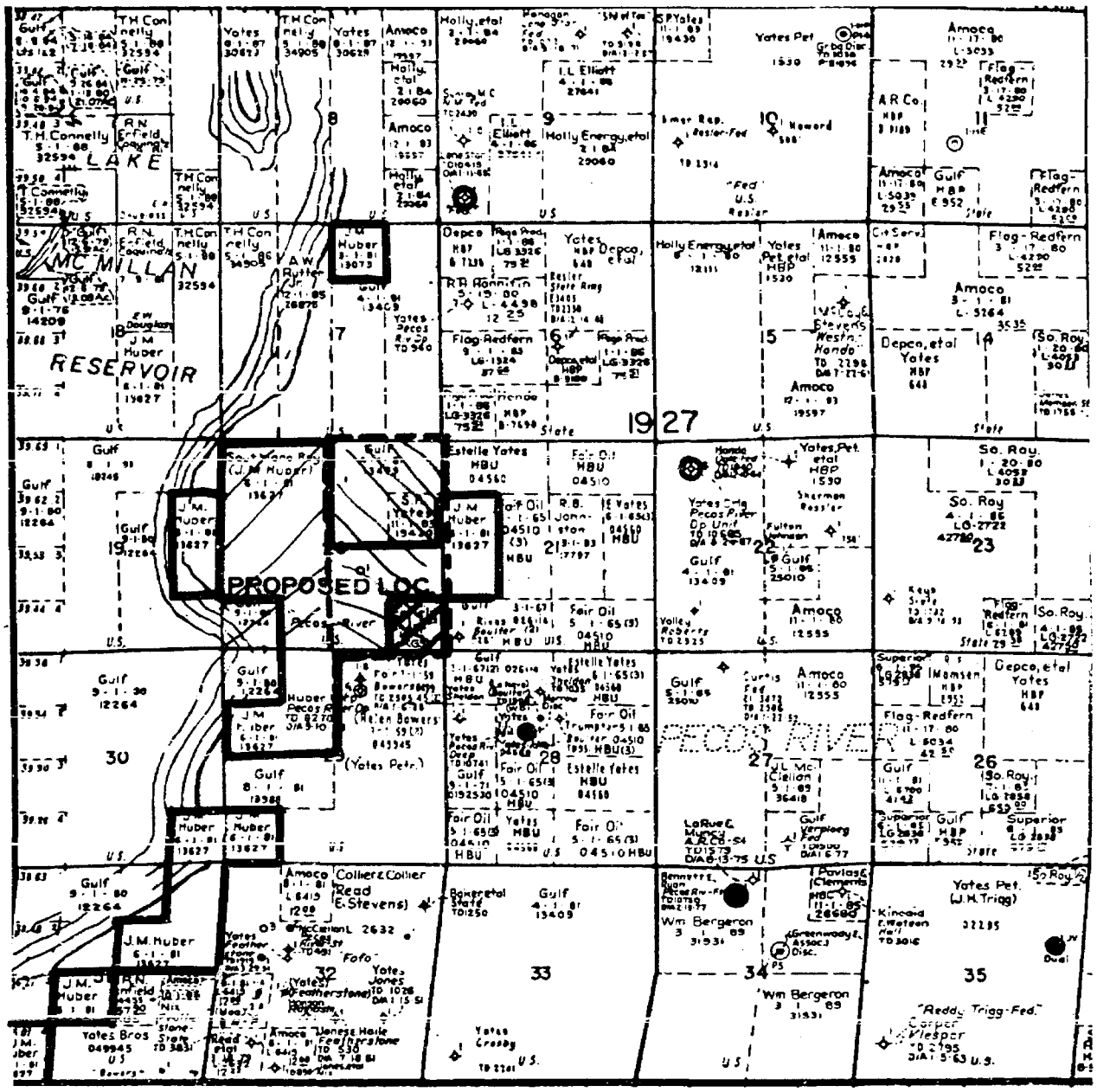
REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a Certified Shorthand 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 from my notes taken at the time of the hearing.

Sally W. Boyd C.S.R.
Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6773 heard by me on 1/3 19 80.

Richard L. Stamets, Examiner
Oil Conservation Division



BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

Applicant EXHIBIT NO. 1

CASE NO. 6773

Submitted by SOUTHLAND ROYALTY

Hearing Date 1-3-90

Southland Royalty Company
SOUTHWESTERN DISTRICT
MIDLAND, TEXAS

A. Huber Farmout
B. Enfield Acreage
C. Initial Proration Unit
D. Producing Morrow Wells
E. Morrow Dry Holes

STATE AND FEDERAL
COMMUNITIZATION AGREEMENT

THIS AGREEMENT, entered into as of the 3rd day of October, 19 79, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto,"

W I T N E S S E T H:

WHEREAS, the Act of February 25, 1920, 41 Stat. 437, as amended, authorizes communitizing or pooling a federal oil and gas lease, or any portions thereof, with other lands, whether or not owned by the United States, when separate tracts under such federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area, and such communitization or pooling is determined to be in the public interest; and,

WHEREAS, the Commissioner of Public Lands of the State of New Mexico, herein called "the Commissioner", is authorized to consent to and approve agreements pooling state oil and gas leases or any portion thereof, when separate tracts under such state leases cannot be independently developed and operated economically in conformity with well-spacing and gas proration rules and regulations established for the field or area and such pooling is determined to be in the public interest; and,

WHEREAS, the parties hereto own working, royalty, or other leasehold interests, or operating rights under the oil and gas leases and land subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and,

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing gas and associated liquid hydrocarbons in accordance with the terms and conditions of the agreement;

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually convenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

E/2 of Section 20, T19S, R27E,

containing 320 acres, more or less, Eddy County, New Mexico, and this agreement shall extend to and include only the Morrow formation underlying said lands and the gas and associated liquid hydrocarbons (hereinafter referred to as "communitized substances") producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit "A" designating the operator of the communitized area and showing the acreage, percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
APPLICANT EXHIBIT NO. 2
CASE NO. 6773
Submitted by Southland Royalty Co.
Hearing Date 1-3-80

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and four (4) executed copies of a designation of successor operator shall be filed with the Regional Oil and Gas Supervisor and four (4) additional executed copies thereof shall be filed with the commissioner.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, and the Commissioner, or his authorized representative, each a log and history of any well drilled on the communitized area, monthly reports of operations, statements of communitized substances sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States as specified in the applicable oil and gas operating regulations.

5. In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

6. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

7. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and applied on the basis prescribed in each of the individual leases. For any federal lease bearing a sliding or step scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any non-communitized lease production; provided, however, as to leases where the rate of royalty for gas is based on total lease production per day such rate shall be determined by the sum of all communitized production allocated to such a lease and any non-communitized lease production. Payment of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

8. The State of New Mexico hereafter is entitled to the right to take in kind its share of the communitized substances allocated to such tract, and operator shall make deliveries of such royalty share taken in kind in conformity with applicable contracts, laws, and regulations.

9. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligations to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

10. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commcement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

11. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from compliance with any such laws, orders, rules or regulations.

12. This agreement shall be effective as of the date hereof upon execution, and upon approval by the Secretary of Interior, or his duly authorized representative, and by the Commissioner, and shall remain in force and effect for a period of one (1) year and so long thereafter as communitized substances are produced or, as to lands not owned by the State of New Mexico, can be produced from the communitized area in paying quantities; provided that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of Interior, or his duly authorized representative, and all requirements of the Commissioner, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted and prosecuted in good faith and with reasonable diligence during the period of non-production, and as to lands owned by the State of New Mexico, with no cessation of more than twenty (20) consecutive days; provided, however, that as to lands owned by the State of New Mexico, written notice of intention to commence such operations shall be filed with the Commissioner within thirty (30) days after the cessation of such production, and a report of the status of such operations shall be made by Operator to the Commissioner every thirty (30) days, and the cessation of such operations for more than twenty (20) consecutive days shall be considered as an abandonment of such operations as to any lease from the STate of New Mexico included in this agreement.

13. It is agreed by the parties hereto that the Secretary of Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor, and in the applicable oil and gas operating regulations of the Department of the Interior.

It is further agreed between the parties hereto that the Commissioner shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the State of New Mexico is lessor and in the applicable oil and gas statutes and regulations of the State of New Mexico.

14. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to State of New Mexico lands shall be subject to approval by the Commissioner and as to Federal lands shall be subject to approval by the Secretary of the Interior, or his authorized representative.

15. The agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

16. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto and shall be binding upon all parties who have executed such counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

"OPERATOR"

SOUTHLAND ROYALTY COMPANY

By: C. E. Mear
Attorney-In-Fact

STATE OF TEXAS I
I
COUNTY OF MIDLAND I

Before me, the undersigned authority, on this day personally appeared C. E. MEAR of SOUTHLAND ROYALTY COMPANY, known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that the same was the free act and deed of such corporation, for the purposes and consideration therein expressed, and in the capacity therein stated.

My Commission Expires:
11-24-79

Anna McCrary
Notary Public in and for Midland County, Texas

"NON-OPERATORS"

ATTEST: J. M. HUBER CORPORATION

____________________ By: ____________________________

ATTEST: GULF OIL CORPORATION

____________________ By: ____________________________

ATTEST: S. P. YATES

____________________ By: ____________________________

ATTEST: R. N. ENFIELD

____________________ By: ____________________________

STATE OF I
I
COUNTY OF I

The foregoing instrument was acknowledged before me this_______day of ______________, 19____, by____________________________, __________________ of____________________________, a_______________corporation, on behalf of said corporation.

My Commission Expires:

____________________ ____________________________
Notary Public in and for said
County and State

STATE OF I
I
COUNTY OF I

The foregoing instrument was acknowledged before me this______day of ______________, 19____, by____________________________, __________________ of____________________________, a_______________corporation, on behalf of said corporation.

My Commission Expires:

____________________ ____________________________
Notary Public in and for said
County and State

STATE OF I
I
COUNTY OF I

The foregoing instrument was acknowledged before me this_____day of ______________, 19____, by____________________________, __________________ of____________________________, a_______________corporation, on behalf of said corporation.

My Commission Expires:

____________________ ____________________________
Notary Public in and for said
County and State

STATE OF I
I
COUNTY OF I

The foregoing instrument was acknowledged before me this_____day of _____, 19____, by_____,_____ _____of_____, a_____corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public in and for said
County and State

REVISED

EXHIBIT "A" TO COMMUNITIZATION AGREEMENT

Dated: October 3, 1979
Embracing: E½ Section 20, T19S, R27E, Eddy County, New Mexico

Operator of Communitized Area: Southland Royalty Company
1100 Wall Towers West
Midland, Texas 79701

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lessor:	Bureau of Land Management
Lessee of Record:	Gulf Oil Corporation
Serial No. of Lease:	NM-13409
Date of Lease:	April 1, 1971
Description of Land Committed:	N½NE¼, SW¼NE¼ of Section 20, T19S, R27E, Eddy County, New Mexico
Number of Net Acres:	120
Working Interest and Percentage:	100%
ORI Interest and Percentage:	None

Tract No. 2

Lessor:	Bureau of Land Management
Lessee of Record:	S. P. Yates
Serial No. of Lease:	NM-19430
Date of Lease:	November 1, 1973
Description of Land Committed:	SE¼NE¼ of Section 20, T19S, R27E, Eddy County, New Mexico
Number of Net Acres:	40
Working Interest and Percentage:	100%
ORI Interest and Percentage:	None

Tract No. 3

Lessor:	Bureau of Land Management
Lessee of Record:	J. M. Huber Corporation
Serial No. of Lease:	NM-13627
Date of Lease:	June 1, 1981
Description of Land Committed:	N½SE¼, SW¼SE¼ of Section 20, T19S, R27E, Eddy County, New Mexico
Number of Net Acres:	120
Working Interest and Percentage:	100%
ORI Interest and Percentage:	None

Tract No. 4

Lessor:	Bureau of Land Management
Lessee of Record:	R. N. Enfield
Serial No. of Lease:	NM-34454
Date of Lease:	October 1, 1978
Description of Land Committed:	SE¼SE¼ of Section 20, T19S, R27E, Eddy County, New Mexico
Number of Net Acres:	40
Working Interest and Percentage:	100%
ORI Interest and Percentage:	None

RECAPITULATION

Tract Number	Number of Acres Communitized	Percentage Interest In Communitized Area
1	120	37.5%
2	40	12.5%
3	120	37.5%
4	40	12.5%
	320	100.0%

Southland Royalty Company

March 30, 1979

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

Attention: Gary Bailey

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Applicant EXHIBIT NO. 3
CASE NO. 6773
Submitted by Southland Royalty Co.
Hearing Date 1-3-80

Re: Farmout Request
Section 17: NW/4NE/4
Section 19: SW/4NE/4, NE/4SE/4
Section 20: NE/4, N/2SW/4, SE/4SW/4, N/2SE/4, SW/4SE/4
Section 21: SW/4NW/4, NW/4SW/4
Section 29: E/2NW/4, SW/4NW/4, SW/4SW/4
Section 30: SE/4SE/4
Section 31: SW/4SW/4, NE/4SW/4, E/2NE/4, SW/4NE/4
T19S, R27E, Eddy County, New Mexico

Gentlemen:

Our records reflect that J. M. Huber Corporation is the owner of Federal leases NM-13627 and NM 13073. Southland Royalty Company, by this letter, requests your consideration of an option farmout of your leasehold interest in the referenced acreage.

Southland proposes the following terms and conditions:

1. Within 120 days of acceptance of a mutually acceptable Farmout letter, Southland will commence drilling an 11,600' Morrow test at a legal location of our choice on the referenced acreage.

2. By drilling and completing same as a producer, Southland will earn your interest in the dedicated spacing unit, subject to a 1/16 of 8/8 overriding royalty interest with an option to convert to a 40% working interest at payout, both proportionately reduced.

3. In addition, Southland, by drilling the test well, shall earn the option to drill subsequent wells at legal locations of our choice, within 120 days (cumulative) from the completion of the test well, and each additional well, thereafter. The terms shall be the same as "2" above.

Should you have any questions in regard to the above, please contact the undersigned. Your earliest attention will be appreciated.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Steve Sell

Steve G. Sell
Landman

SGS:lh

SRC - 6773

BEFORE EXAMINER STAMETS
OIL CONSERVATION
Applicant EXHIBIT 4
CASE NO. 6773
Submitted by Southland
Hearing Date 1/3/80

December 19, 1979

Mr. Robert N. Enfield
Post Office Box 2431
Santa Fe, New Mexico 87501

Re: New Mexico Oil Conservation Division
Case 6773

Dear Mr. Enfield:

Enclosed is a copy of the docket for the January 3, 1980 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:lr

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

PS Form 3811, Jan. 1979

SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one.)
- [x] Show to whom and date delivered ..... ¢
- [ ] Show to whom, date and address of delivery ..... ¢
- [ ] RESTRICTED DELIVERY
  Show to whom and date delivered ..... ¢
- [ ] RESTRICTED DELIVERY.
  Show to whom, date, and address of delivery. $ ____

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Robert N. Enfield
Post Office Box 2431
Santa Fe, New Mexico 87501

3. ARTICLE DESCRIPTION:

REGISTERED NO.	CERTIFIED NO.	INSURED NO.
	5740084	

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY — POSTMARK
DEC 21 1979

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: — CLERK'S INITIALS

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

☆GPO: 1979-288-848

P08 5740084

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Robert N. Enfield
STREET AND NO.
Post Office Box 2431
P.O. STATE AND ZIP CODE
Santa Fe, NM 87501

POSTAGE	$
CERTIFIED FEE	¢
SPECIAL DELIVERY	¢
RESTRICTED DELIVERY	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
RETURN RECEIPT SERVICE — SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	

12/19/79

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE

PS Form 3800, Apr. 1976

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS

SENDER INSTRUCTIONS
Print your name, address, and ZIP Code in the space below.
- Complete items 1, 2, and 3 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

PENALTY FOR PRIVATE USE TO AVOID PAYMENT OF POSTAGE, $300

RETURN TO

CAMPBELL AND BLACK, P.A.
(Name of Sender)

Post Office Box 2208
(Street or P.O. Box)

Santa Fe, NM 87501
(City, State, and ZIP Code)

WFC

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Applicant's EXHIBIT NO. 4
CASE NO. 6773
Submitted by Southland
Hearing Date 1/3/80

December 19, 1979

Mr. Robert N. Enfield
Post Office Box 2431
Santa Fe, New Mexico 87501

Re: New Mexico Oil Conservation Division
Case 6773

Dear Mr. Enfield:

Enclosed is a copy of the docket for the January 3, 1980 Oil Conservation Division Examiner Hearing.

You may have an interest that will be affected by the above-referenced case.

Very truly yours,

William F. Carr

WFC:lr

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

P08 574008[illegible]

RECEIPT FOR CERTIFIED MAIL

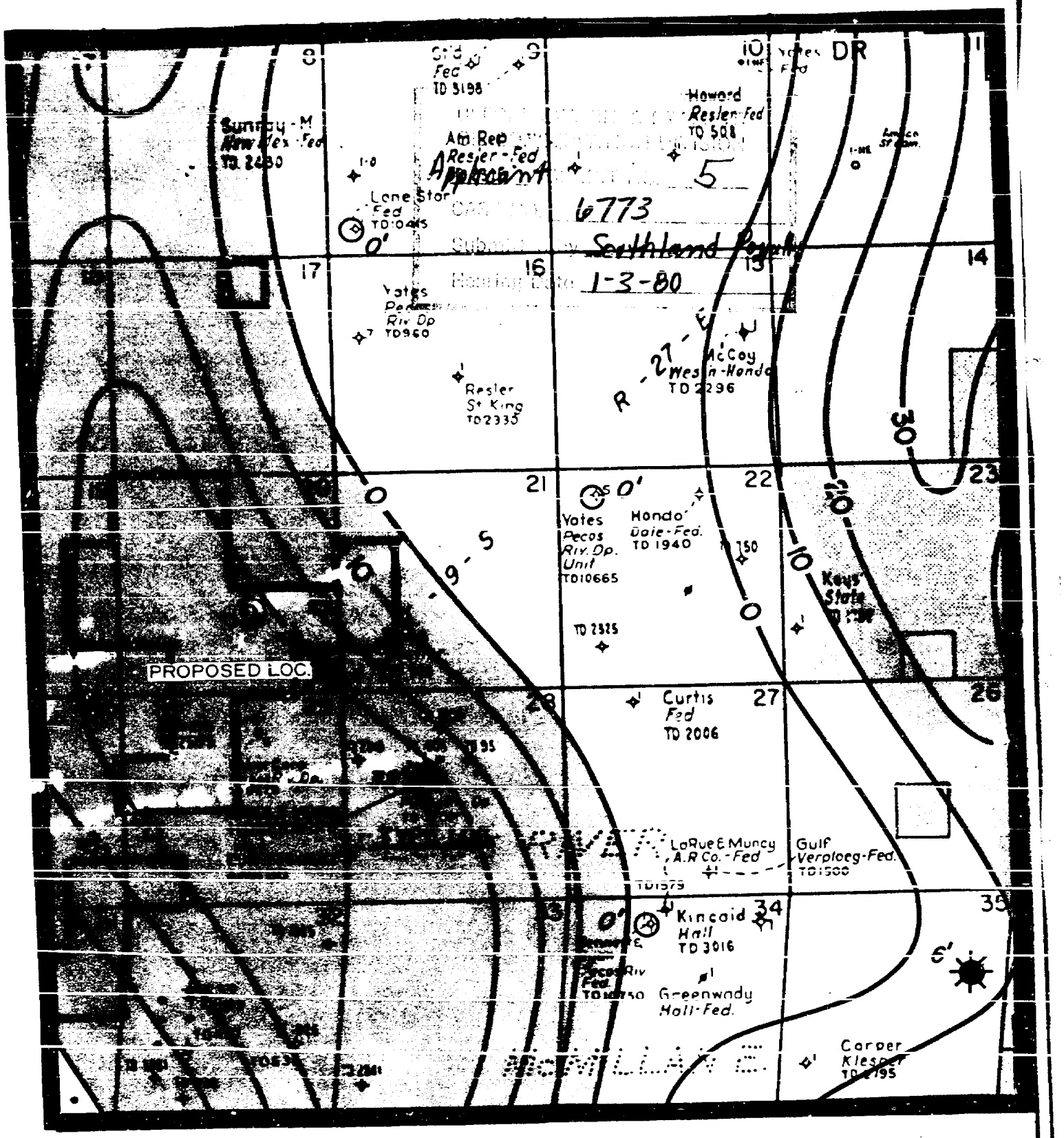
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

SENT TO
Robert N. Enfield
STREET AND NO.
Post Office Box 2431
P.O. STATE AND ZIP CODE
Santa Fe, NM 87501

POSTAGE $
CERTIFIED FEE
SPECIAL DELIVERY
RESTRICTED DELIVERY
CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES
RETURN RECEIPT SERVICE
SHOW TO WHOM AND DATE DELIVERED
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY
TOTAL POSTAGE AND FEES $
POSTMARK OR DATE

12/19/79

PS Form 3800, Apr. 1976



HUBER FARMOUT

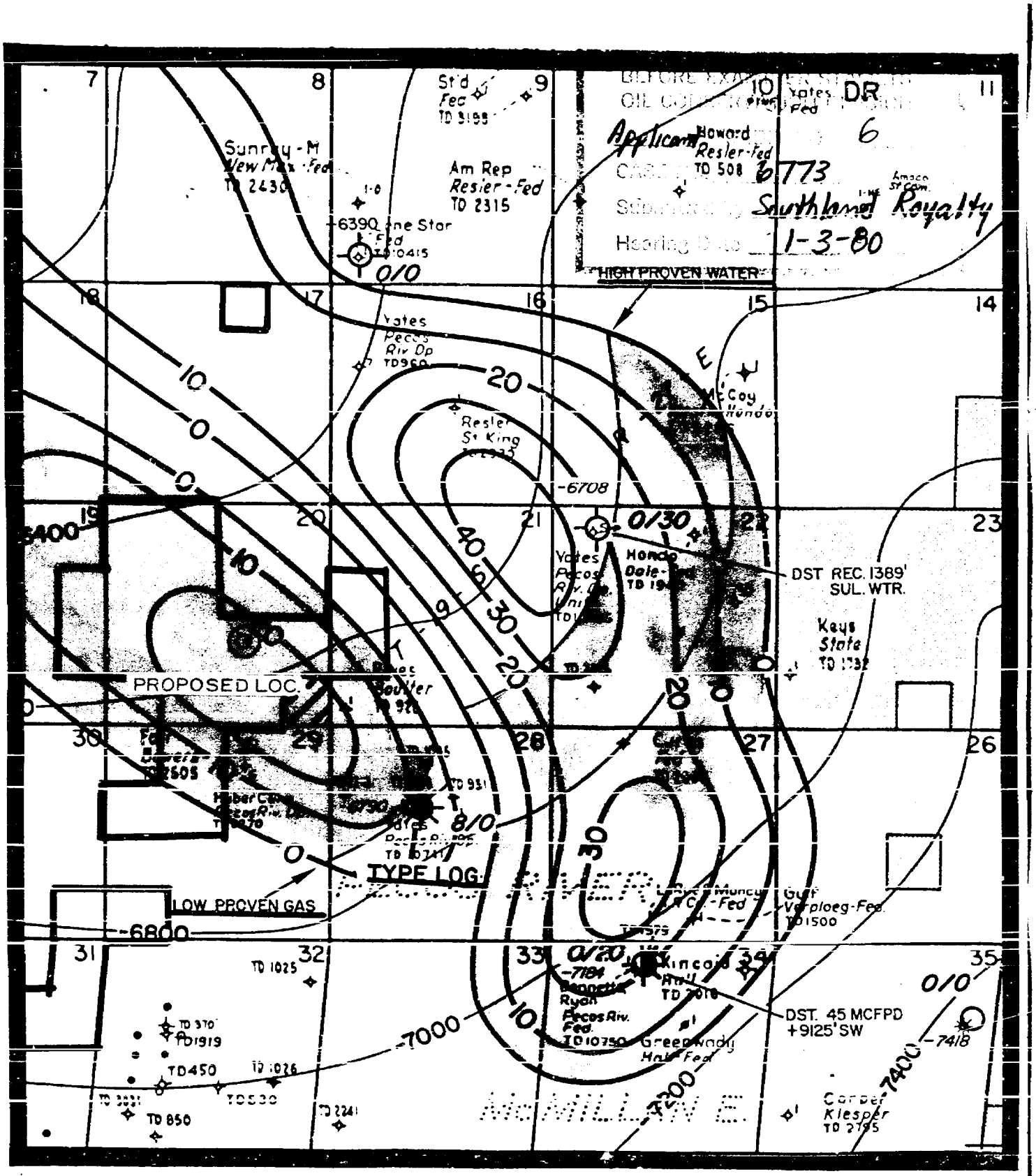
ENFIELD ACREAGE

Southland Royalty Company
SOUTHWESTERN DISTRICT

PECOS RIVER PROSPECT

MIDDLE MORROW

NET POROSITY ISOPACH



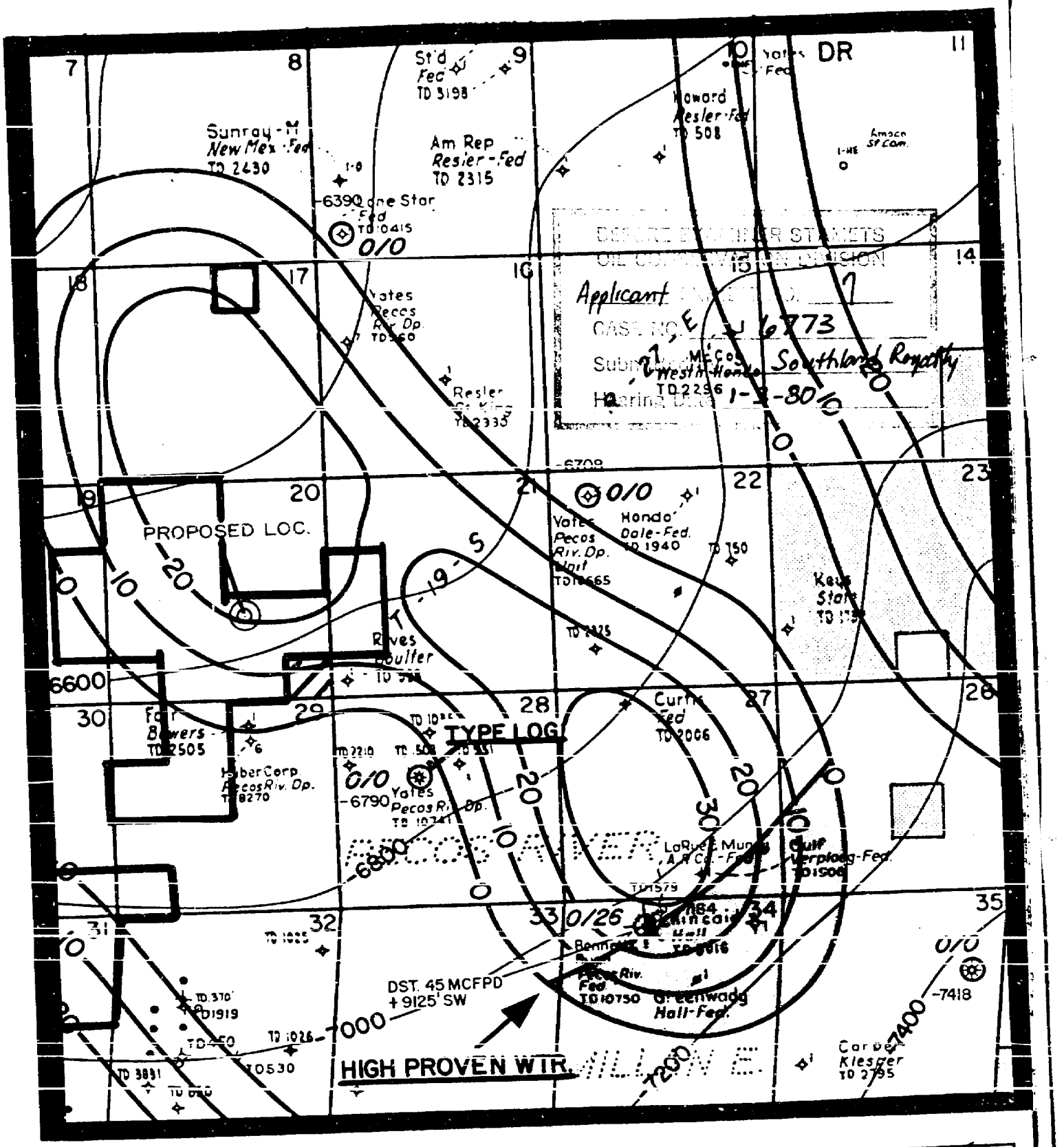
HUBER FARMOUT

ENFIELD ACREAGE

Southland Royalty Company
SOUTHWESTERN DISTRICT

PECOS RIVER PROSPECT
LOWER MORROW No.1

NET POROSITY ISOPACH


DR
Sunray-M
New Mex Fed
TD 2430
Am Rep
Resler-Fed
TD 2315
Howard
Resler-Fed
TD 508
Amoco
St Com
6390 Lone Star
Fed
TD 10415
0/0
Applicant
CASE NO. 6773
Mesa
West Hondo
TD 2296
Southland Royalty
1-3-80 10
Yates
Pecos
Riv Dp
TD 3160
Resler
TD 2335
6700
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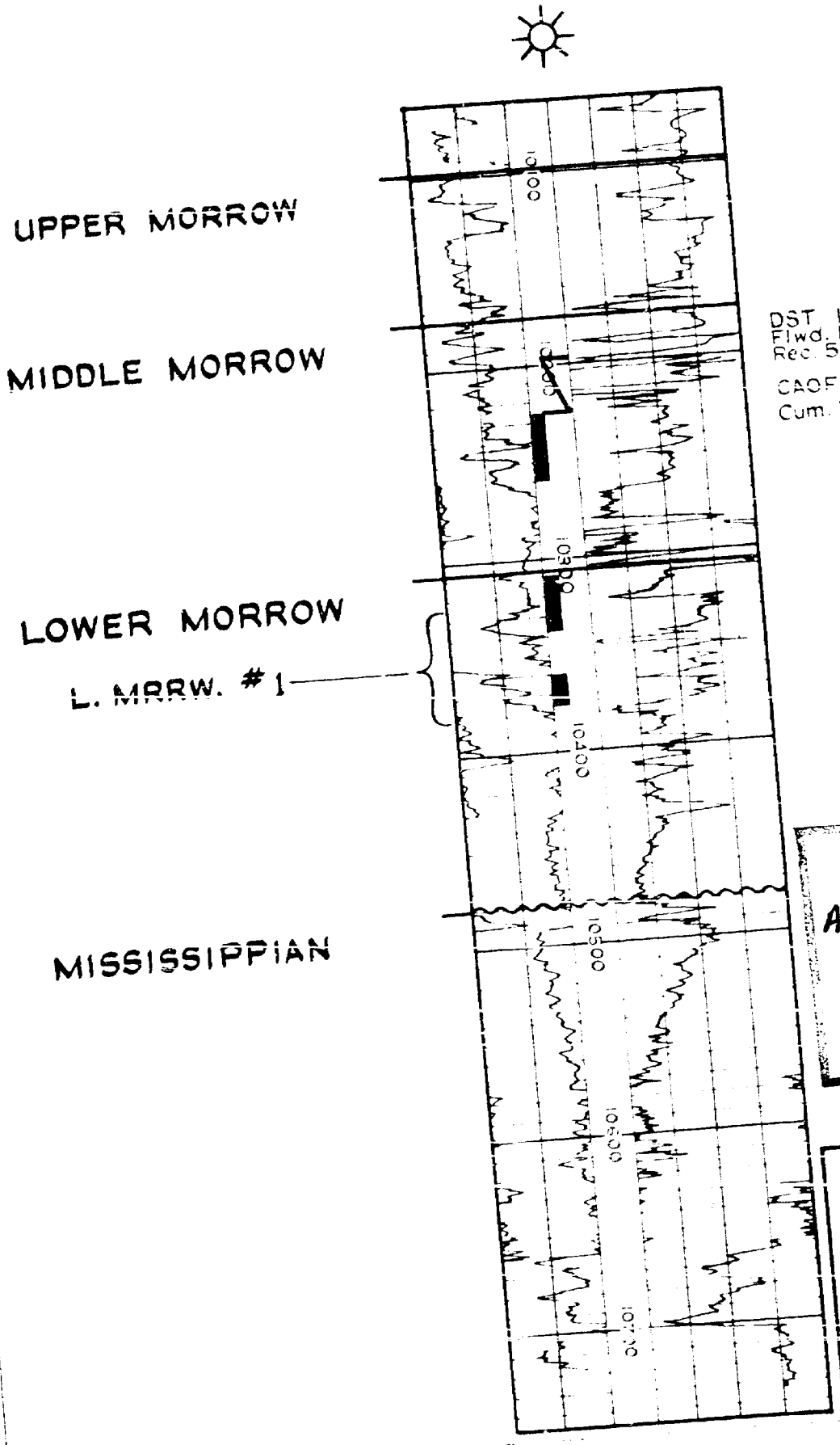
Yates
Pecos
Riv. Dp.
Unit
TD 10665
Hondo
Dale-Fed.
TD 1940
TD 750
PROPOSED LOC.
Reves
Boulter
TD 3
6600
Fair
Bowers
TD 2505
TYPE LOG
Curry
Fed
TD 2006
Huber Corp
Pecos Riv. Dp.
TD 8270
0/0
-6790
Yates
Pecos Riv. Dp.
TD 10741
6800
LaRue E. Mun
A R Co.-Fed
Gulf
Verploeg-Fed
TD 1506
TD 1579
0/126
TD 1026
7000
DST. 45 MCFPD
+ 9125' SW
HIGH PROVEN WTR.
0/0
-7418
7400
Carper
Kiesner
TD 2795
7200
HUBER FARMOUT
ENFIELD ACREAGE
Southland Royalty Company
SOUTHWESTERN DISTRICT
PECOS RIVER
PROSPECT
LOWER MORROW No. 2
NET POROSITY ISOPACH

Yates Drlg. Co.
Pecos River Deep Unit #1
Sec. 28, T-19-S, R-27-E

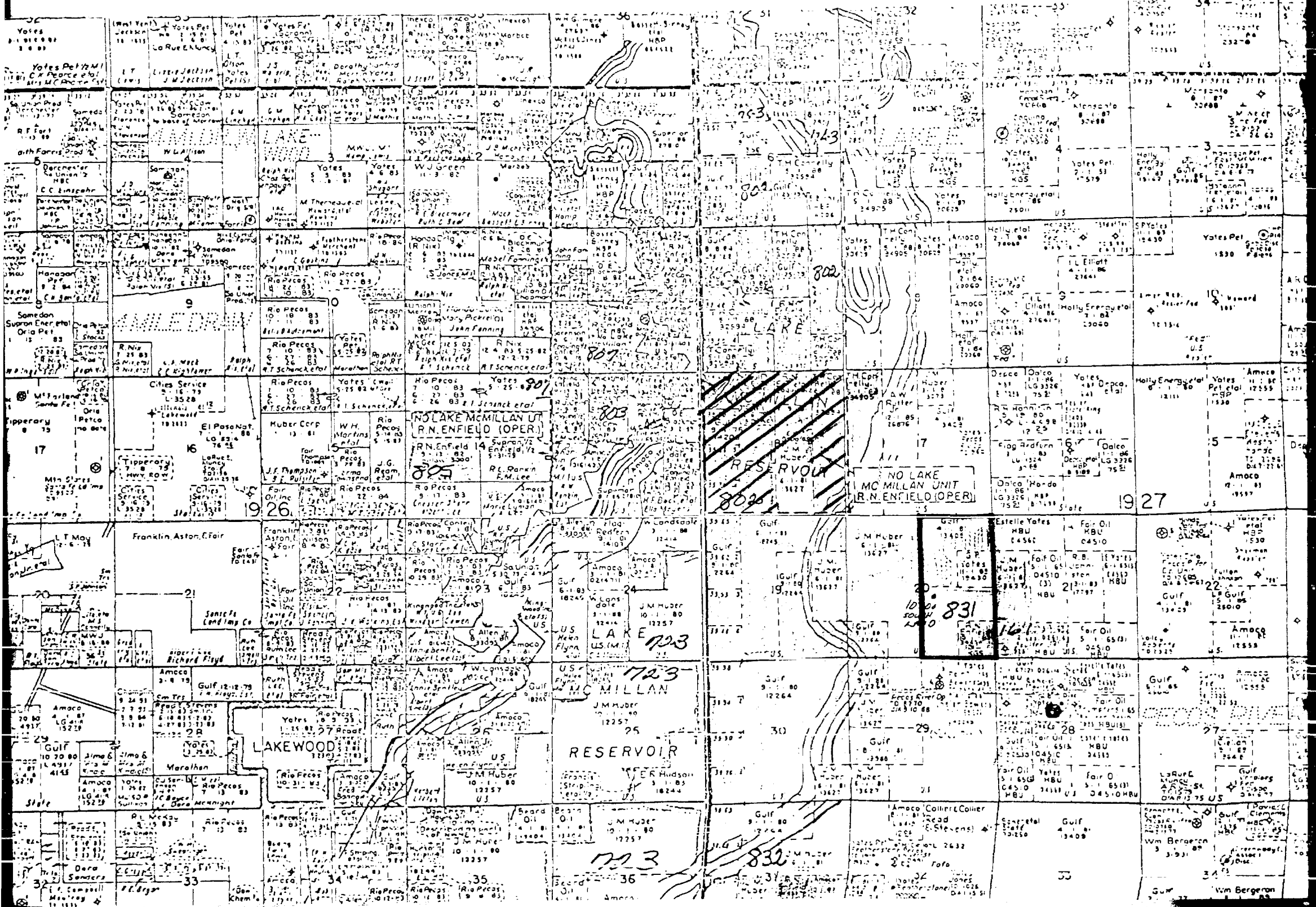


DST 10,198-225'
Flwd. 1.1 MMCFG
Rec. 50' dist. & 110' GCM
CAOF 1.15 MMCFG
Cum. 736 MMCFG

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Applicant EXHIBIT NO. 8
CASE NO. 6773
SUBMITTED BY Southland Royalty
HEARING DATE 1-3-80

Southland Royalty Company
SOUTHWESTERN DISTRICT

PECOS RIVER PROSPECT
EDDY COUNTY, NEW MEXICO
TYPE LOG


NO LAKE McMILLAN UT
R.N. ENFIELD (OPER.)
NO LAKE
MC MILLAN UNIT
R.N. ENFIELD (OPER)
LAKE
RESERVOIR
LAKEWOOD
McMILLAN
RESERVOIR
LAKE
Franklin, Aston, C. Fair
Sante Fe Land Imp Co
Richard Floyd
Albert Lee
Dora Somers
Marathon
Gulf
Amoco
Yates Pet
Rio Pecos
Cities Service
El Paso Nat.
Tipperary
Mtn States
Huber Corp
J.M. Huber
Mobil
Texaco
Sohio
Shell
Skelly
Conoco
Humble
Kerr-McGee
Beard Oil
Seaboard
Helen Flynn
Franklin
Redfern
Landsdale
Allen
Hodge
Fair Oil
Estelle Yates
HBU
Wm Bergeron
Gen Chem
Dalco
Holly Energy
Mercantile
Somedan
Hanagan Pet
Ralph Nix
Bassett
Hamp Ferris
Johnny
Dorothy Hunkins
Lessie Jackson
Lucille Yates
Mary Pickrell
John Fanning
Mabel Fanning
Ralph-Nix
Florida Corp
Fleischhauer
Merchant
Bellamy
Hendrix
Lease
Wilson
Franklin
Aston
Fair
Kingwood
Texas
Cameron
Sun Lee
Corp
Oil Inc
Jamie
Fe
Land
Imp
Co
Albert Lee
Richard Floyd
Dora Somers
Marathon
Gulf
Amoco
Yates
Rio Pecos
Cities Service
El Paso Nat.
Tipperary
Mtn States
Huber Corp
J.M. Huber
Mobil
Texaco
Sohio
Shell
Skelly
Conoco
Humble
Kerr-McGee
Beard Oil
Seaboard
Helen Flynn
Franklin
Redfern
Landsdale
Allen
Hodge
Fair Oil
Estelle Yates
HBU
Wm Bergeron
Gen Chem
Dalco
Holly Energy
Mercantile
Somedan
Hanagan Pet
Ralph Nix
Bassett
Hamp Ferris
Johnny
Dorothy Hunkins
Lessie Jackson
Lucille Yates
Mary Pickrell
John Fanning
Mabel Fanning
Ralph-Nix
Florida Corp
Fleischhauer
Merchant
Bellamy
Hendrix
Lease
Wilson
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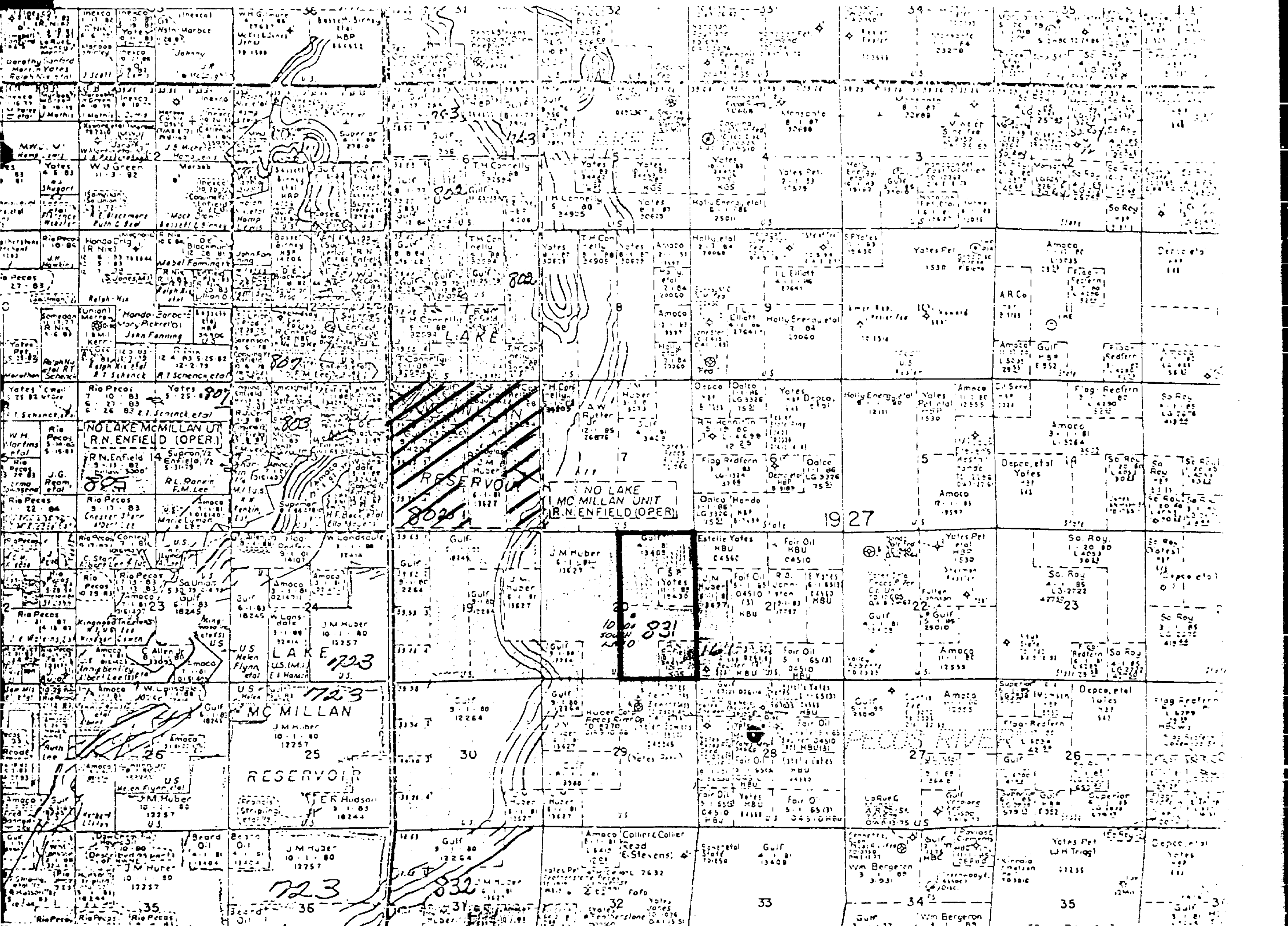
Aston
Fair
Kingwood
Texas
Cameron
Sun Lee
Corp
Oil Inc
Jamie
Fe
Land
Imp
Co



NO LAKE MCMILLAN UNIT
R.N. ENFIELD (OPER)
NO LAKE
MC MILLAN UNIT
R.N. ENFIELD (OPER)
MC MILLAN
RESERVOIR
LAKE
831
723
802

SRC-Pecos River Fed. "20" Comm. #1
SRC 25471 J/O

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

October 3, 1979,

OPERATOR Southland Royalty Company

CONTRACT AREA All of Section 20, Township 19 South, Range 27 East

COUNTY ~~OR PARISH~~ OF Eddy STATE OF New Mexico

TABLE OF CONTENTS

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:

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.
EXHIBITS

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

☒ 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.

☐ ~~B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☐ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

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.

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 re-~~ ceive 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.
TITLES

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 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

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 whose title failed 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 unrecovered 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. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

Southland Royalty Company shall be the 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.

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 lab 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:

On or before the 1st day of January, 1980, Operator shall commence the drilling of a well for oil and gas at the following location:

1980' FSL & 1980' FEL, Section 20, T19S, R27E, Eddy County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to a depth of 10,800' or a depth sufficient to test the Morrow formation

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.

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.1. hereof.

B. Subsequent Operations:

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 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, 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 cash 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.

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 sale.

Anything contained herein to the contrary notwithstanding, it is agreed that, at all times when Operator is receiving for further disbursement proceeds from production attributable to any Non-Operator's proportionate share of the oil and/or gas produced from the Contract Area, each such Non-Operator shall pay to Operator its pro-rate share (calculated on the basis of such Non-Operator's gross working interest) of a monthly charge of $150.00. When Operator is distributing funds for any Non-Operator in the manner aforestated, each Non-Operator for whom such funds are being distributed hereby agrees to hold Operator harmless and to protect and indemnify Operator against any and all losses or claims by other parties resulting from any mistake, error, omission or otherwise, in connection with the disbursement of said funds on behalf of such Non-Operator.

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.

E. Abandonment of Wells:

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 (exclusive 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.

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 inter-

vals 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.

ARTICLE 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. It is not the intention of the parties that this contract is made or intended for the benefit of any third person.

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.

D. Limitation of Expenditures:

1. Drill or Deepen: 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. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and or surface facilities.~~

[X] 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 and no/100--- 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 and no/100--------- 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 Royalties:

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 royalty through mistake or oversight 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 shutting 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

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 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage. 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

*If the Operator is required hereunder to pay ad valorem taxes based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in

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.

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. ~~If the contribution be in the form of acreage, the party to whom the contribution is~~ made shall promptly tender an assignment of the acreage, without ~~warranty of~~ title, to the Drilling Parties in the proportions said Drilling Parties ~~shared~~ the cost of drilling the well. If all parties hereto are Drilling Parties ~~and accept~~ such tender, such acreage shall become a part of the Contract Area and ~~be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract~~ Area. Each party shall promptly notify all other parties of all ~~acreage or~~ money contributions it may obtain in support of any well or any other operation on the 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.

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:

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

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 and no/100---------- Dollars ($ 5,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

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.
NOTICES

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.

☐ ~~Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued~~ in force as to any part of the Contract Area, whether by production, extension, renewal or ~~otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest~~.

☒ 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.

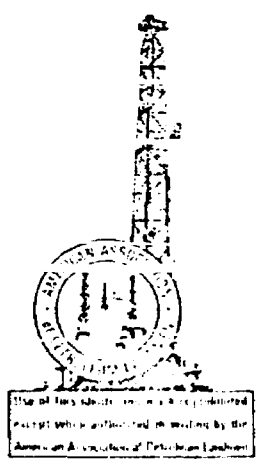
B. Governing Law:

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

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.



ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19____.

OPERATOR

SOUTHLAND ROYALTY COMPANY

_____

By: C. E. Mear
Attorney-In-Fact

RWL GWS SGS

NON-OPERATORS

GULF OIL CORPORATION

ATTEST:

_____

By: _____

S. P. YATES

ATTEST:

_____

By: _____

R. N. ENFIELD

ATTEST:

_____

By: _____

CORPORATION ACKNOWLEDGMENT

THE STATE OF Texas I
I
COUNTY OF Midland I

BEFORE ME, the undersigned authority, on this day personally appeared C. E. Mear, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-In-Fact of Southland Royalty Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 11 day of October A.D. 1974.

My Commission Expires:
11-24-74

Ann McCrary
Notary Public in and for Midland County, Texas

CORPORATION ACKNOWLEDGMENT

THE STATE OF I
I
COUNTY OF I

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument, as _____ of _____, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

_____
Notary Public in and for _____ County,

CORPORATION ACKNOWLEDGMENT

THE STATE OF I
I
COUNTY OF I

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument, as _____ of _____, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

_____
Notary Public in and for _____ County,

CORPORATION ACKNOWLEDGMENT

THE STATE OF §
§
COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____ _____, known to me to be the person whose name is subscribed to the foregoing instrument, as _____ of _____ _____, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

_____
Notary Public in and for _____
County,

CORPORATION ACKNOWLEDGMENT

THE STATE OF §
§
COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____ _____, known to me to be the person whose name is subscribed to the foregoing instrument, as _____ of _____ _____, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

_____
Notary Public in and for _____
County,

CORPORATION ACKNOWLEDGMENT

THE STATE OF §
§
COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____ _____, known to me to be the person whose name is subscribed to the foregoing instrument, as _____ of _____ _____, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

_____
Notary Public in and for _____
County,

EXHIBIT "A"

Attached to and made a part of Operating Agreement dated October 3, 1979, by and between Southland Royalty Company, Operator, and Gulf Oil Corporation, S. P. Yates and R. N. Enfield, Non-Operator.

I. LANDS SUBJECT TO CONTRACT:

The "Unit" is comprised of 640 acres, All of Section 20, Township 19 South, Range 27 East, Eddy County, New Mexico.

II. RESTRICTIONS AS TO LANDS, FORMATIONS AND DEPTHS:

The Unit Area shall include the lands described in "I" above and only those leases and leasehold interests described in Exhibit "A", Part III hereof, down to 100' below the total depth drilled in the test well specified in Article VI hereof.

III. ADDRESSES & INTERESTS OF THE PARTIES:

	BEFORE PAYOUT WORKING INTEREST	AFTER PAYOUT WORKING INTEREST
Southland Royalty Company 1100 Wall Towers West Midland, Texas 79701 Attention: R. W. Petrie	62.5%	37.50%
J. M. Huber Corporation 1900 Wilco Building Midland, Texas 79701	-0-	25.00%
Gulf Oil Corporation P. O. Box 1150 Midland, Texas 79702	25.0%	25.00%
S. P. Yates Yates Building 207 S. Fourth Street Artesia, New Mexico 88210	6.25%	6.25%
R. N. Enfield P. O. Box 2431 Santa Fe, New Mexico 87501	6.25%	6.25%

EXHIBIT "B"

Attached to and made a part of Operating Agreement dated October 3, 1979, by and between Southland Royalty Company, Operator, and Gulf Oil Corporation, S. P. Yates and R. N. Enfield, Non-Operators.

THERE IS NO EXHIBIT "B" TO THIS OPERATING AGREEMENT

COPAS - - 1974
Recommended by the Council of Petroleum Accountants Societies of North America

COPAS

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated October 3, 1979, by and between Southland Royalty Company, Operator, and Gulf Oil Corporation, S. P. Yates and R. N. Enfield, Non-Operator.

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 applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

1. Rentals and Royalties

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

2. Labor

A. (1) Salaries and wages of Operator's 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%).~~ the most recent rate recommended by Copas.

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 limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by 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 1B.

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 salaries, 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 $ 3,000.00

Producing Well Rate $ 300.00

(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 fifteen (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 Rates

[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.

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint 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 salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(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, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when 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 Major Construction as defined in ~~Paragraph 2 of this Section III. All other costs shall be considered as Operating.~~

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 either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $ 25,000.00 :

A. 5.0 % of total costs if such costs are more than $ 25,000.00 but less than $100,000.00 ; plus

B. 2.0 % of total costs in excess of $ 100,000.00 but less than $1,000,000; plus

C. 2.0 % of total costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

INSURANCE

Attached to and made a part of Operating Agreement dated October 3, 1979, by and between Southland Royalty Company, Operator, and Gulf Oil Corp., S. P. Yates and R. N. Enfield, Non-Operator.

(a) Operator shall at all times during the terms of this Agreement carry insurance to protect the parties hereto as follows:

(1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employer's liability insurance with a limit of not less than $100,000.

(2) Comprehensive general public liability insurance, excluding products liability insurance, with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident, and $100,000 for loss of or damage to property in any one accident and $100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

(3) Automotive public liability insurance covering all automotive equipment used in performance of work under this Agreement with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident.

(b) Operator shall require all contractors performing work under this Agreement to carry the following insurance:

(1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than $100,000.

(2) Comprehensive general liability insurance with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident, and $100,000 for loss of or damage to property in any one accident and $100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

(3) Automotive public liability insurance covering all automotive equipment used in performance of work under this Agreement with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident, and $100,000 for loss of or damage to property in any one accident.

EXHIBIT "E"

GAS BALANCING AGREEMENT

Attached to and made a part of Operating Agreement dated October 3, 1979, by and between Southland Royalty Company, Operator, and Gulf Oil Corp., S. P. Yates and R. N. Enfield, Non-Operator.

The parties to the Operating Agreement to which this agreement is attached, own working interest in the gas rights underlying the Unit Area covered by such Operating Agreement in accordance with the percentages of participation as set forth in Exhibit "A" to said Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right to take in kind its share of gas produced from the Unit Area and market or otherwise dispose of same. In the event any party 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 take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become operative.

During the period when any party hereto is not marketing or otherwise disposing of its share of gas produced from any proration unit within the Unit Area, the other parties hereto shall be entitled to produce, in addition to their own share of production, that portion of such other party's share of production which said party is unable to market or otherwise dispose of and shall be entitled to take such gas production and deliver same to its or their purchaser(s). 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 aforesaid Operating Agreement, but the party or parties taking such gas shall own all of such gas delivered to its or their purchaser(s).

An account shall be established for each party not marketing or otherwise disposing of its share of the gas produced, which account shall be credited with an amount of gas equal to such party's full share of the gas produced, less its share of gas used in lease operations, vented or lost, and less that portion marketed or otherwise disposed of by such party. The Operator will maintain a current over and under account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

Each party hereto will make settlement with the royalty owners to whom it is accountable, just as if such party were marketing or otherwise disposing of its share, and its share only, of such gas production. Each party hereto agrees to hold each other 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.

After notice to the Operator, any party at any time may begin marketing or otherwise disposing of its share of the gas produced from a proration unit with respect to which it has an under account balance. In addition to such share, said party, until it has balanced the gas account as to its interest, shall be entitled to take a share of gas determined by multiplying thirty-three and one-third percent (33 1/3%) of the interest in the current gas production of the party or parties having an over account balance by a fraction, the numerator of which is the interest in the proration unit of such party with the under account balance and the denominator of which is the total percentage interest in such proration unit of all parties having an under account balance and who are currently marketing or otherwise disposing of a portion of their under account balance in addition to their share of gas.

Each party marketing or otherwise disposing of gas shall pay the production taxes due on such gas.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between those parties credited with under account and over account balances. In making such settlement, the party or parties credited with an under account balance will be paid by the party or parties credited with an over account balance a sum of money equal to that received attributable to such over account, less applicable taxes theretofore paid. For gas sold or delivered into intrastate commerce said sum shall be computed at the price received for sale of the gas. For gas sold or delivered into interstate commerce said sum shall be computed at the rate collected, not subject to possible refund, as provided by the Federal Power Commission, plus any additional collected amount which is ultimately not required to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as provided in the aforesaid Operating Agreement.

This agreement shall constitute a separate agreement as to each proration unit within the Unit Area. It shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns. It shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect.

Exhibit "F"

Attached to and made a part of Operating Agreement dated October 3, 1979, by and between Southland Royalty Company, Operator, and Gulf Oil Corp., S. P. Yates and R. N. Enfield, Non-Operator.

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.

Amoco Production Company
500 Jefferson Building
P.O. Box 3092
Houston, Texas 77001

Pup 655

February 26, 1979

Re: EA 49558
Salt Draw Area
Eddy County, N. M.

(SEE ADDRESSEE LIST ATTACHED)

Gentlemen:

Amoco Production Company proposes the formation of a four section working interest area as outlined in red on the attached plat and the drilling of a 13,500' Morrow test in the SW/4 Section 35 T-24-S, R-28-E, Eddy County, New Mexico, with the W/2 Section 35 as the anticipated spacing unit. Estimated dry hole and producer costs for said well are $1,239,600 and $1,431,700 respectively. By separate letter, Amoco will furnish you detailed cost estimates.

According to our records, ownership within this area is as follows:

Working Interest Owners	Acres	Interest (%)
Amoco Production Company	1,120.895	43.72654
Union Oil of California	560.640	21.87078
HNG Oil Company	481.120	18.76868
PECOS Irrigation Company	160.480	6.26039
The Superior Oil Company	160.000	6.24166
Robert N. Enfield	80.285	3.13195
	2,563.420	100.00000%

As an alternative to your participation, Amoco will accept farmins from non-drilling parties on the basis of the non-drilling parties retaining a proportionate 1/16 of 8/8 overriding royalty with the option at payout to convert the override to a proportionate 50% working interest under the initial well and spacing unit. The balance of the farmout acreage would be owned on a 50/50 basis by Amoco and the farming parties. The farmouts would cover rights from the surface to 100' below total depth drilled, with no acreage to be earned with the dry hole. Amoco in turn will offer to the other parties participating in said well their proportionate part of the farmouts.

BEFORE EXAMINER STAMETS
OIL CONSERVATION
ENGLL D
CASE 6713
SUBMITTED R. ENGLL
HEARING 1-3-80

If any discrepancies appear as to ownership in the proposed area, or if you should desire further information regarding same, please contact the undersigned at (713) 652-5519.

Yours very truly,

Mike W. Burkhart

Mike W. Burkhart
Land Department

MWB/cf
319/V

ADDRESSEE LIST

Union Oil of California
P. O. Box 761
Midland, Texas 79702

Attention: Mr. Robert V. Lockhart

The Superior Oil Company
P. O. Box 1900
Midland, Texas 79701

Attention: Mr. W. R. Lewis

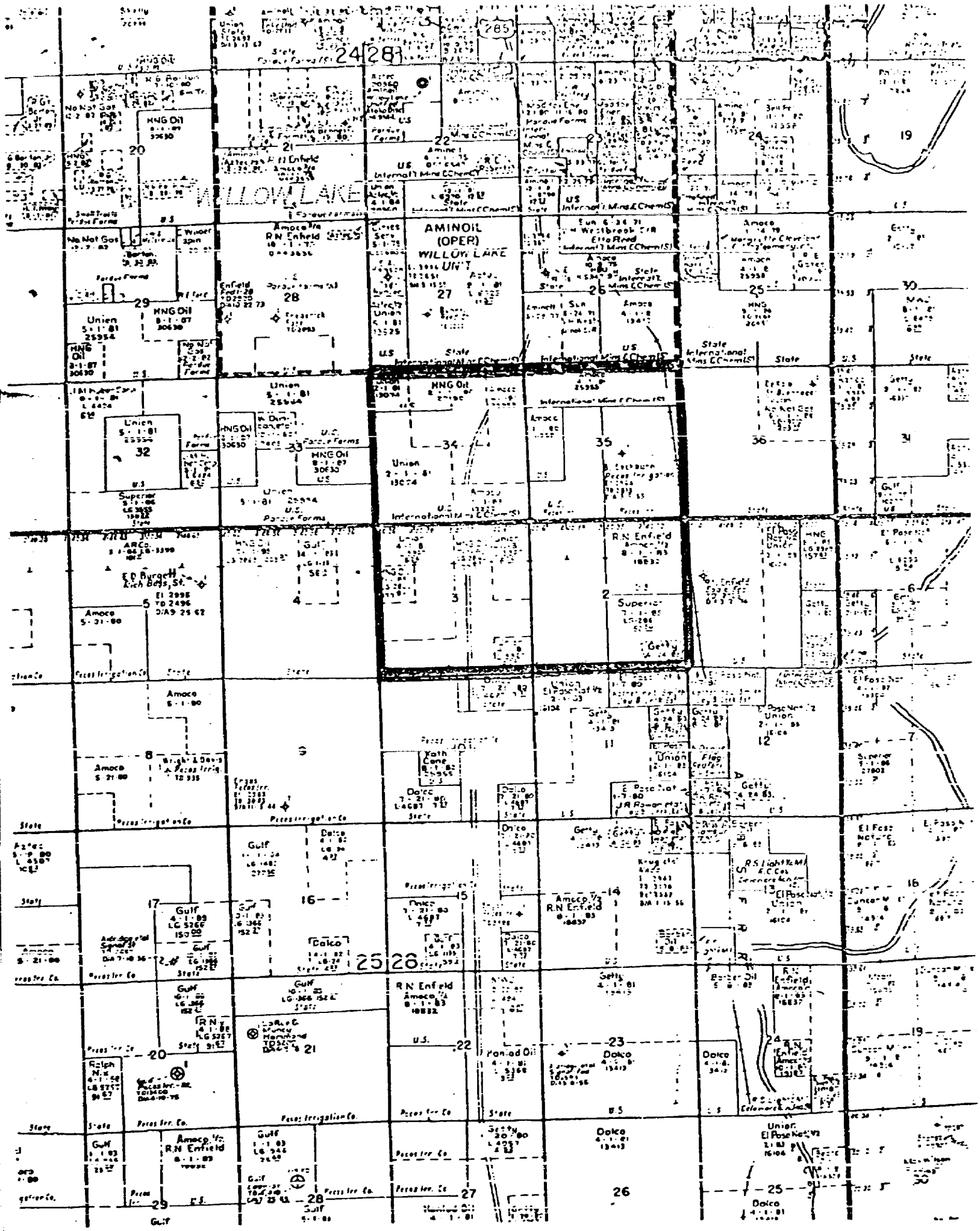
HNG Oil Company
P. O. Box 2267
Midland, Texas 79701

Attention: Mr. Raymond Parker

Robert N. Enfield
550 East Alameda
Santa Fe, New Mexico 87501

PECOS Irrigation Company
P. O. Box 1718
Carlsbad, New Mexico 88220

Attention: Mr. Don McCormick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AMINOIL (OPER) WILLOW LAKE UNIT
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Amoco
Union
HNG Oil
Gulf
Getty
Dalco
R.N. Enfield
Superior
Texaco
Sun
Conoco
Ralph N.K.
Pecos Irrigation Co.
U.S.
State

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
3 January 1980

EXAMINER HEARING

IN THE MATTER OF:

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

CASE 6773

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: William F. Carr, Esq.
CAMPBELL & BLACK P. A.
Jefferson Place
Santa Fe, New Mexico 87501

For Mr. Enfield: Owen Lopez, Esq.
MONTGOMERY, ANDREWS & HANNAHS
Paseo de Peralta
Santa Fe, New Mexico 87501

I N D E X

E X H I B I T S

MR. STAMETS: We will call next Case 6773.

MR. PADILLA: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico.

MR. CARR: May it please the Examiner, my name is William F. Carr, Campbell and Black, P. A., Santa Fe, appearing on behalf of the applicatn, and I have two witnesses to be sworn.

MR. STAMETS: I'd like to have them both stand and be sworn at this time, please.

MR. LOPEZ: Mr. Examiner, my name is Owen Lopez, with the Montgomery Law Firm, Santa Fe, New Mexico, appearing on behalf of Robert N. Enfield, and I have one witness to be sworn.

MR. STAMETS: Are there any other appearances in this case? I'd like to have all the witnesses stand and be sworn at this time.

(Witnesses sworn.)

MR. STAMETS: Mr. Carr, you may proceed.

STEPHEN G. SELL

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

DIRECT EXAMINATION

BY MR. CARR:

Q Would you state your full name and place of residence?

A Stephen G. Sell, 3800 Cimarron, Midland, Texas.

Q Mr. Sell, by whom are you employed and in what capacity?

A Southland Royalty Company as a landman.

Q Have you previously testified before this commission, had your credentials accepted and made a matter of record?

A No, I have not.

Q Will you summarize for the Examiner your educational background and work experience?

A I have a Bachelor of Business Administration degree from Texas Christian University. I have worked for Southland Royalty for the past two and a half years in the capacity of a landman.

Q And what is your title with Southland?

A Landman.

Q Are you familiar with the application in this case?

A Yes.

Q And the subject area?

A Yes.

MR. CARR: Are the witness' qualifications acceptable?

MR. STAMETS: They are.

Q Would you briefly state what Southland Royalty is seeking through this application?

A We are seeking to communitize the east half of Section 20 to drill a Morrow test and we're seeking to have Mr. Enfield join or farmout.

Q And the purpose of this hearing is to force pool all the interests --

A Right.

Q -- in this proposed unit.

A Within the unit.

Q Will you please refer to what has been marked for identification as Exhibit Number One, which is the land plat, and explain to the Examiner what this is and what it shows?

A The green area shows the Huber farmout acreage, which will be earned on a well-by-well basis.

The blue cross hatched shows the -- Mr. Enfield's acreage.

The red outline is the initial proration unit on the east half of Section 20. The red -- the wells in red are producing Morrow wells. The purple are the Morrow dry holes.

Q Is the proposed unit a standard unit for the Morrow?

A Yes.

Q And is the proposed location a standard location?

A Yes.

Q Will you now refer to what has been marked for identification as Exhibit Number Two, which is the communitization agreement, and review this for the Examiner?

A In this agreement we're communitizing the east half of Section 20 as to the Morrow formation. If you'll look on Exhibit A to the communitization agreement it sets out the ownership in the east half of Section 20. Gulf Oil Corporation having the north half of the northeast quarter and the southwest quarter of the northeast quarter; S. P. Yates, the southeast quarter of the northeast quarter; J. M. Huber Corporation, which we have the farmout from, has the north half of the southeast quarter and the south-

west quarter of the southeast quarter; and Mr. Enfield has the southeast quarter of the southeast quarter.

Q What percentage of the acreage has been dedicated to this unit?

A To date we have 87-1/2 percent.

Q Everyone has joined except Mr. Enfield?

A Correct.

Q Would you now refer to what has been marked Applicant's Exhibit Number Three and explain to the Examiner what this is? This is the packet of correspondence.

A Okay. My initial correspondence requests -- was a basic request for farmouts. This occurred in late March and early April of 1979, my first request to Huber Corporation on March 30th and to Mr. Enfield on April 4th, and this was requesting farmouts.

On July 30th I approached Mr. Enfield again for a farmout once we had a specific location and I requested him to farmout or join in the east half proration unit.

Also, following that, Mr. Enfield, we had a telephone conversation immediately after that, after he had received the letter, and stating that he declined to join unless he received his proportionate share of the total Huber farm-in acreage.

And his letter of April 13th is con-

firming that -- no, excuse me, April 15th.

Again on November 16th, 1979, I sent an AFE, operating agreement, and communitization agreement covering the east half of Section 20 and requesting that he join.

After that we had another telephone conversation, approximately November the -- well, immediately after that date. Mr. Enfield declined to join or farmout.

We then proposed a 1-section working interest unit. Mr. Enfield also declined to join or farmout to 1-section working interest unit.

On December the 5th I sent a wire to Mr. Enfield and rescinded our offer of a 1-section working interest unit and reinstated our original proposal of the east half proration unit.

Q And as of this date you've been unable to obtain voluntary pooling of interest for the drilling of the proposed well.

A Correct.

Q Has notice of this hearing been given to Mr. Enfield?

A Yes.

Q And a copy of our letter notifying him of the hearing is marked as Exhibit Number Four, is that correct?

Now, included in the material that you just reviewed for the Examiner, I believe, was an AFE for the proposed well?

A Yes.

Q Will you refer to the AFE and summarize the data contained thereon for the Examiner?

A All right. The AFE is broken up into two parts, tangible drilling costs, which are $192,000 for a producing well; $26,000 for a dry hole.

Intangible is $443,000 for a producing well; $385,000 for a dry hole.

Total for a producing well is $635,000 and the total for a dry hole is $411,000.

Q In your opinion are these figures in line with what is being charged by other operators in the area?

A Yes.

Q And when was this AFE originally submitted to Mr. Enfield?

A On November the 16th.

MR. LOPEZ: Mr. Examiner, I don't want to interrupt, but if it might help, I think that on behalf of Mr. Enfield we can stipulate that we have no objection to the costs indicated on the AFE.

MR. STAMETS: Very good.

Q. Mr. Sell, when did you obtain the farmout from Mr. Huber?

A. On July the 10th.

Q. Are you prepared to make a recommendation to the Examiner as to the risk factor which should be assessed against any of those working interest owners who do not participate in the drilling of this well?

A. Well, as a normal -- normally, in most instances where we're drilling a Morrow test, a non-consenting party under the operating agreement would be charged 300 percent penalty.

Q. You mean a 200 percent penalty, 200 on top of the cost?

A. Correct.

Q. And you're requesting a 200 percent risk factor?

A. Correct.

Q. Have you made an estimate of the overhead and administrative cost while drilling and producing this well?

A. Yes, it's $3000 for a producing well rate and $300 for a -- I mean, excuse me, the other way around, $3000 for a drilling well rate; $300 for a producing well rate.

Q. And these are monthly figures?

A. Correct.

Q Are these costs in line with what other operators in the area are charging?

A Yes.

Q Are you recommending that these figures be incorporated into the order which will result from this hearing?

A Yes.

Q Does Southland Royalty Company request to be designated operator of the subject well?

A Yes.

Q In your opinion will granting this application be in the interest of conservation, the prevention of waste, and the protection of correlative rights?

A Yes.

Q Were Exhibits One through Four either prepared by you or can you testify from your own knowledge as to their accuracy?

A Yes.

MR. CARR: At this time, Mr. Examiner, we would offer Applicant's Exhibits One through Four.

MR. STAMETS: Without objection, these exhibits will be admitted.

MR. CARR: I have nothing further on direct.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Sell, what are the combined fixed rates for drilling costs -- or costs for drilling and producing, as set out in the operating agreement for this well?

A. The combined overhead rates, or drilling well rate, is $3000 and producing is $300.

Q. So what you proposed here is the rate for those who have already agreed --

A. Correct.

Q. -- for the drilling of this well?

A. Correct.

MR. STAMETS: Okay, are there questions of this witness?

MR. LOPEZ: Yes, Mr. Examiner.

CROSS EXAMINATION

BY MR. LOPEZ:

Q. Mr. Sell, could you explain the reason why Southland chose to select the east half of Section 20 as the proration unit?

A. I am not -- I'd like to defer that to another witness. I'm not qualified to --

MR. LOPEZ: You will have another wit-

ness?

MR. CARR: We're calling another witness, yes, sir.

Q Okay. Let me hand you what has been marked Enfield Exhibit C, and ask you if this is the model form operating agreement that you submitted to Mr. Enfield?

A Yes, this was, after I originally proposed an east half proration unit. This is for a 1-section working interest unit.

Q And I'd like you to turn to page twelve of that operating agreement and have you explain to me what the reasons were -- page eleven, rather.

A Okay.

Q And ask to explain the reason why Southland chose to delete paragraph C of the model form operating agreement.

A Well, we chose to delete the acreage portion of paragraph C, not the cash contribution portion, simply because we requested this farmout prior to any well proposal. Our well was proposed totally on the farmout acreage. Should we give up any of our acreage, we would not -- we might as well not have taken the farmout to begin with because we did not have any acreage in the immediate area at the time.

As to that, we would not care to -- we could not give everyone in the proration unit their propor-

tionate share of the farm-in agreement. They might as well have originally taken the farmout themselves then, which they could have, as well as we did.

Q. Well, isn't it a common practice in the industry that when a wildcat well is proposed to be drilled and the operator, proposed operator, seeking voluntary participation, that more than the particular proration unit offer is made to the proposed participants for a proportionately reduced interest in the surrounding acreage?

A. Yes, it is, only when we had come and proposed a well, communitized acreage, and then subsequent to proposing the well and unitizing or communitizing that acreage we got our farmout. This would be shared proportionately with everybody within the unit; however, this is not the case.

We got the farmout prior to proposing the well in Section 20.

MR. LOPEZ: Are you going to have another witness?

MR. CARR: Yes, we will.

MR. LOPEZ: So I think I'll direct my other questions to the other witness.

MR. CARR: Fine, and Mr. Sell will be here. We'll be happy to recall him.

MR. STAMETS: Any other questions of

this witness? He may be excused.

MR. CARR: Mr. Stamets, at this time I am going to call a witness. We will qualify him; then he will be able, I believe, to respond to Mr. Lopez.

MR. STAMETS: Okay.

MR. CARR: I may then have a third witness to call.

DENNIS EIMERS

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

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your full name and place of residence?

A Dennis John Eimers, 3003 Goddard Street, in Midland, Texas.

Q And will you please spell your last name?

A E-I-M-E-R-S. And I work for Southland Royalty Company.

Q And in what capacity are you employed?

A I'm an exploration geologist.

Q. And, Mr. Eimers, have you previously testified before this Commission and had your credentials accepted and made a matter of record?

A. No, I have not.

Q. Will you briefly summarize for the Examiner your educational background and your work experience?

A. Yes. I have a Bachelor of Arts degree in geology from Trinity University in San Antonio, Texas, and I have four years experience with Exxon prior to coming to Southland Royalty, and I've been with Southland Royalty for about a year and a half.

Q. Are you familiar with the application in this case?

A. Yes, sir.

Q. And are you familiar with the general area which is the subject of this case?

A. Yes, I am.

MR. CARR: Are the witness' qualifications acceptable?

MR. STAMETS: They are.

Q. Now, Mr. Eimers, have you prepared certain exhibits for introduction in this case?

A. Yes, I have.

Q. Would you refer to what has been marked Exhibit Number Five and explain to the Examiner what it is

and what it shows?

A. Okay. Exhibit Number Five is a net porosity Isopach of the middle Morrow Sands. This is what we consider to be the primary objective of the well in Section 20 that we are proposing.

You can see we have the southeast quarter of Section 20 and we're drilling in what we think is the best portion of the porosity thickness trend through the area.

Q. Will you now refer to Exhibit Number Six and review the data contained thereon for the Examiner?

A. Okay. In addition to the Middle Morrow Sands, which we feel are our primary objective, we also feel that there are two Lower Morrow Sands that are also prospective on the well site.

The first of these that we have marked as Lower Morrow Sand No. 1, and again this is a net porosity Isopach, the area highlighted in red is what we consider to be proven gas porosity and that shown in blue on the eastern portion of the map is -- is water-filled porosity. The area in white is unknown.

We feel that the Lower Morrow Sand No. 1 will be productive on the drill site location.

Q. Will you now refer to Exhibit Number Seven and review this for the Examiner?

A. Okay. This is also a net porosity

Isopach, or net effective porosity, of the Lower Morrow Sand No. 2. We feel this is also prospective on the location and the other control in the area is the well down in Section 34 and encountered the sand, which it had a slight gas show but was wet. We anticipate encountering this sand also on the location and it is prospective.

Q Okay. Now I direct your attention to Exhibit Number Eight and ask that you review this for Mr. Stamets.

A This final exhibit here is a type log of the well in Section 20, the Yates Pecos River Deep No. 1. It was a -- it was completed across what we call the Middle Morrow Sands and the Lower Morrow Sand No. 1. This well has made approximately 3/4 of a Bcf to date, and I believe it's still producing at about some meagre amount.

Q Mr. Eimers, what conclusions can you draw from this data concerning the prospects of drilling a well at the proposed location?

A Well, we feel that the proposed location is the best geological location. We consider this well to be a risky development well. We are approximately a mile from a producing well, so I don't really classify it as a wildcat; however, it is risky -- riskier than a normal development well due to the nature of -- there are a large number of dry holes in the area. We give this well through

our own risk calculations about 50 percent chance of success, of making an economical well.

Q And are you prepared to concur in Mr. Sell's recommendation that a 200 percent risk factor be assessed?

A I certainly do, yes.

Q Do you have anything further to add to your testimony on direct?

A I don't believe so.

MR. CARR: At this time, Mr. Stamets, I would offer Applicant's Exhibits Five through Eight.

MR. STAMETS: Without objection they will be admitted.

MR. CARR: I have nothing further of this witness on direct.

MR. STAMETS: Are there questions of the witness?

CROSS EXAMINATION B

BY MR. LOPEZ:

Q Mr. Eimers, let me ask you a question I directed to Mr. Sell. Could you explain the reason why Southland selected the east half of Section 20 as a standard proration unit rather than, let's say, the south half or the west half?

A. I can say why Southland did not select the west half. The proposed location as it stands 1980 from the south and east is the best geological location as we have it interpreted in order to pick up the primary objective, the Middle Morrow Sands, and the Lower Morrow Sand No. 1, and also Lower Morrow Sand No. 2. This is really the best location, the optimal location, geologically to pick up all three pay zones.

Q. Is it possible that in not selecting the south half of Section 20, that Southland took into consideration the fact they would have to bear a proportionately greater percentage of the cost of drilling the well?

A. I would defer that question, I can only speak for the geological interpretations.

Q. Who do you think I can get to answer that question?

MR. CARR: Mr. Lopez, would you restate the question? We have people here who can answer it.

MR. LOPEZ: I was wondering if it was a consideration in not selecting the south half of Section 20, the fact that Southland would thereby have to bear an increasingly proportionate share of the cost of drilling the well.

MR. CARR: I will call a third witness

who will respond to that question.

MR. LOPEZ: Well, the thrust of this questioning is going to go to that point.

MR. CARR: Okay, well, I will call Mr. Petrie and have him sworn and he can respond to that, Mr. Lopez.

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

MR. CARR: Mr. Examiner, at this time I'd like to call Mr. Dick Petrie and ask that he be sworn.

(Witness sworn.)

DICK PETRIE

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

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your name and place of residence?

A Richard Petrie, 3615 Stanoline, in Midland, Texas.

Q By whom are you employed and in what capacity?

A. Southland Royalty Company and I'm the District Landman.

Q. Have you previously testified before this Commission, had your credentials accepted and made --

A. No, I haven't.

Q. You have not?

A. No.

Q. Will you briefly summarize for the Examiner your educational background and your work experience?

A. I have a Bachelor's degree in business administration from Oklahoma State University. I have worked three years for Southland Royalty Company, two in my present capacity. Prior to that I was employed by Continental Oil Company for eleven years.

Q. Are you familiar with this application?

A. Yes, I am.

Q. And the area which is the subject matter of this application?

A. Yes, I am.

MR. CARR: Are the witness' qualifications acceptable?

MR. STAMETS: They are.

Q. Mr. Petrie, a few moments ago I believe Mr. Lopez asked a question concerning the deletion of certain language on page 12 of the operating agreement.

MR. LOPEZ: Page 11.

Q Page 11. Would you, to avoid any misunderstanding, could you respond to that question?

A Yes, sir. As a matter of fact, Mr. Enfield had indicated prior to the preparation of this joint operating agreement that his intention was to attempt to acquire his proportionate share of the entire farmout agreement which Southland had acquired from J. M. Huber. It was because of this stated intent that I directed Steve in the preparation of this joint operating agreement to specifically strike the language relative to acreage contributions which was contained on page eleven of their Exhibit One.

Q How do you have anything further you would like to add to your testimony on direct or are you prepared to stand for questioning?

A I would like to add one other point relative to this particular provision.

It has -- it has been my experience in many cases where you have a group of people who have subjected themselves to a joint operating agreement, particularly a working interest unit or a joint operated area, that when a well is drilled and support either through cash or acreage has been granted by someone outside of that joint venture group, then, and in that event they share jointly the contribution. However, there is one point that I be-

lieve may be misleading here. It is that Southland Royalty, prior to the farm-in from J. M. Huber, had absolutely no equity or ownership in this area. They did have a geological prospect which we wanted to drill.

One other point that I believe is germane at this time, is that the farmout agreement, while it's dated July 10, 1979, was actually agreed to verbally prior to this time. So in looking at the joint operating agreement there, which they have offered as the first exhibit, they are contending, I believe, that the farmout agreement is a contribution towards the drilling of this well, when in fact it's the foundational basis of this well and is not a contribution that we generally consider dry hole or acreage contribution for that well.

MR. CARR: I have no further questions for Mr. Petrie and he's available for cross examination.

MR. STAMETS: Mr. Lopez?

MR. LOPEZ: Yes, Mr. Examiner.

CROSS EXAMINATION

BY MR. LOPEZ:

Q. Mr. Petrie, I would like to refer you to your Exhibit Number Three, I believe it is, which is the packet of correspondence.

A. Okay.

Q Between yourselves and Mr. Enfield? Was it Exhibit Three?

And in that packet I would refer you to Mr. Enfield's letter addressed to Mr. Sell, dated August 15, 1979, and the second paragraph of that letter. I think you just testified that Mr. Enfield's position was that he would have to participate in the entire Huber farmout. I think if you'll read that paragraph of that August 15th letter, Mr. Enfield stated that he would participate on a 2-section basis and that would not include the entire Huber farmout, would it?

A No, it would not.

Q Do you have any evidence or information that would contradict what Mr. Enfield put in writing? In the August 15th letter?

A I believe we have a prior letter to Mr. Enfield. You may seek to recall Steve Sell.

It's my understanding that prior to receipt of this letter that Mr. Enfield had indicated that he wanted his proportionate 1/8th share in the farmout acreage.

MR. CARR: Mr. Examiner, I would submit that the testimony is getting fairly far afield. Here again, there is a specific statute that provides that when you are unable to reach voluntary agreement to drill a well on a proration or spacing unit that you are able to come in to this

Commission and make certain showings and then if these showings stand, the Commission is required to enter an order pooling that acreage.

I submit that a lot of the matters being presented to you at this time are matters that you are really not in a position to rule upon and that we are prepared to go ahead and at whatever length Mr. Lopez desires pursue who said what and when.

But I submit that we're probably no longer relevant.

MR. STAMETS: I agree wholeheartedly. I also think it's time for a fifteen minute recess. I suggest that if there is any possibility that the two people involved in this case could agree, that they take this fifteen minutes to see if they have a basis for that agreement, and we'll resume the hearing in about fifteen minutes.

(Thereupon a recess was taken.)

MR. STAMETS: The hearing will please come to order. Mr. Carr, do you have anything further?

MR. CARR: I have nothing further of Mr. Petrie. I don't know if Mr. Lopez has.

MR. STAMETS: Are there any questions

of Mr. Petrie?

MR. LOPEZ: Yes, Mr. Examiner, I would like to again ask that answer -- or ask the question with respect to whether or not in electing not to choose the south half of Section 20 as a proration unit whether Southland took into consideration the fact that it would thereby bear a proportionately larger cost of the well.

A. All the possible proration units or unitized units were considered and a decision was made with our company that the optimum location would be 1980 from the south and east lines of Section 20 and the optimum proration unit or communitized unit would be the east half of Section 20.

Q. Then I believe your Exhibits Six and Seven would suggest that it could be -- a standard location could be devised and you would therefore be on top of the formation whether you elected to select the east half as the proration unit or the south half as the proration unit, would you not agree?

A. That interpretation might be possible, for someone to draw that conclusion.

MR. CARR: If I could ask just one or two on redirect.

MR. STAMETS: Okay, Mr. Carr.

REDIRECT EXAMINATION

BY MR. CARR:

Q. How long have you -- has Southland been attempting to put together a unit for the development of the east half of this section?

A. Since the latter part of July.

Q. Are you prepared to drill a well on the east half?

A. Yes.

Q. And how soon do you plan to spud the well?

A. You mean --

Q. As soon as you receive Commission approval?

A. Yes.

Q. And do you believe that drilling a well and dedicating the east half of this section is a prudent way to develop this acreage?

A. Yes, I do.

MR. CARR: I have nothing further.

MR. STAMETS: Anything further? The witness may be excused.

That concludes your part of this, Mr. Carr?

MR. CARR: Yes, it does, Mr. Examiner.

MR. STAMETS: Mr. Lopez.

MR. LOPEZ: For the record, Mr. Examiner, we will offer Exhibits A, B, and D. Exhibit C was essentially the same as Southland's Exhibit Three, which was a compilation of the correspondence between the affected parties. Therefore, I don't see any reason to re-introduce that.

ROBERT N. ENFIELD

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

DIRECT EXAMINATION

BY MR. LOPEZ:

Q. Would you please state your name and where you reside?

A. Robert N. Enfield, Santa Fe, New Mexico.

Q. Are you self employed?

A. Yes.

Q. Are you familiar with the application in this case?

A. Yes.

Q. Have you previously testified before the Commission and had your qualifications accepted as a

matter of record?

A. Yes.

MR. LOPEZ: Are the witness' qualifications accepted?

MR. STAMETS: They are.

Q. Mr. Enfield, I refer you to what has been marked as your Exhibit A and would ask you to explain it.

A. This is a land plat of this particular area, showing the participants in the well's acreage in the area. Gulf is yellow; the Yates Corporation is green; Huber, or the Southland farmout, although they actually own additional acreage outside of that that they have purchased recently, is red; my color is orange.

As is obvious, all parties to this well have interests in every outside location except me. In other words, if anything is found they get to develop it, but I get to pay for it, which is the reason I'm having this hearing.

I have never indicated to Huber that I wanted all of their farmout. I have only indicated I'd settle for some type of 2-section spacing, or in the alternate, I would join in their 1-section unit in Section 20 and only ask for my proportionate share of their farmout in Sections 29 and 21, which amounts to about 1-1/2 percent in 21 and less than 2-1/2 percent in 29, as protection for drilling this well.

They -- the most they've ever proposed

is the split in Section 20 for a 6-1/4 percent, which I did turn down.

Q. Is it your opinion that it is the custom and practice in the oil and gas business where a high risk well or a wildcat well is proposed to be drilled, that the participants are offered interest in surrounding offset acreage for proportionately reduced percentage?

A. In twenty-five years as an independent, I have not seen one done like this. I am drilling four wells now in units down in -- all in southeast New Mexico. At the beginning, if there were farmouts, everybody was offered participation.

Q. In that connection I would refer you to what has been marked as your Exhibit C and would ask you to explain how the model form operating agreement supports your testimony in this regard.

A. Well, on page eleven under section C, it has a provision for acreage and cash contributions, which provides, in essence, if somebody contributes money and if somebody contributes acreage, those people who pay their fair share of the well, which I've agreed to, get to participate in the acreage or the cash contribution because they're taking the risk of drilling the initial well.

This is a standard form AAPL operating agreement drawn by almost all major companies, independents

joined in preparing this form. Certainly it can be changed and I would not say it hasn't been.

Q In that connection I would also now refer you to what has been marked Exhibit D and would ask you to identify that exhibit and explain if that also supports your testimony in this regard.

A This is a letter from Amoco directed to me amongst other major companies. Well, I'm not a major, but other people. Wherein we're proposing to form a unit, drill a 13,500 foot Morrow test, and the bottom line says, Amoco, the bottom line of the front page, without going into the details of it, "Amoco in turn will offer to the other parties participating in said well, their proportionate part of the farmouts."

I have two units with Amoco right now with this in it. I have two units of my own where I have provided this feature, because it's not fair to make people take the risk without giving them some chance.

Q Is the major thrust of your objection, then, that the forced pooling application as proposed, if you were to voluntarily participate, require you to pay a full 12-1/2 percent, which is the total acreage which you have in the area, as opposed to Southland's being able to only participate to 37-1/2 percent and Gulf and Yates, who also you show on your Exhibit A, own substantially additional acreage off-

setting the proposed location, also are thereby able to prove up additional acreage at a proportionately reduced cost?

A Right, while I take the proportionately increased risk. If Southland wanted to protect themselves, they could form a south half unit with this same location and have a 75 percent interest in it and not give up very much or any of their farmout.

But the one location in 20 they chose is a 37-1/2 percent interest. If they want to protect themselves even more, they can drill a west half unit; that's 87-1/2 percent Southland. In other words, they have picked -- as an operator, I wish I could do the same thing -- they have picked the best possible place to drill without paying anything, while they acquire the option to earn all of this acreage that's colored in here from Huber, while all the rest of us pay for it, although the other people do have additional acreage. I'm the only one that is being forced to take a high risk for no gain.

Q Are you prepared to make a -- or to recommend a penalty provision with respect to the drilling of this well?

A Based on their information and the way this is set up, 125 percent penalty.

Q A 25 percent penalty in addition to --

A Up to 100 percent.

MR. STAMETS: Let me get clear on what penalty you're --

A. 125 percent, 25 percent above cost.

MR. STAMETS: For every dollar they spend --

A. Right.

MR. STAMETS: -- you recommend they get back $2.25?

A. No, no. $1.25.

MR. STAMETS: Oh, I see, so you're recommending a 25 percent.

A. 25 percent penalty.

Q. Is the reason for your recommending this percentage penalty based on not only the fact that they, in your opinion, Southland deviated from normal oil and gas practices in recommending your voluntary participation, but does the fact that there is a commercial well in the east half of Section 28 affect your judgment in this regard?

A. Yes, it does affect it. It's the diagonal offset. The well has made 3/4 of a Bcf, which may not be what you're looking for, but you won't lose too much. Based on their cost figures and the present price of gas.

Q. In your opinion do Southland's Exhibits Five through Eight also support your testimony in this regard?

A. Yes. The maximum part of their structure

is right there where they're drilling. They could drill any location in the south half of 20, based on their own maps, and have the same geologic thing. I will not argue with their geologic map.

Q Is it your opinion that the granting of Southland's application for forced pooling with no more than a 25 percent penalty assessed as a risk factor for drilling the well, is that in the interest of prevention of waste and the protection of correlative rights?

A Yes, as far as I can see.

Q Is there anything further you'd like to explain?

Were Exhibits A, C, and D prepared by you or under your supervision?

A Yes. C, no, C was not, that's the model operating --

Q Yes.

A No, I did not prepare that. Southland prepared that.

Q Fine.

MR. LOPEZ: I'd like to offer Exhibits A, C, and D.

MR. STAMETS: These three exhibits will be admitted.

MR. LOPEZ: I have no further direct.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Enfield, is your proposal for a 25 percent risk factor based on the fact that the other participants in this well have something to gain from the drilling of the well?

A. I don't know what agreement Southland has made with the other participants.

Q. I mean some --

A. Well, I don't know whether they're bearing part of it or not.

Q. Because they can evaluate other acreage they have in the area and you don't have any other acreage?

A. Well, I also think it's a rather low risk well, based on their own -- on their own work and the fact that there's another well diagonally offsetting it.

Q. Okay.

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

MR. CARR: I have a few.

CROSS EXAMINATION

BY MR. CARR:

Q Mr. Enfield, how many Morrow wells have you drilled in southeast New Mexico?

A I couldn't tell you; probably fifty. I'm not sure. I'm not saying -- please, I've been drilling wells for twenty-five years.

Q Well, you've drilled a number of Morrow wells.

A Yes, sir.

Q You're familiar with the Morrow formation?

A Yes.

Q Is this generally a homogeneous reservoir, or how would you describe the reservoir?

A I'm not a geologist and I don't think I'm capable of answering that question.

Q Have you drilled commercial producers in the Morrow?

A Yes.

Q Have you drilled dry holes?

A Yes, I've done that in every formation.

Q You weren't drilling dry holes thinking you were going to get a dry hole, surely.

A No. But sometimes I've wondered about it.

Q Is your recommendation of 25 percent

based -- of a risk factor -- based on the chances of getting a good well or other considerations?

A It's based on a combination of both.

Q So it's more than just the chances of getting a --

A Yes, I think under the circumstances, there's more than that.

Q And do you believe that any time you drill a Morrow well you're assuming a greater than normal risk in terms of drilling wells in this area?

A Well, to answer, the geologist's testimony, think there's a 56 percent chance of hitting, which I'd say 60-40 isn't too bad. Now that's their proposal, not mine.

Q Would you suspect if they didn't think they could make a well that they would drill it?

A Well, I presume everybody starts out hoping they're going to make a well.

Q Don't you think 40 percent chance of failure is a pretty good chance of failure?

A Well, if the -- I don't know.

Q You don't know?

A No. In this business don't ask me to give you figures on it, all I know is from a period of time you're apt to drill dry ones and you may drill some producers.

Q Do you think there's a chance this will be a dry hole?

A I think any time you drill a well there is that chance.

Q And if you do not join in the drilling of the well, they would be taking all the risk in this regard?

A I'd hardly say they're taking very much risk, 56 percent.

Q Are you taking any?

A None.

Q Okay, I thank you very much.

MR. LOPEZ: One more question on direct.

REDIRECT EXAMINATION

BY MR. LOPEZ:

Q Mr. Enfield, I believe you stated that you're recommending only a 25 percent penalty for the risk factor is based not only on the fact that it's not as high risk a well as would normally be drilled in the Morrow, but also, and I guess the basic thrust of your testimony is, that you were not treated right by Southland when they solicited your voluntary participation in the east half of Section 20, is that right?

A Well, I do not think what they offered was an equitable transaction.

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

I'd like to ask a question. I believe it's of Mr. Eimers. Mr. Eimers, did you state that the offset well in Section 28 has produced 3/4 of a billion cubic feet?

MR. EIMERS: Yes.

MR. STAMETS: Do you know what the -- would you say that the approximate gas price for this well would be $3.00 a thousand?

MR. EIMERS: We're anticipating $2.30 an Mcf.

MR. STAMETS: $2.30.

MR. EIMERS: That's what we used in our economics.

MR. STAMETS: Okay. Would you -- if you got the same kind of a well that the offset well was, would you say that that would be almost a million and three-quarter thousand dollars?

MR. EIMERS: I would say it would be economical but it would not be your target. You wouldn't drill looking for 3/4 of a Bcf.

MR. STAMETS: You'd make good money at it, though, wouldn't you?

MR. EIMERS: You'd make money.

MR. STAMETS: You wouldn't drill a well for 3/4 of a billion?

MR. EIMERS: No, we wouldn't. Our target is 1.7 Bcf on that well.

MR. STAMETS: Well, all right.

Any other questions of the -- this witness? He may be re-excused.

Anybody have anything else they wish to offer in this case?

MR CARR: I have a closing statement.

MR. STAMETS: Mr. Lopez, do you have a statement?

MR. LOPEZ: I didn't think I did.

MR. STAMETS: Mr. Carr?

MR. CARR: I think it's important at this point to emphasize that we are dealing with a particular statute that provides -- authorizes voluntary pooling, and then provides that if the working interest owners in a proration unit are unable to voluntarily pool and if one owner has the right to drill and is prepared to drill, the statute then reads that the Commission shall, it's mandatory, shall pool all or any part of such lands or interests in the spacing or proration unit.

We would submit that we stand before you obviously unable to reach voluntary agreement; that we

are prepared to drill: that we have the right to drill, and that we're entitled to an order pooling the interest.

We also would submit that to set a risk factor of something like 25 percent is absolutely absurd when you -- based on common knowledge of the characteristics of the Morrow reservoir. Mr. Enfield admitted that this was based on other considerations, economic considerations, which we submit are outside the jurisdiction of this Commission, and cannot be considered in reaching your decision.

We therefore request that the acreage be pooled and that a 200 percent risk factor be assessed.

MR. STAMETS: The case will be taken under advisement.

(Hearing concluded.)

REPORTER'S CERTIFICATE

I, SALLY W. BOYD, a Certified Shorthand 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 from my notes taken at the time of the hearing.

Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. _____, heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

January 30, 1980

Mr. William F. Carr
Campbell and Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico

Re: CASE NO. 6773
ORDER NO. R-6244

Applicant:

Southland Royalty Company

Dear Sir:

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

Yours very truly,

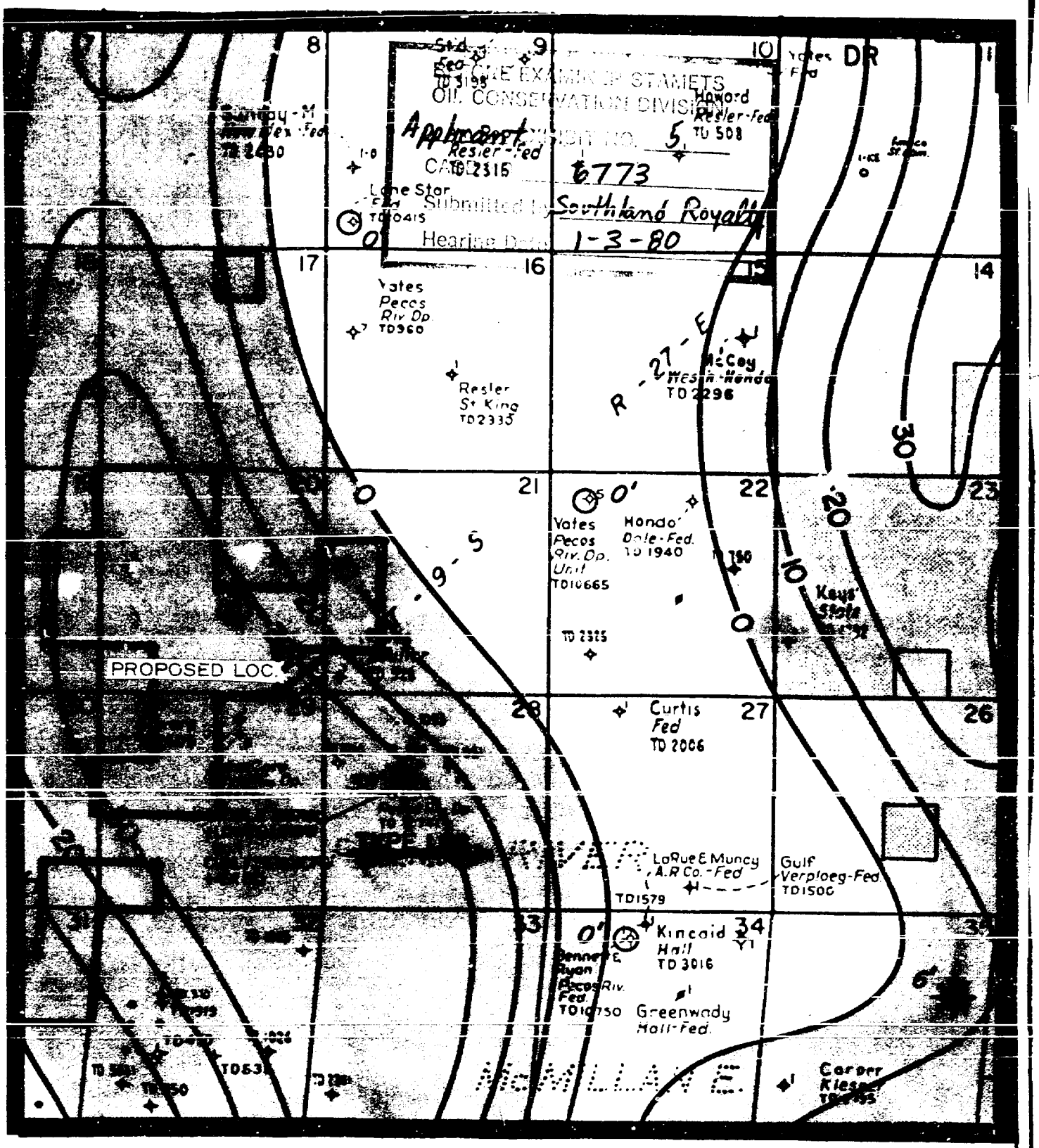
JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Owen Lopez



EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 5
6773
Submitted by Southland Royalty
Hearing Date 1-3-80

HUBER FARMOUT

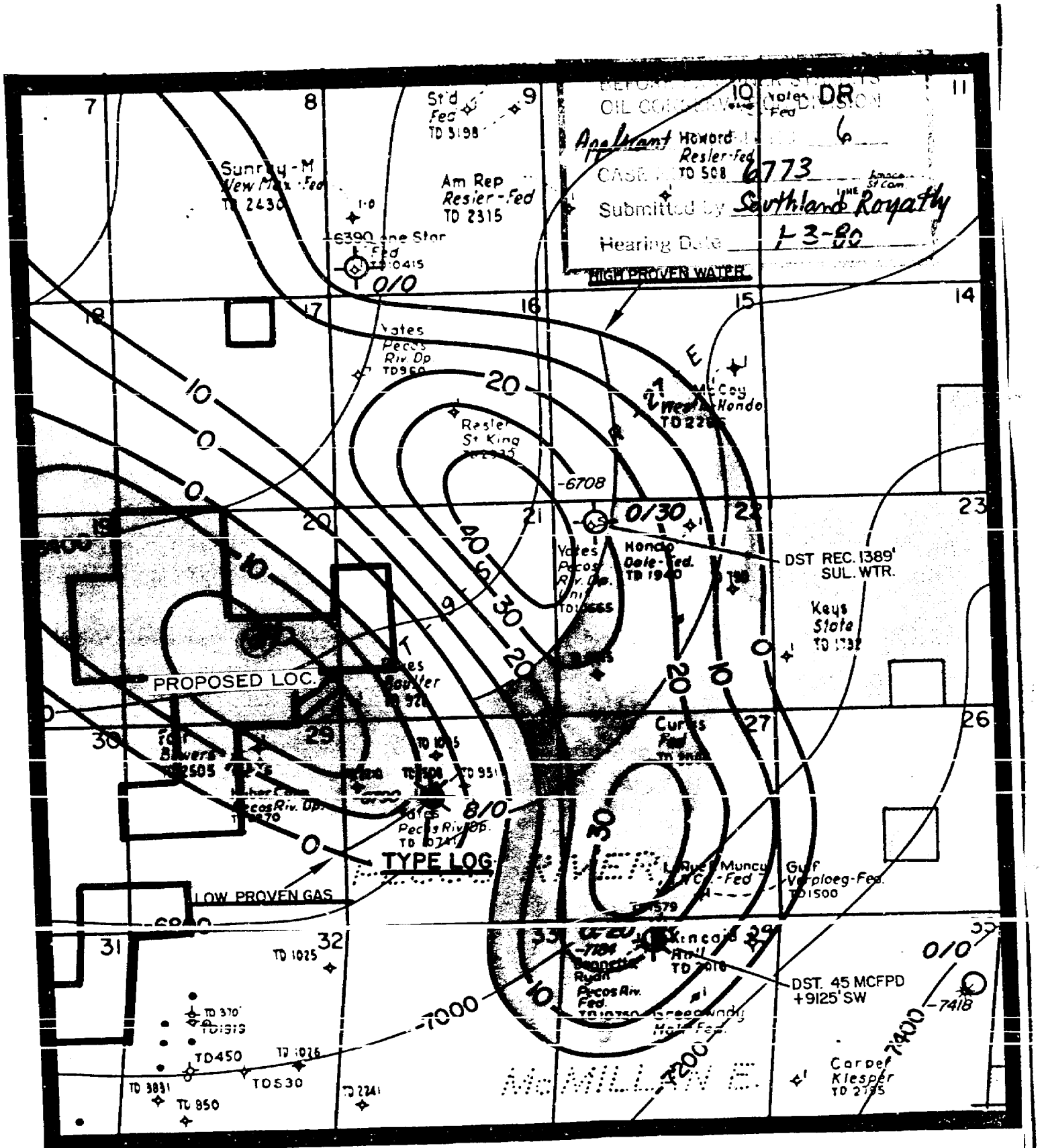
ENFIELD ACREAGE

Southland Royalty Company
SOUTHWESTERN DISTRICT

PECOS RIVER PROSPECT

MIDDLE MORROW

NET POROSITY ISOPACH

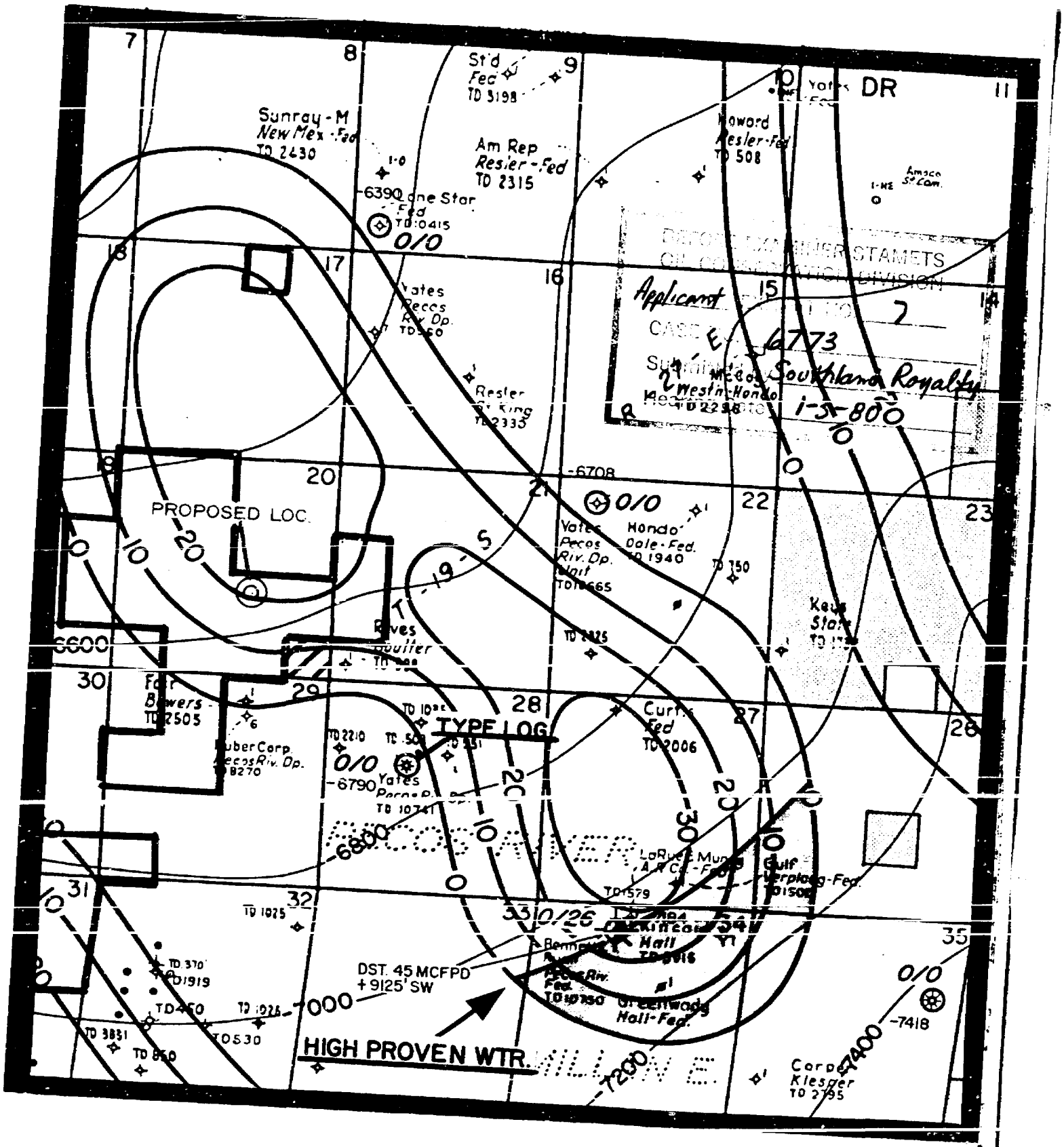


HUBER FARMOUT

ENFIELD ACREAGE

Southland Royalty Company
SOUTHWESTERN DISTRICT

PECOS RIVER PROSPECT
LOWER MORROW No.1
NET POROSITY ISOPACH



HUBER FARMOUT

ENFIELD ACREAGE

Southland Royalty Company
SOUTHWESTERN DISTRICT

PECOS RIVER PROSPECT

LOWER MORROW No. 2

NET POROSITY ISOPACH

Yates Drlg. Co.
Pecos River Deep Unit #1
Sec. 28, T-19-S, R-27-E

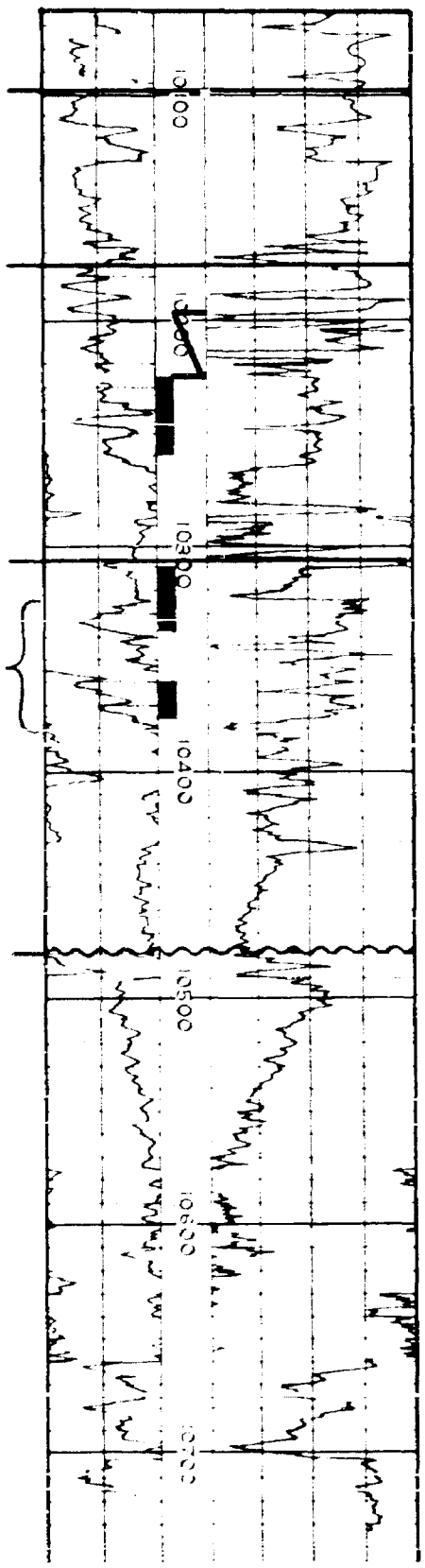
UPPER MORROW

MIDDLE MORROW

LOWER MORROW

L. MRRW. #1

MISSISSIPPIAN



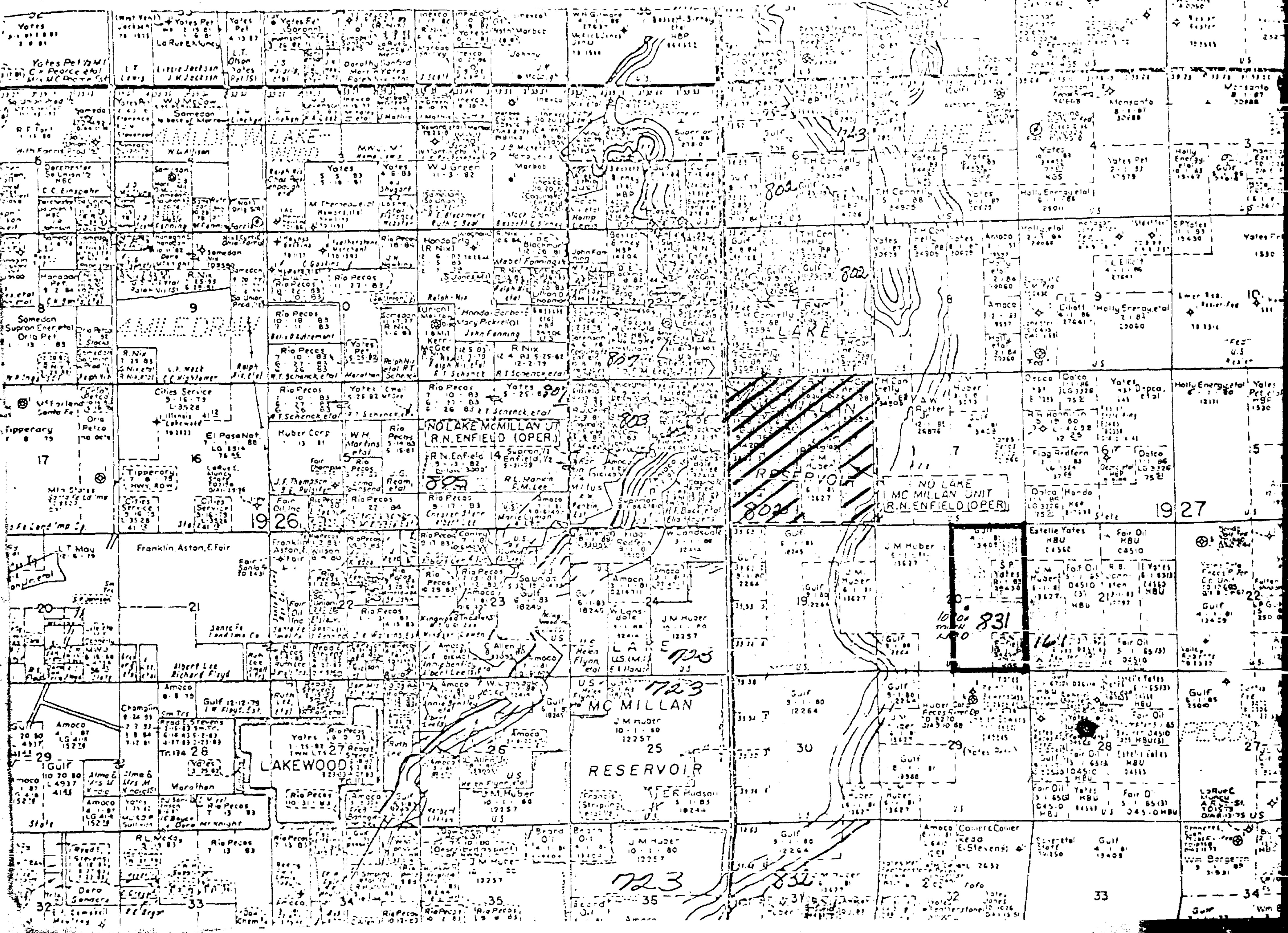
DST 10,198-225'
Flwd. 1.1 MMCFG
Rec. 50' dist. & 110' GCM

CAOF 1.15 MMCFG
Cum. 736 MMCFG

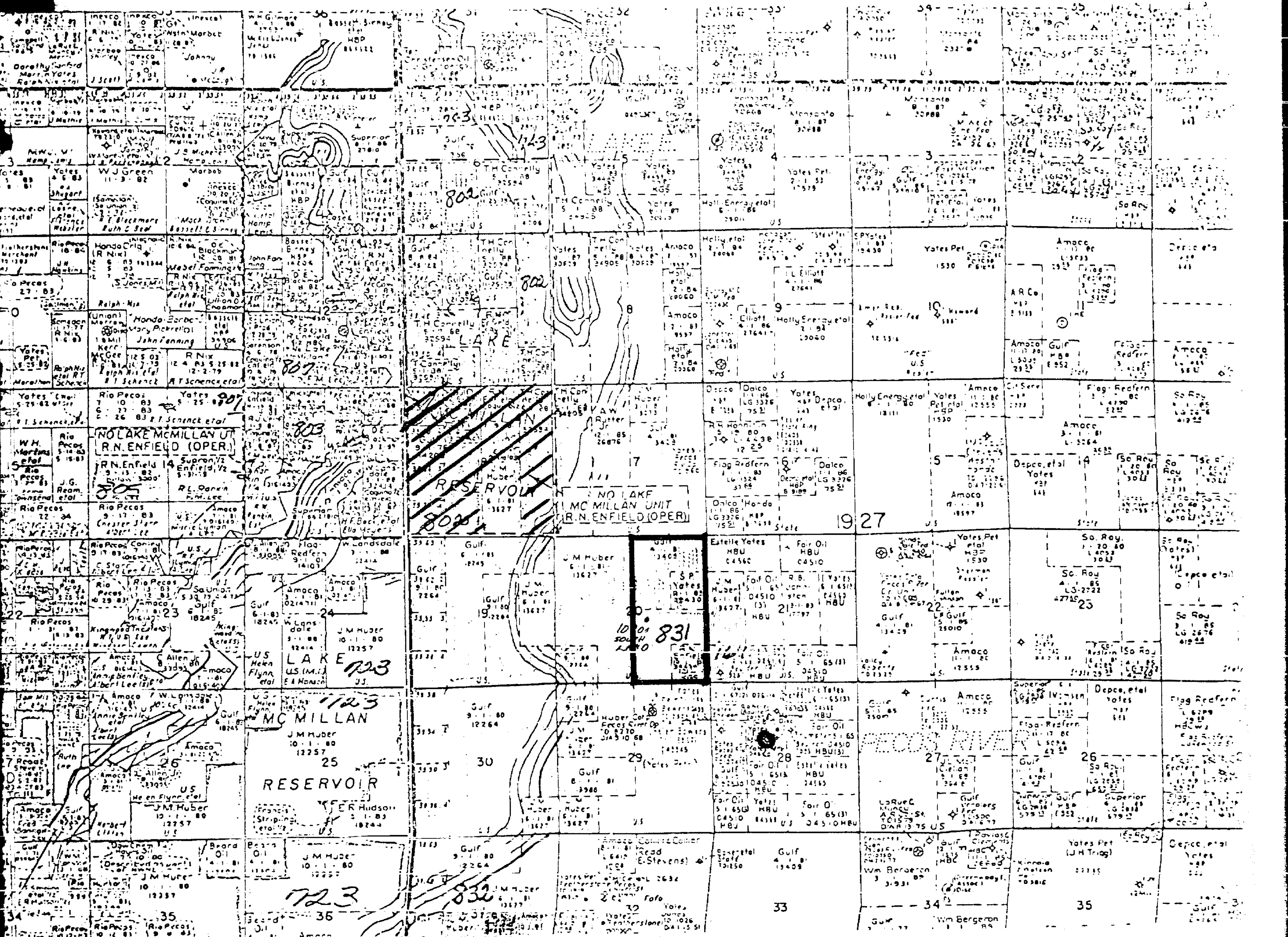
BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Applicant EXHIBIT NO. 8
CASE NO. 6773
Submitted by Southland Royalty
Hearing Date 1-3-80

Southland Royalty Company
SOUTHWESTERN DISTRICT

PECOS RIVER PROSPECT
EDDY COUNTY, NEW MEXICO
TYPE LOG



LAKEWOOD
MC MILLAN
RESERVOIR
LAKE
NO LAKE MC MILLAN UT
R.N. ENFIELD (OPER)
NO LAKE
MC MILLAN UNIT
R.N. ENFIELD (OPER)
831
723
802
Franklin, Aston, & Fair
Cities Service
El Paso Nat.
Huber Corp
Rio Pecos
J.M. Huber
T.H. Connelly
Estelle Yates
Fair Oil
Holly Energy et al
Yates Pet
Gulf
Amoco
Marathon
Albert Lee
Richard Floyd
Santa Fe Land Imp. Co
L.T. May
Tipperary
Samedan
W.J. Green
R. Nix
Dalco
Hondo
U.S.
State


NO LAKE MCMILLAN UT
R.N. ENFIELD (OPER.)
NO LAKE
MC MILLAN UNIT
R.N. ENFIELD (OPER)
RESERVOIR
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MC MILLAN
PECOS RIVER
831
723
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803
1927
Gulf
Amoco
Yates Pet
J M Huber
Flag Redfern
Dalco
Holly Energy etal
Fair Oil
Estelle Yates
So. Roy
Rio Pecos
Superior
T H Connelly
U.S.
Wm Bergeron

Southland Royalty Company

April 4, 1979

R. N. Enfield
550 E. Alemeda
Santa Fe, New Mexico

Re: T19S, R27E
Sec. 20: SE/4SE/4
Sec. 31: NW/4SE/4
Eddy County, New Mexico

Dear Mr. Enfield:

Our records reflect that you are the owner of Federal Leases NM-34454 and NM-34455 covering the captioned acreage. Southland Royalty Company plans to drill an 11,600' Morrow test well in this area, a location has not been specified as yet. At this time we would like to know if you would be interested in farming out your leasehold interest in the captioned acreage at a future date.

Southland proposes the following terms and conditions:

1. Within 120 days of acceptance of a mutually acceptable Farmout letter, Southland will commence drilling an 11,600' Morrow test at a legal location of our choice on the referenced acreage.

2. By drilling and completing same as a producer, Southland will earn your interest in the dedicated spacing unit, subject to a 1/16th of 8/8ths overriding royalty interest with an option to convert to a 40% working interest at payout, both proportionately reduced.

3. Should you own acreage outside the spacing unit, Southland, by drilling the test well, shall earn the option to drill subsequent wells on your referenced acreage, within 120 days (cumulative) from the completion of the test well. The terms shall be the same as "2" above.

Southland is not requesting a farmin at this time, but we will be commencing operations in the very near future. Please advise us of your comments and interest in such a proposal. Your earliest attention will be greatly appreciated.

Yours very truly,

Steve Sell

Steve G. Sell
Landman

SGS:lh

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

Southland Royalty Company

July 30, 1979

Mr. R. N. Enfield
550 E. Alameda
Santa Fe, New Mexico 87501

Re: T19S, R27E
Sec. 20, SE/4SE/4
Eddy County, New Mexico
Pecos River Prospect

Dear Mr. Enfield:

Reference is made to my letter of April 4, 1979, regarding your consideration of a Farmout of your leasehold interest in the referenced acreage. Southland proposes the following terms and conditions:

1. On or before November 1, 1979, Southland will commence the drilling an 11,600' Morrow test at a location 1980' FSL and 1980' FEL, Section 20, T19S, R27E.

2. By drilling and completing same as a producer, Southland will earn your interest in the dedicated spacing unit, subject to a 1/16 of 8/8 overriding royalty interest with an option to convert said override to a 40% working interest at payout, both proportionately reduced.

3. In the event you elect not to grant a Farmout covering your leasehold interest in the referenced acreage, Southland invites your joinder in the project for your proportionate share of the cost, with Southland as Operator. An AFE will be furnished upon request.

Should you have any questions regarding the above, please contact the undersigned. Your earliest attention will be greatly appreciated.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Steve Sell

Steve G. Sell
Landman

SGS:lh

Southland Royalty Company

August 13, 1979

CERTIFIED MAIL - RETURN RECEIPT
REQUESTED

Mr. R. N. Enfield
550 E. Alameda
Santa Fe, New Mexico 87501

Re: Farmout or Joinder Request
SE/4SE/4 Sec. 20, T19S, R27E
Eddy County, New Mexico
Pecos River Prospect

Dear Mr. Enfield:

Reference is made to our telephone conversation of even date regarding your interest in the SE/4SE/4 of Section 20. It is our understanding that you will not join or farmout your interest to an E/2 of Section 20 proration unit.

Should you not respond within fifteen (15) days from receipt of this letter, the above will be considered your final decision. Should you have any questions regarding the above, please contact the undersigned.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Steve G. Sell
Landman

SGS:lh

xc: R. W. Petrie

OIL AND GAS ROBERT N. ENFIELD · P.O. BOX 2431 · SANTA FE, N.M. 87501 · 505-988-2863

CERTIFIED - RETURN RECEIPT

August 15, 1979

RE: Property No. 831
Pecos River Prospect
Farmout or Joinder Request
Eddy County, New Mexico

Southland Royalty Company
1100 Wall Towers West
Midland, Texas 79701

Attn: Steve G. Sell

Dear Mr. Sell:

In reply to your letter of August 13, please be advised that I did agree to join and pay my share of this well. Subject to the provision that I be allowed to participate in the acreage being contributed to the drilling of this initial well outside the original proration unit. This is a standard provision under Section 8-C of AAPL 610 - 1977 Model Form Operating Agreement wherein all parties participating in the initial well get their proportionate share of all acreage contributed to the drilling or their share of monetary contributions.

I did say that I will not farmout. I am certainly willing to discuss my participation and agree on some area of interest in the event your farmout covers a great deal of outside acreage. But I have no intention of paying for 1/8 of the cost of this well and receiving none of the acreage contributed for the drilling of this wildcat.

Very truly yours,

Robert N. Enfield

RNE/ml

November 16, 1979

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Mr. Robert N. Enfield
P. O. Box 2431
Santa Fe, New Mexico

Re: Joinder or Farmout Request
SRC Pecos River Fed. "20" Comm. #1
E/2 Sec. 20, T19S, R27E
Eddy County, New Mexico
SRC 25471 J/O

Dear Mr. Enfield:

Reference is made to our previous correspondence regarding your joinder in the referenced well.

Enclosed for your perusal and subsequent approval is an AFE, Operating Agreement, and Communitization Agreement, should you decide to join. If you are not desirous of joining we request that you farmout your interest subject to a 1/16 of 8/8 overriding royalty interest with an option to convert said interest to a 50% working interest at payout, proportionately reduced.

Should you decide to maintain your position, we will have no other recourse than to commence compulsory pooling proceedings. The remaining working interest owners have indicated they would join in a E/2 proration unit.

Your earliest consideration would be greatly appreciated. Thank you for your consideration.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Steve G. Sell
Landman

SGS:lh

Enclosures
as stated

AUTHORIZATION FOR EXPENDITURE

Southland Royalty Company
1100 WALL TOWERS WEST MIDLAND TEXAS 79701

COMPANY NO 1

AFE NUMBER

ADD A CHANGE DELETE PROPERTY NUMBER 0-025471-J-0

AFE DATE 10/12/79 NAME SRC - Pecos River-Federal Com. "20" #1

ORIGINAL O SUPPLEMENTAL PRODUCER DRY HOLE SRC OPERATOR Y MANUAL

AUTHORITY IS REQUESTED TO:

WILDCAT DEV. Drill and complete to TD of 10,600' as gas well in Morrow complete w/tank battery.

LOCATION: 1980' FSL & 1980' FEL, Sec. 20, T-19-S, R-27-E, Eddy Co., N.M.
Lake McMillan Area, 15 mi. NW Carlsbad 6 mi W of JEB Stuart ARABIBLE - 249

FOOTAGE			ESTIMATED COST PRODUCING $	ESTIMATED COST DRY HOLE $
	01 01	Conductor or Drive Pipe		
275'	01 02	Casing 11 3/4" 42# H-40 ST&C @ $15.85	4,360	4,360
2000'	03	8 5/8" 24# K-55 ST&C @ $9.42	18,840	18,840
5420'	04	4½" 11.6# N-80 LT&C @ $6.35	34,420	
5180'	05	4½" 11.6# K-55 ST&C @ $4.79	24,760	
	06			
	07			
	08			
10,600'	02 09	Tubing 2 3/8" EUE 4.7# N-80 @ $3.37	35,720	
	03 10	Wellhead Hi-Low Valve, etc.	26,000	
	04 11	Packer and special equip.	4,500	
	04 12	Artificial Lift		
	05 13	Tank Battery gas processing equip.	36,000	
	10 14	Other Equipment	7,400	2,800
	15	TOTAL TANGIBLE 100%	$ 192,000	$ 26,000
	16	R. N. ENFIELD .125	$ 24,000	$ 3,250
		INTANGIBLE - 248		
	01 17	Drilling 10,000 ft. @ $ 17.50 /ft.	175,000	175,000
	01 18	Rig, Day Work 9 Days @ $ 4300 /day	38,700	38,700
	01 19	Rig Moving Costs		
	01 20	Completion Rig 10 Days @ $ 1000 /day	10,000	10,000
	02 21	Roustabout & Miscellaneous Labor	4,000	1,000
	03 22	Auto, Trucking, Barge, Tug	4,500	2,000
	04 23	Roads, Canals, Location, Damages, Cleanup	15,000	12,000
	05 24	Mud, Oil, Water, Chemicals	45,000	42,000
	06 25	Drill Stem Tests	4,500	4,500
	06 26	Electric Logs & Bond Logs	25,000	25,000
	07 27	Cement, Centralizer, Scratchers, Service	28,000	24,000
	08 28	Bits, Fuel	5,000	5,000
	08 29	Rental Equipment and tubular inspection	16,000	16,000
	09 30	Core & Analyses		
	09 31	Bottle Tests & Sidewall Cores		
	09 32	Perforate	6,500	
	09 33	Acid & Frack Variable	17,000	
	09 34	Geological & Engineering	5,000	2,500
	09 35	Mud Logger	10,000	10,000
	10 36	Cost of Control Insurance (SRC Only) .489	5,200	5,200
	10 37	Miscellaneous & Unforseen	25,600	10,100
	11 12 38	District & Overhead Expense	3,000	2,000
	39	TOTAL INTANGIBLE 100%	$ 443,000	$ 385,000
	40	R. N. ENFIELD .125	$ 55,375	$ 48,125
	41	GRAND TOTAL COSTS	$ 635,000	$ 411,000
	42	R. N. ENFIELD .125	$ 79,375	$ 51,375

AUTHORIZATION REQUESTED

AUTHORIZATION APPROVED

COMPANY:

BY:

DATE:

SRC0044

Southland Royalty Company

November 21, 1979

CERTIFIED MAIL - RETURN RECEIPT
REQUESTED

Mr. Robert N. Enfield
P. O. Box 2431
Santa Fe, New Mexico 87501

Re: Joinder or Farmout Request
SRC-Pecos River Fed. "20" Comm. #1
All of Section 20, T19S, R27E,
Eddy County, New Mexico
SRC 25471 J/O

Dear Mr. Enfield:

Reference is made to our previous correspondence regarding your joinder in the referenced well. In order to give you an offset location, we are now proposing a one-section working interest unit, giving you a 6.25% working interest in all of Section 20.

Enclosed for your perusal and subsequent approval is an AFE, Operating Agreement, and Communitization Agreement, should you decide to join. If you are not desirous of joining, we request that you farmout your interest subject to a 1/16th of 8/8ths overriding royalty interest with an option to convert said interest to a 50% working interest at payout, proportionately reduced. Should there be a second well in Section 20, you will have the option to join with a 3.125% working interest or farmout to the same terms as above.

The remaining Working Interest Owners in Section 20 have indicated they would join in a one-section working interest unit. Should you decide to maintain your position, we will have no other recourse than to commence compulsory pooling proceedings.

Your earliest consideration would be greatly appreciated. Thank you for your consideration.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Steve G. Sell
Landman

SGS:am
Enclosures

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

Southland Royalty Company

July 30, 1979

Gulf Oil Corporation
P. O. Box 1150
Midland, Texas 79702

Mr. S. P. Yates
207 S. Fourth Street
Artesia, New Mexico 88210

Attention: R. E. Griffith

Re: Proposed Morrow Test
E/2 Sec. 20, T19S, R27E
Eddy County, New Mexico
Pecos River Prospect

Gentlemen:

On or before November 1, 1979, Southland proposes to drill an 11,600' Morrow test at a location 1980' FSL and 1980' FEL, Section 20, T19S, R27E. At this time, Southland Royalty Company requests that you join in the formation of a E/2 unit or in the alternative, farmout your interest under the terms and conditions outlined hereinbelow. An AFE and Operating Agreement are being prepared for your approval. Working interest percentages will be as follows:

Southland Royalty Company	50%
Gulf Oil Corporation	37.5%
S. P. Yates	12.5%

In the event you elect not to participate, Southland requests you farmout your interest to a 1/16 of 8/8 overriding royalty interest with an option to convert said override to a 40% working interest at payout, both proportionately reduced.

Should you have any questions regarding the above, please contact the undersigned. Your earliest attention will be greatly appreciated.

Yours very truly,

SOUTHLAND ROYALTY COMPANY

Steve G. Sell
Landman

SGS:lh

Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Drawer 1150
Midland, TX 79702

October 15, 1979

Re: Proposed Morrow Test,
E/2 of Section 20,
T-19-S, R-27-E, EDDY
COUNTY, New Mexico

25471 -1/6

Southland Royalty Company
1100 Wall Towers West
Midland, Texas 79701

Attention: Steve G. Sell

Gentlemen:

Reference is made to your letter of July 30, 1979, wherein you proposed the drilling of the captioned Morrow test well. Please be advised that we have carefully reviewed your proposal and Gulf is willing to join with you in the drilling of the said Morrow test, and pay our proportionate share subject to the receipt of an acceptable operating agreement and AFE.

If we can be of any assistance, please contact Ches Blackham of our Land Section.

Yours very truly,

R. E. GRIFFITH

CTB/dh

OIL AND GAS ROBERT N. ENFIELD · P.O. BOX 2431 · SANTA FE, N.M. 87501 · 505-988-2[illegible]

CERTIFIED MAIL - RETURN RECEIPT
REQUESTED

November 27, 1979

RE: My Property No. 831
Joinder or Farmout Request
SRC-Pecos River Fed. "20" Comm. #1
All of Section 20, T19S, R27E
Eddy County, New Mexico
SRC 25471 J/O

Southland Royalty Company
1100 Wall Towers West
Midland, Texas 79701

Attn: Steve G. Sell
Dear Mr. Sell:

In reply to your letter of November 21, 1979, I have at numerous times offered to compromise with Southland on this matter. I have advised that it would be acceptable to form a mutually agreeable two section Working Interest Unit or my proportionate share of participation in portions of the Huber farmout.

It appears that neither of these are acceptable to Southland and none of the proposals in your letter are acceptable to me. I might add that I do not think all of the working interest owners have agreed to the Section 20 unit. Even if they are all agreeable, it would not change my mind.

Very truly yours,

Robert N. Enfield

RNE/ml

MAILGRAM SERVICE CENTER
MIDDLETOWN, VA. 22645

Western Union Mailgram

4-042796S339002 12/05/79 ICS IPMBNGZ CSP MIDA
1 9156828641 MGM TDBN MIDLAND TX 12-05 0310P EST

STEVE G SELL SOUTHLAND ROYALTY CO
1100 WALL TOWERS WEST
MIDLAND TX 79701

THIS MAILGRAM IS A CONFIRMATION COPY OF THE FOLLOWING MESSAGE:

9156828641 MGM TDBN MIDLAND TX 144 12-05 0310P EST
ZIP
ROBERT N ENFIELD
PO BOX 2431
SANTA FE NM 87501

REFERENCE SRC PECOS RIVER FED. "20" COMM. #1
E/2 SECTION 20, T19S, R27E
EDDY COUNTY NEW MEXICO
SRC 25471

PURSUANT TO OUR TELEPHONE CONVERSATION OF DECEMBER 3, 1979, REGARDING YOUR JOINDER OR FARMOUT OF YOUR LEASEHOLD INTEREST IN THE SE/4 OF THE SE/4 OF SECTION 20 T19S, R27E, TO A MORROW TEST AT A LEGAL LOCATION 1980 FEET FSL AND 1,980 FEET FEL OF SECTION 20.

THIS IS TO ADVISE THAT SOUTHLAND ROYALTY COMPANY HEREBY RESCINDS OUR PROPOSAL OF A 1 SECTION WORKING INTEREST UNIT AND WE ARE REINSTATING OUR ORIGINAL PROPOSAL OF AN EAST HALF SECTION 20 T19S, R27E, PRORATION UNIT. SHOULD WE NOT RECEIVE A FAVORABLE RESPONSE TO EITHER PROPOSAL WITHIN 10 DAYS WE WILL COMMENCE COMPULSORY POOLING PROCEEDINGS.

STEVE G SELL SOUTHLAND ROYALTY CO
1100 WALL TOWERS WEST
MIDLAND TX 79701

1512 EST

MGMCOMP MGM

Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Drawer 1150
Midland, TX 79702

December 28, 1979

Re: Pecos River Prospect
covering the E/2 of Sec. 20,
T-19-S, R-27-E, NMPM,
EDDY CO., New Mexico

2571

Southland Royalty Co.
1100 Wall Towers West
Midland, TX 79701

Attention: Steve G. Sell

Gentlemen:

With reference to the captioned prospect please find enclosed herewith as requested, two copies of an executed signature page to the Operating Agreement, two copies of an executed signature page to the Communitization Agreement and one executed AFE.

If we can be of any further assistance, please contact Mr. Chesley Blackham of our Land Section.

Yours very truly,

Chesley T. Blackham

R. E. Griffith
By Chesley T. Blackham

CTB/cdl
Enclosures

ATTEST:

J. M. HUBER CORPORATION

By: _____

ATTEST:

GULF OIL CORPORATION

By: G. M. Markey Jr.
Attorney-in-Fact
S. P. YATES

ATTEST:

By: _____

ATTEST:

R. N. ENFIELD

By: _____

STATE OF TEXAS X
X
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this 10th day of December, 1979, by G. M. MARKEY, JR., ATTORNEY IN FACT of GULF OIL CORPORATION, a PENNSYLVANIA corporation, on behalf of said corporation.

My Commission Expires:
8-13-80

Notary Public in and for said
County and State

STATE OF X
X
COUNTY OF X

The foregoing instrument was acknowledged before me this____day of _____, 19____, by_____,_____ _____of_____, a_____corporation, on behalf of said corporation.

My Commission Expires:
_____

Notary Public in and for said
County and State

STATE OF X
X
COUNTY OF X

The foregoing instrument was acknowledged before me this____day of _____, 19____, by_____,_____ _____of_____, a_____corporation, on behalf of said corporation.

My Commission Expires:
_____

Notary Public in and for said
County and State

SRC Pecos River Fed. "20" #1
SRC 25471 J/O

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19____.

OPERATOR

SOUTHLAND ROYALTY COMPANY

_____

By: C. E. Mear
Attorney-In-Fact

RWF GWS SGS

NON-OPERATORS

ATTEST:

GULF OIL CORPORATION

_____

By: _____

FJ/RD
MS CB ES

ATTEST:

S. P. YATES

_____

By: _____

ATTEST:

R. N. ENFIELD

By: _____

CORPORATION ACKNOWLEDGMENT

THE STATE OF Texas I
I
COUNTY OF Midland I

BEFORE ME, the undersigned authority, on this day personally appeared _____ C. E. Mear, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-In-Fact of _____ Scarborough Royalty Company, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 11 day of October A.D. 1979.

My Commission Expires:
11-24-79

Ann McCrary
Notary Public in and for Midland County, Texas

CORPORATION ACKNOWLEDGMENT

THE STATE OF Texas I
I
COUNTY OF MIDLAND I

BEFORE ME, the undersigned authority, on this day personally appeared _____ J. M. THACKER, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-In-Fact of _____ GULF OIL CORPORATION, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 27 day of December A.D. 1979.

My Commission Expires:

NOV 3 0 1980

Emily Jones
Notary Public in and for MIDLAND County,

CORPORATION ACKNOWLEDGMENT

THE STATE OF I
I
COUNTY OF I

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument, as _____ of _____, a corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the _____ day of _____ A.D. 19____.

My Commission Expires:

_____
Notary Public in and for _____ County,

AUTHORIZATION FOR EXPENDITURE

Southland Royalty Company
5100 WAIT TOWERS WEST FORT WORTH, TEXAS 76101

COMPANY NO 1

AFE NUMBER

ADD X CHANGE DELETE PROPERTY NUMBER 0-025471-J 0

AFE DATE 10/12/79 NAME SRC - Pecos River-Federal Com. "20" #1

ORIGINAL X SUPPLEMENTAL PRODUCER DRY HOLE SRC OPERATOR X MANUAL

AUTHORITY IS REQUESTED TO:

WILDCAT DEV. Drill and complete to TD of 10,600' as gas well in Morrow complete w/tank battery.

LOCATION: 1980' FSL & 1980' FEL, Sec. 20, T-19-S, R-27-E, Eddy Co., N.M.

Lake McMillan Area, 15 mi. NW Carlsbad 6 mi W of JEB Stuart ARGIBLE - 249

FOOTAGE			ESTIMATED COST PRODUCING $	ESTIMATED COST DRY HOLE $
	01 01	Conductor or Drive Pipe		
275'	01 02	Casing 11 3/4" 42# H-40 ST&C @ $15.85	4,360	4,360
2000'	03	8 5/8" 24# K-55 ST&C @ $9.42	18,840	18,840
5420'	04	4½" 11.6# N-80 LT&C @ $6.35	34,420	
5180'	05	4½" 11.6# K-55 ST&C @ $4.78	24,760	
	06			
	07			
	08			
10,600'	02 09	Tubing 2 3/8" EUE 4.7# N-80 @ $3.37	35,720	
	03 10	Wellhead Hi-Low Valve, etc.	26,000	
	04 11	Packer and special equip.	4,500	
	04 12	Artificial Lift		
	05 13	Tank Battery gas processing equip.	36,000	
	10 14	Other Equipment	7,400	2,800
	15	TOTAL TANGIBLE 100%	$ 192,000	$ 26,000
	16	GULF OIL .375	$ 72,000	$ 9,750
		INTANGIBLE - 248		
	01 17	Drilling 10,000 ft. @ $ 17.50 /ft.	175,000	175,000
	01 18	Rig, Day Work 9 Days @ $ 4300 /day	38,700	38,700
	01 19	Rig Moving Costs		
	01 20	Completion Rig 10 Days @ $ 1000 /day	10,000	10,000
	02 21	Roustabout & Miscellaneous Labor	4,000	1,000
	03 22	Auto, Trucking, Barge, Tug	4,500	2,000
	04 23	Roads, Canals, Location, Damages, Cleanup	15,000	12,000
	05 24	Mud, Oil, Water, Chemicals	45,000	42,000
	06 25	Drill Stem Tests	4,500	4,500
	06 26	Electric Logs & Bond Logs	25,000	25,000
	07 27	Cement, Centralizer, Scratchers, Service	28,000	24,000
	08 28	Bits, Fuel	5,000	5,000
	08 29	Rental Equipment and tubular inspection	16,000	16,000
	09 30	Core & Analyses		
	09 31	Bottle Tests & Sidewall Cores		
	09 32	Perforate	6,500	
	09 33	Acid & Frack Variable	17,000	
	09 34	Geological & Engineering	5,000	2,500
	09 35	Mud Logger	10,000	10,000
	10 36	Cost of Control Insurance (SRC Only) .489	5,200	5,200
	10 37	Miscellaneous & Unforseen	25,600	10,100
	11&12 38	District & Overhead Expense	3,000	2,000
	39	TOTAL INTANGIBLE 100%	$ 443,000	$ 385,000
	40	GULF OIL .375	$ 166,125	$ 144,375
	41	GRAND TOTAL COSTS	$ 635,000	$ 411,000
	42	GULF OIL .375	$ 238,125	$ 154,125

AUTHORIZATION REQUESTED

AUTHORIZATION APPROVED

COMPANY: Gulf Oil Corporation

BY: R D Ledbetter

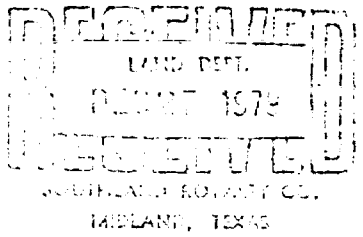
DATE: 12-27-79

SRC0044

S. P. YATES
PRESIDENT
MARTIN YATES, III
VICE PRESIDENT
JOHN A. YATES
VICE PRESIDENT
B. W. HARPER
SEC.-TREAS.

207 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 746-3558

December 26, 1979



Southland Royalty Company
1100 Wall Towers West
Midland, Texas 79701

Attention: Steve Sell

Re: SRC-Pecos River Fed. Com. "20" #1
Township 19 South, Range 27 East, NMPM
Section 20: E/2
Eddy County, New Mexico

25471

Gentlemen:

In regard to the captioned well, enclosed are the following:

1. One copy of AFE.
2. 3 copies of Consent and Ratification to Communitization Agreement.
3. 2 copies of Signature Pages to Communitization Agreement.
4. 2 copies of Signature Pages to Operating Agreement.

As per our telephone conversation, the above have been executed by S. P. Yates conditioned upon the deletion of the rider, Page 7, Line 21 of the Operating Agreement.

Very truly yours,

Jack W. McCaw
Land Department

By: Pandy G. Patterson

RGP/kc
Enclosures

AUTHORIZATION FOR EXPENDITURE

Southland Royalty Company
1100 WALL TOWERS WEST, MIDLAND, TEXAS 79701

COMPANY NO 1

AFE NUMBER

ADD X CHANGE DELETE PROPERTY NUMBER 0-0 2 5 4 7 1-J 0

AFE DATE 10/12/79 NAME SRC - Pecos River-Federal Com. "20" #1

ORIGINAL O SUPPLEMENTAL PRODUCER DRY HOLE SRC OPERATOR Y MANUAL

AUTHORITY IS REQUESTED TO:

WILDCAT DEV. Drill and complete to TD of 10,600' as gas well in Morrow complete w/tank battery.

LOCATION: 1980' FSL & 1980' FEL, Sec. 20, T-19-S, R-27-E, Eddy Co., N.M.
Lake McMillan Area, 15 mi. NW Carlsbad 6 mi W of JEB Stuart ARRAIBLE - 249

FOOTAGE			ESTIMATED COST PRODUCING	ESTIMATED COST DRY HOLE
	01 01	Conductor or Drive Pipe	$	$
275'	01 02	Casing 11 3/4" 42# H-40 ST&C @ $15.85	4,360	4,360
2000'	03	8 5/8" 24# K-55 ST&C @ $9.42	18,840	18,840
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	06			
	07			
	08			
10,600'	02 09	Tubing 2 3/8" EUE 4.7# N-80 @ $3.37	35,720	
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	05 13	Tank Battery gas processing equip.	36,000	
	10 14	Other Equipment	7,400	2,800
	15	TOTAL TANGIBLE 100%	$192,000	$ 26,000
	16	S. P. YATES .125	$ 24,000	$ 3,250
		INTANGIBLE - 248		
	01 17	Drilling 10,000 ft. @ $ 17.50 /ft.	175,000	175,000
	01 18	Rig, Day Work 9 Days @ $ 4300 /day	38,700	38,700
	01 19	Rig Moving Costs		
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	04 23	Roads, Canals, Location, Damages, Cleanup	15,000	12,000
	05 24	Mud, Oil, Water, Chemicals	45,000	42,000
	06 25	Drill Stem Tests	4,500	4,500
	06 26	Electric Logs & Bond Logs	25,000	25,000
	07 27	Cement, Centralizer, Scratchers, Service	28,000	24,000
	08 28	Bits, Fuel	5,000	5,000
	08 29	Rental Equipment and tubular inspection	16,000	16,000
	09 30	Core & Analyses		
	09 31	Bottle Tests & Sidewall Cores		
	09 32	Perforate	6,500	
	09 33	Acid & Frack Variable	17,000	
	09 34	Geological & Engineering	5,000	2,500
	09 35	Mud Logger	10,000	10,000
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	10 37	Miscellaneous & Unforseen	25,600	10,100
	11 12 38	District & Overhead Expense	3,000	2,000
	39	TOTAL INTANGIBLE 100%	$443,000	$385,000
	40	S. P. YATES .125	$ 55,375	$ 48,125
	41	GRAND TOTAL COSTS	$635,000	$411,000
	42	S. P. YATES .125	$ 79,375	$ 51,375

AUTHORIZATION REQUESTED

AUTHORIZATION APPROVED

COMPANY: S. P. YATES 12.50%

BY: S. P. Yates

DATE: 12-20-79

CONSENT AND RATIFICATION
COMMUNITIZATION AGREEMENT
E½ SECTION 20
TOWNSHIP 19 SOUTH, RANGE 27 EAST, N.M.P.M.,
EDDY COUNTY, NEW MEXICO

The undersigned (whether one or more hereby acknowledge receipt of a copy of that certain Communitization Agreement between SOUTHLAND ROYALTY COMPANY, as Operator, and GULF OIL CORPORATION, S. P. YATES AND R. N. ENFIELD, as Non-Operators, dated as of October 3, 1979, covering oil and associated liquid and gaseous hydrocarbons in the Pennsylvanian formation in the E½ Section 20, Township 19 South, Range 27 East, N.M.P.M., Eddy County, New Mexico (the "Communitized Area"), and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned also being the owners of leasehold, royalty or interests in the lands or minerals embraced in said Communitized Area, as indicated on the schedule attached to Communitization Agreement as Exhibit "A", do hereby authorize the communitization or pooling of all of their interests in said Communitized Area pursuant to said Communitization Agreement, and do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Communitization Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

S. P. YATES

STATE OF _____ I
I
COUNTY OF _____ I

The foregoing instrument was acknowledged before me this _____ day of _____, 1979, by _____, _____ of _____ corporation, on behalf of said corporation.

My Commission Expires:

_____ _____
Notary Public

STATE OF New Mexico I
I SINGLE ACKNOWLEDGMENT
COUNTY OF Eddy I

BEFORE ME, the undersigned authority, on this day personally appeared S. P. Yates, known to me to be the person whose name is/~~are~~ subscribed to the foregoing instrument and acknowledged to me that he/~~they~~ executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 20th day of December A.D. 1979.

My Commission Expires:

8-23-81

Kathy Calvert
Notary Public

"NON-OPERATORS"

ATTEST:

J. M. HUBER CORPORATION

_____ By: _____

ATTEST:

GULF OIL CORPORATION

_____ By: _____

S. P. YATES

By: S. P. Yates

ATTEST:

R. N. ENFIELD

_____ By: _____

STATE OF New Mexico I
I
COUNTY OF Eddy I

The foregoing instrument was acknowledged before me this 20th day of December, 1979, by S. P. Yates, _____

My Commission Expires:
8-23-81

Kathy Colbert
Notary Public in and for said
County and State

STATE OF I
I
COUNTY OF I

The foregoing instrument was acknowledged before me this_____day of _____, 19____, by_____, _____ of_____, a_____corporation, on behalf of said corporation.

My Commission Expires:
_____

_____
Notary Public in and for said
County and State

STATE OF I
I
COUNTY OF I

The foregoing instrument was acknowledged before me this_____day of _____, 19____, by_____, _____ of_____, a_____corporation, on behalf of said corporation.

My Commission Expires:
_____

_____
Notary Public in and for said
County and State

Dockets Nos. 2-80 and 3-80 are tentatively set for January 16 and 30, 1980. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - JANUARY 3, 1980

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 6770: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit National Petroleum Company and all other interested parties to appear and show cause why its Well No. 1 located 905 feet from the North line and 1155 feet from the West line of Section 22, Township 29 North, Range 11 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6786: In the matter of the hearing called by the Oil Conservation Division on its own motion to consider the amendment of its administrative procedure for the approval of infill drilling on existing gas proration units as promulgated by Order No. R-6013 to permit the approval of infill wells as new onshore production wells pursuant to the Natural Gas Policy Act of 1978 without notice and hearing even though such wells have been spudded prior to receiving such approval.

CASE 6771: Application of Getty Oil Company for a non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard gas proration unit comprising the E/2 SW/4 of Section 31, Township 24 South, Range 37 East, and the NW/4 NE/4 and NE/4 NW/4 of Section 6, Township 25 South, Range 37 East, Jalmat Gas Pool, to be dedicated to a well to be drilled at a standard location thereon.

CASE 6772: Application of Reading & Bates Petroleum Co. for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the SE/4 of Section 17, Township 24 North, Range 3 West, Chacon-Dakota Pool, 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 6773: 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 Pennsylvanian formation underlying the E/2 of Section 20, Township 19 South, Range 27 East, 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 6774: Application of Doyle Hartman for an unorthodox location, non-standard proration unit, and approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 120-acre non-standard proration unit comprising the NW/4 NW/4 of Section 6, Township 25 South, Range 37 East, and the W/2 SW/4 of Section 31, Township 24 South, Range 37 East, to be dedicated to his Federal Jalmat Com Well No. 1 at an unorthodox location 590 feet from the North line and 660 feet from the West line of said Section 6; applicant further seeks a finding that the drilling of said well is necessary to effectively and efficiently drain that portion of an existing proration unit which cannot be so drained by the existing well.

CASE 6768: (Continued and Readvertised)

Application of Alpha Twenty-One Production Company for two non-standard gas proration units, compulsory pooling, unorthodox well location, and approval of infill drilling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 40-acre non-standard gas proration unit comprising the SW/4 SE/4 of Section 21, Township 24 South, Range 37 East, Jalmat Gas Pool, to be dedicated to the El Paso Natural Gas Company Shell Black Well No. 2. Applicant also seeks an order pooling all mineral interests in the Jalmat Gas Pool underlying the E/2 SW/4 and NW/4 SE/4 of said Section 21 to form a 120-acre non-standard gas proration unit to be dedicated to a well to be drilled at an unorthodox location 990 feet from the South line and 1650 feet from the West line of said Section 21. 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. Applicant further seeks a finding that the drilling of said well is necessary to effectively and efficiently drain that portion of the existing proration unit which cannot be so drained by the existing well.

CASE 6782: Application of Inexco Oil Company for an exception to Order No. R-3221, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221 to permit disposal of produced brine into an unlined surface pit located in Unit H of Section 7, Township 19 South, Range 33 East.

CASE 6783: Application of McClellan Oil Corporation for an unorthodox oil well location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Marlisue State Well No. 6 located 1155 feet from the North line and 2475 feet from the West line of Section 24, Township 14 South, Range 29 East, Double "L"-Queen Associated Pool, the NE/4 NW/4 of said Section 24 to be dedicated to the well.

CASE 6784: Application of Merrion & Bayless for a non-standard proration unit and an unorthodox gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for a 640-acre non-standard gas proration unit comprising the W/2 of Section 18 and the W/2 of Section 19, Township 32 North, Range 14 West, Barker Creek-Paradox Pool, to be dedicated to its Ute Well No. 7 at an unorthodox location 1685 feet from the South line and 3335 feet from the East line of said Section 19.

In the alternative, applicant seeks an order force pooling all of said Section 19 to form a standard 640-acre unit.

CASE 6785: Application of The Harlow Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the SW/4 SW/4 of Section 18, Township 8 South, Range 29 East, 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.

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY & MINERALS

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

CASE 6273

APPLICATION

Comes now, SOUTHLAND ROYALTY COMPANY, by and through its undersigned attorneys and, as provided by Section 70-2-17, N.M.S.A., 1978 Compilation, hereby makes application for an order pooling all of the mineral interests in the Pennsylvanian formation in and under the E/2 of Section 20, Township 19 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show the Commission:

1. Applicant is the owner through a farmin of 37.5% of the working interest in and under the E/2 of Section 20, and applicant has the right to drill thereon.

2. Applicant proposes to dedicate the above-referenced pooled unit to its Pecos River Federal 20 Com. #1 Well to be drilled at an orthodox location 1980 feet from the south and east lines of said Section 20.

3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all working interest owners in the E/2 of said Section 20 except S. P. Yates, owners of a 12.5% working interest and Robert N. Enfield, owner of a 12.5% working interest.

4. Said pooling of interest and well completion will avoid the drilling of unncessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled and applicant should be designated the operator of the well to be drilled.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and a risk factor for the risk assumed by the applicant in drilling, equipping and completing the well and such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL AND BLACK, P.A.

By _____
William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

CAMPBELL AND BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
PAUL R. CALDWELL

POST OFFICE BOX 2208
JEFFERSON PLACE
SANTA FE, NEW MEXICO 87501
TELEPHONE (505) 988-4421

December 4, 1979

Mr. Joe D. Ramey
Division Director
Oil Conservation Division
New Mexico Department of Energy & Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Case 6773

Re: Application of Southland Royalty Company for Compulsory Pooling, Eddy County, New Mexico

Dear Mr. Ramey:

Enclosed in triplicate is the application of Southland Royalty Company in the above-referenced matter.

The applicant requests that this matter be included on the docket for the examiner hearing scheduled to be held on January 3, 1980.

Very truly yours,

William F. Carr

WFC:lr

Enclosures

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY & MINERALS

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

CASE 6273

APPLICATION

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1. Applicant is the owner through a farmin of 37.5% of the working interest in and under the E/2 of Section 20, and applicant has the right to drill thereon.

2. Applicant proposes to dedicate the above-referenced pooled unit to its Pecos River Federal 20 Com. #1 Well to be drilled at an orthodox location 1980 feet from the south and east lines of said Section 20.

3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all working interest owners in the E/2 of said Section 20 except S. P. Yates, owners of a 12.5% working interest and Robert N. Enfield, owner of a 12.5% working interest.

4. Said pooling of interest and well completion will avoid the drilling of unncessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled and applicant should be designated the operator of the well to be drilled.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and a risk factor for the risk assumed by the applicant in drilling, equipping and completing the well and such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL AND BLACK, P.A.

By _____
William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY & MINERALS

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

CASE 6773

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Respectfully submitted,

CAMPBELL AND BLACK, P.A.

By William F. Carr

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

Memo

From

FLORENE DAVIDSON
ADMINISTRATIVE SECRETARY

To

Called in by Bill Carr
December 3, 1959

Southland Royalty Company

Compulsory Pooling

Eddy County

E/2 Section 20, T19S, R27E

Pennsylvanian formation

Southland Royalty Co. Pecos River
Federal Com #1

1980/S + E of Section 20

OIL CONSERVATION COMMISSION-SANTA FE

DRAFT

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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. 6773

Order No. R-6244

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 January 3, 19 80, at Santa Fe, New Mexico, before Examiner Richard L. Stamets

NOW, on this ____ day of January, 19 80, 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 E/2 of Section 20, Township 19 South, Range 27 East, NMPM, ____, 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 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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

(10) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That $3000.00 per month while drilling and $300.00 per month while producing should be fixed as ~~per month~~ 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 April 30, 1980, 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 E/2 of Section 20, Township 19 South, Range 27 East, NMPM, , 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 30th day of April, 1980, 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 30th day of April, 1980, 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, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That $3000 per month while drilling and $300 per month while producing are hereby fixed as ~~per month is~~ 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.