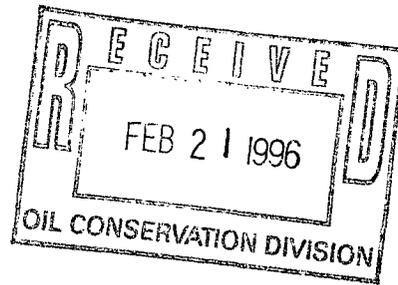


MERIDIAN OIL

OIL CONSERVATION DIVISION  
FEB 21 1996  
FEB 21 1996

February 20, 1996



Mr. William J. LeMay, Director  
New Mexico Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

Re: Administrative Applications of Meridian Oil Inc for Administrative Approval of an Unorthodox Well Locations for its Rhodes B Federal Well No. 4 and No. 7  
Lea County, New Mexico

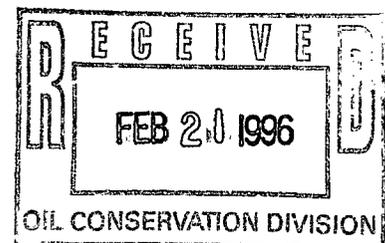
Dear Mr. LeMay:

On December 21, 1995, Meridian Oil Inc. ("Meridian") filed an administrative application with the NMOCD requesting approval of the two referenced wells. Although Texaco Exploration & Production Inc. ("Texaco") is an offset interest owner, no notification is required because, by prior agreements, Texaco has consented to the "unorthodox locations" of these wells and has waived its right to object.

Despite Texaco's agreement to the contrary, by letter dated February 2, 1996, William F. Carr, attorney for Texaco, submitted an objection to the location of the referenced wells and requested these cases be docketed for hearing. Meridian hereby responds to the objections raised by Texaco by offering the following information:

The Rhodes B Federal Wells No. 4 and No. 7 (the "Wells") are gas wells drilled within the boundaries of both the Rhodes Unit and the Rhodes Oil Pool. The Rhodes Unit Agreement dated January 1, 1944 (the "Agreement") was entered into and accepted by The Texas Company, now "Texaco", Columbian Carbon Company, now "Oxy", Amerada Petroleum Corporation, now "Amerada" and El Paso Natural Gas Company, now "Meridian" (all hereinafter collectively referred to as the "Parties").

The Agreement specifically states that "it is the purpose of the Parties to conserve the natural resources, prevent avoidable waste, and obtain the other benefits obtainable through development and operation of said unit area...under and pursuant to the provisions of sections 17, 27 and 32 of the Act of Congress...entitled 'An act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain,' 41 Stat. 443, 448, 450 as amended..." "All oil, gas, natural gasoline, and associated fluid hydrocarbons in lands subject to [the Agreement] in any and all sands or horizons are unitized...and are hereinafter called 'unitized substances.'" (See Attachment A for outline of unit area.)



Mr. William LeMay  
February 20, 1996  
Page 2

The Agreement further states that "It is the intent...of [the Parties] that the unitized substances shall be subject to development and operation in separate groups..."

"Group 1. Gas (including casinghead gas) in any and all sands at or above a depth of 4,000 feet..."

"Group 2. Oil in any and all sands at or above a depth of 4,000 feet..."

"Group 3. All unitized substances below a depth of 4,000 feet..."

No operator was appointed for Group 2 and Group 3 substances. The Agreement states that "conditions for the development and operation of unitized substances in Group 2 and/or Group 3 shall...be deemed to be the terms and conditions of the leases, contracts and other agreements...except insofar as said leases, contracts or other agreements may require adjustment or modification to conform with the herein provided terms and conditions."

El Paso Natural Gas Company (Meridian) was designated as operator for Group 1 substances. The Group 1 operator was granted the "exclusive right, privilege and duty of exercising any and all rights of the Parties...which are necessary or convenient for prospecting for, producing, storing and disposing of Group 1 unitized substances..." "The Group 1 unit operator is authorized to shut-in or produce the unitized substances in Group 1...according to a plan of development and/or operations which shall be submitted by said Unit Operator for approval by the Oil and Gas Supervisor within 30 days after approval of this agreement..."

Attached to and made a part of the Rhodes Unit Agreement is a "Side Agreement" dated March 13, 1944, but effective January 1, 1944 between the Parties. The Side Agreement granted to El Paso Natural Gas Company "the exclusive right to drill for and produce gas to a depth of 4,000 feet...[in] all the leases described in Exhibit 'A.'" (See Attachment B for an outline of the leases described in Exhibit 'A' of the Side Agreement.) The Side Agreement states further that "Either party (The Texas Company, Columbian Carbon Company & Amerada Petroleum Corporation - collectively called "Seller" and El Paso Natural Gas Company - "Buyer") shall have the right to drill a well on any **forty (40) acre tract**...on said lands (provided however Buyer [El Paso] may not drill to a depth in excess of 4,000 feet) but, except upon demand of the Oil and Gas Supervisor, neither party shall have the right to drill a well for the purpose of producing from the presently-known producing horizons above 4,000 feet...on any **forty (40) acre tract**...on which there is an existing oil or gas well which is producing from a horizon above 4,000 feet..."

Both the Rhodes Unit Agreement and the Side Agreement were approved by Oscar L. Chapman, **Assistant Secretary of the Interior** on June 29, 1944. In Mr. Chapman's approval, it is certified "that each and every lease heretofore or hereafter issued for lands of the United States and made subject as to all or any part of the leased lands to said agreement...**shall be modified** as to the drilling, producing, and royalty provisions of such lease **to conform with said agreement**..." (See Attachment C for a copy of the Assistant Secretary's approval.)

Mr. William LeMay  
February 20, 1996  
Page 3

Texaco has recognized and accepted the "existing well on a forty acre tract" rule by requesting waivers from Meridian in 1992 and again in 1993 which allowed Texaco to drill 7 oil wells within forty acre tracts on which a Meridian gas well currently existed. Texaco reciprocated by granting waivers to Meridian in September 1995 which allowed Meridian to drill its Rhodes B Federal No.1 & 2 gas wells within forty acre tracts on which Texaco's oil wells currently existed. (See Attachments D for copies of waivers from both Texaco and Meridian.)

To carry this concept a step further, in 1982 the Rhodes Oil Pool and Rhodes Gas Pool were delineated by the New Mexico Oil Conservation Division. (See Attachment E for the acreage included in the Rhodes Oil Pool and Rhodes Gas Pool and the Order approving same.) Rule 104.C allows the drilling of oil wells within the Rhodes Oil Pool on forty (40) contiguous surface acres with spacing of 330' from the governmental quarter-quarter section or lot and 330' from the offset lease and/or nearest drilling well capable of producing from the same pool. Texaco, by agreement (the Rhodes Unit Agreement and the Side Agreement), has consented that gas wells in either pool will be drilled using forty (40) acre oil well locations. In addition, this gas and oil well spacing program, including how gas wells and oil wells are defined for these Rhodes pools, has been authorized by the Department of the Interior and approved by the NMOCD. Meridian has complied with the spacing program of *each* pool, irrespective of whether the well was drilled in the Oil Pool or Gas Pool. (i.e. - The Rhodes A Federal No. 2 is located in the Rhodes Gas Pool and is subject to the spacing rules of the Rhodes *Gas* Pool. The Rhodes B Federal No. 1 is located in the Rhodes Oil Pool and is subject to the spacing rules of the Rhodes *Oil* Pool)

The Rhodes B Federal No. 4 is located 553' FEL & 2418' FSL Section 27, T-26-S, R-37-E, Lea County, New Mexico (within the oil pool). The location from the East line (offset lease) is more than 330' and the location to the quarter-quarter line is 220'. This quarter-quarter encroachment is on Meridian's own gas rights which are covered under the Rhodes Unit Agreement and the Side Agreement described above.

The Rhodes B Federal No. 7 is located 330' FNL & 1470' FEL Section 26, T-26-S, R-37-E, Lea County, New Mexico (within the oil pool). The location from the North line (offset lease) is 330' and the location to the quarter-quarter line is 150', which is, again, encroaching on Meridian's own gas rights covered under the Rhodes Unit Agreement and the Side Agreement.

Texaco was aware of the above locations at the time the Wells were staked and permitted. Further, Texaco personnel assisted Meridian personnel in the staking of the Wells by identifying Texaco pipelines and facilities, and in moving the Well locations so as not to interfere with Texaco's operations.

Meridian's notification to Texaco concerning the Rhodes B Federal No. 4 and No. 7 was done out of courtesy and not necessity, as per the Rhodes Unit Agreement. (A copy of the Rhodes Unit Agreement and the Side Agreement are enclosed as Attachment F & G, respectively, for your perusal.) As previously stated, Meridian was granted the right by the Parties with the approval of the Secretary of the Interior to develop the **gas on forty (40) acre tracts** using oil well spacing within the unit area (refer to Attachment A). This development program has been an ongoing project for a number of years, and further, the gas wells drilled in the Rhodes Oil Pool have been consistent with that program. (See permits for the Rhodes B Federal No. 4 and No. 7 as Attachment H.) Precedent has set the development of gas wells in the oil pool due to the distinct separation of the respective gas and oil zones.

Mr. William LeMay  
February 20, 1996  
Page 4

Regarding the concerns addressed by Doyle Hartman in his letter of January 24, 1996, Mr. Hartman questioned the location of the Rhodes B Fed. #7 at its 330' FNL location. As stated above, in accordance with the Rhodes Unit Agreement and the Side Agreement, the 330' location to the offset lease is a legal location. Consequently, Meridian is not encroaching on Mr. Harman's "Dublin" lease.

Meridian respectfully requests the objections raised by Texaco and Doyle Hartman be denied and that Meridian's administrative applications for non-standard locations regarding the Wells be approved.

Very Truly Yours,

MERIDIAN OIL INC.



Leslyn M. Swierc, CPL  
Senior Landman

LMS/cs  
Enclosures

cc: Mr. W. Thomas Kellahin  
Santa Fe, New Mexico  
Mr. William F. Carr  
Santa Fe, New Mexico  
Doyle Hartman  
Dallas, Texas

Don Davis  
Chris Settle  
Albert Billman  
Mike Metcalf  
Donna Williams



APPROVAL - CERTIFICATION - DETERMINATION

Pursuant to the statutory authority in the Secretary of the Interior under the Act approved March 4, 1931, 46 Stat. 1523, 30 U.S.C. 184, and the Act approved August 21, 1935, 49 Stat. 674, 30 U.S.C. 222, amending the Act approved February 25, 1920, 41 Stat. 437, 30 U.S.C. 181, in order to secure the proper protection of the public interest, I, Oscar L. Chapman, Assistant Secretary of the Interior, this 29th day of June, 1944, hereby take the following action:

A. Approve the attached agreement for the development and operation of the RHODES UNIT AREA, Lea County, New Mexico, entered into between the El Paso Natural Gas Company and others subscribing thereto;

B. Determine and certify that the plan of development and operation contemplated in said agreement is for the purpose of more properly conserving the oil or gas resources of said unit area and is necessary or advisable in the public interest.

C. Certify that each and every lease heretofore or hereafter issued for lands of the United States and made subject as to all or any part of the leased lands to said agreement, from the effective date thereof and concurrently therewith, shall be modified as to the drilling, producing, and royalty provisions of such lease to conform with said agreement, that the prospecting, drilling, storing and producing operations performed upon any lands subject to said agreement will be accepted and deemed to be operations under and for the benefit of all subject leases in their entirety, and each such lease shall in its entirety be deemed to continue in force and effect so long as oil or

gas is produced in paying quantities anywhere on lands subject to said agreement, including the term of any suspension of producing operations pursuant to any plan of development and/or operation under said agreement or to any order or consent of the Secretary of the Interior, and until the termination of said agreement.

(Sgd.) Cesar L. Chapman

Assistant Secretary of the Interior.



Texaco Exploration and Production Inc  
Western E&P Region

P O Box 2100  
Denver CO 80201  
4601 DTC Boulevard  
Denver CO 80237

*Rhodes Unit file  
(in DS office  
instruments)*

October 6, 1992

**41652 - W. H. Rhodes "B" Lease (TT)**  
**43271 - Rhodes Unit (TPI)**  
Lea County, New Mexico

El Paso Production Company  
P.O. Box 51810  
Midland, Texas 79710

Attention: Ms. Leslyn M. Swierc

Gentlemen:

Texaco has plans to drill the following wells in the Rhodes Yates Area of Lea County:

1. W.H. Rhodes "B" NCT-1, No. 20, 1525' FSL, 2225' FEL, Sec. 27, T26S, R37E;
2. W.H. Rhodes "B" NCT-1, No. 21, 1450' FSL, 1150' FEL, Sec. 27, T26S, R37E.

Article 6 of that certain Agreement dated March 13, 1944, between The Texas Company, Columbian Carbon Company and Amerada Petroleum Corporation, as Seller, and El Paso Natural Gas Company, as Buyer, provides in part that "no party shall have the right to drill a well for the purpose of producing from the presently known producing horizons above 4,000 feet from the surface of the ground on any forty acre tract (based on legal subdivisions) on which there is then an existing oil or gas well which is producing from a horizon above 4,000 feet from the surface of the ground."

Texaco Exploration and Production Inc. requests that El Paso Production Company waive Article 6 of the aforementioned agreement insofar as it applies to the specific wells mentioned above. If you agree, please so indicate by signing in the space provided below.

Very truly yours,

TEXACO EXPLORATION AND PRODUCTION INC.

Ronald W. Lanning  
West Region Landman



OFFICIAL SPONSOR  
OF THE 1992  
U.S. OLYMPIC TEAM

**ATTACHMENT D**

El Paso Production Company  
Page 2

ACCEPTED AND AGREED TO THIS 8<sup>th</sup> DAY OF OCTOBER, 1992.

EL PASO PRODUCTION COMPANY

*JMS*  
By: Annis Sledge

*JMS* 10/7/92

*RSM*

10/7/92



November 4, 1993

41652 - W. H. Rhodes "A" Lease  
W. H. Rhodes "B" Lease  
43271 - Rhodes Yates Unit  
Lea County, New Mexico

RECEIVED  
NOV 10 1993  
MIDLAND  
LAND DEPT

MERIDIAN OIL

NOV 10 1993

MIDLAND, TEXAS  
JOINT INTEREST DEPT.

El Paso Production Company  
P. O. Box 51810  
Midland, Texas 79710

Attention: Mr. Dennis Sledge

Gentlemen:

Texaco has plans to drill the following infill wells during Phase III development of the Rhodes Yates Cooperative Waterflood Area of Lea County:

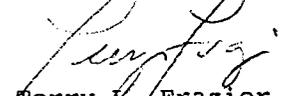
1. W. H. Rhodes "B" NCT-2 No. 7  
1350' FSL & 1290' FEL, Sec. 28, T26S, R37E
2. Rhodes Yates Coop Fed. Com-4 No. 1  
1430' FSL & 10' FEL, Sec. 21, T26S, R37E
3. Rhodes Yates Coop Fed. Com-4 No. 2  
130' FNL & 1310' FWL, Sec. 27, T26S, R37E
4. Rhodes Yates Coop Fed. Com-5 No. 1  
130' FNL & 10' FWL, Sec. 27, T26S, R37E
5. Rhodes Yates Coop Fed. Com-6 No. 1  
130' FNL & 2588' FWL, Sec. 27, T26S, R37E

Article 6 of that certain Agreement dated March 13, 1944, between The Texas Company, Columbian Carbon Company and Amerada Petroleum Corporation, as Seller, and El Paso Natural Gas Company, as Buyer, provides in part that "no party shall have the right to drill a well for the purpose of producing from the presently known producing horizons above 4,000 feet from the surface of the ground on any forty acre tract (based on legal subdivisions) on which there is then an existing oil or gas well which is producing from a horizon above 4,000 feet from the surface of the ground."

Texaco Exploration and Production, Inc. requests that El Paso Production Company waive Article 6 of the aforementioned agreement insofar as it applies to the specific wells mentioned above. If you agree, please so indicate by signing in the space provided below and returning to the above address. Should you have any questions concerning this matter please contact Charles Sadler or Russell Pool at 505-393-7191.

Very truly yours,

TEXACO EXPLORATION AND PRODUCTION, INC.

  
Terry L. Frazier  
Area Manager

ACCEPTED AND AGREED TO THIS 2<sup>nd</sup> DAY OF December, 1993.

EL PASO PRODUCTION COMPANY

 Dennis Sledge

# MERIDIAN OIL

September 12, 1995

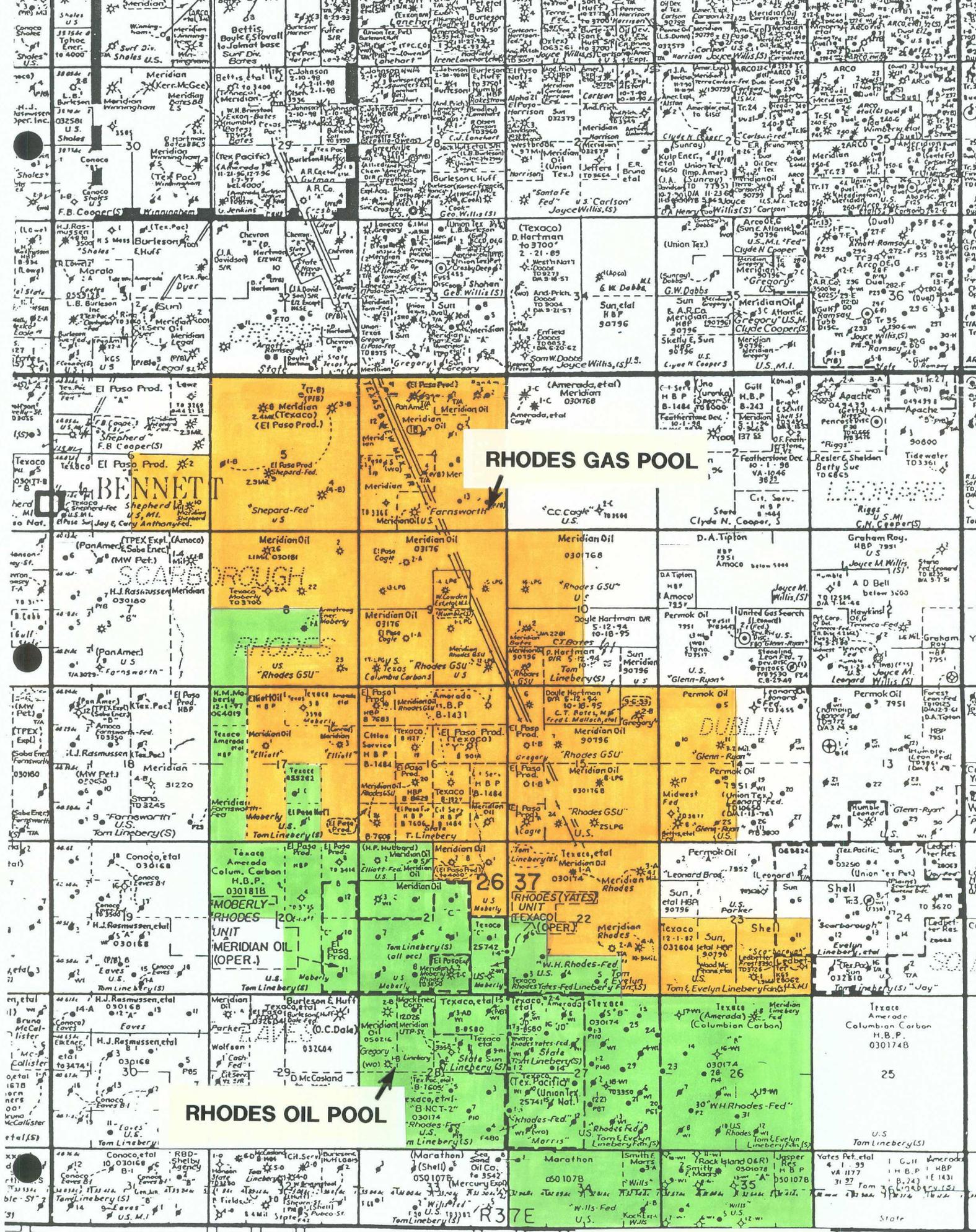
**Texaco Exploration & Production Inc.  
Box 3109  
500 N. Lorraine  
Midland, Texas 79702**

**RE:                   Waiver of Objection  
Rhodes 'B' Federal No. 1  
1634' FNL & 699' FEL**

**Rhodes 'B' Federal No. 2  
2310' FSL & 1980' FWL**

**Sec. 26, T26S, R37E  
Lea County, New Mexico**

I, James A. Head, being a Representative of Texaco Exploration & Production Inc. waive any objection to the proposed locations as indicated above. We, Texaco Exploration & Production, do hereby agree to allow Meridian Oil Inc. to produce said gas wells within the same proration unit as our oil wells. All which are covered under the field rules for the Rhodes Pool, Lea County, New Mexico.



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. 7416  
Order No. R-6891

APPLICATION OF EL PASO NATURAL GAS  
COMPANY FOR POOL CREATION AND REDELINEATION,  
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on November 19, 1981, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 1st day of February, 1982, 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, El Paso Natural Gas Company, seeks to contract the horizontal limits of the Jalmat Gas Pool by deleting therefrom most of the lands in Township 26 South, Range 37 East, NMPM, Lea County, New Mexico.

(3) That the applicant additionally seeks to redefine the Rhodes Yates-Seven Rivers Oil Pool as two separate pools, an oil pool and a gas pool, and to extend the horizontal limits of the Scarborough-Yates Seven Rivers Pool to take in two certain wells.

(4) Applicant further seeks to contract the horizontal boundaries of the Rhodes Gas Storage Unit to delete certain lands and wells not participating in the Rhodes Gas Storage Project and to withdraw without restriction all gas remaining in the newly redefined Rhodes Yates-Seven Rivers Gas Pool.

**ATTACHMENT E**

(5) That the aforesaid Jalmat Gas Pool and Rhodes Yates-Seven Rivers Oil Pool have substantially the same vertical limits and overlap, horizontally, to a great degree in Township 26 South, Range 37 East, Lea County, New Mexico.

(6) That to clarify the Division's pool nomenclature and eliminate said overlap, and to permit gas wells and oil wells within the overlap area to receive their proper allowable or authority to produce, the following action should be taken:

- (a) the horizontal limits of the Jalmat Tansill-Yates-Seven Rivers Gas Pool should be contracted by deletion therefrom of the acreage shown in paragraph (a) of Exhibit "A" attached to this order;
- (b) the horizontal limits of the Rhodes Yates-Seven Rivers Oil Pool should be contracted by deletion therefrom of the acreage shown in paragraph (b) of said Exhibit "A";
- (c) the horizontal limits of the Scarborough Yates-Seven Rivers Pool should be extended to include therein the acreage shown in paragraph (c) of said Exhibit "A";
- (d) That a new gas pool for Yates-Seven Rivers production should be created and designated the Rhodes Yates-Seven Rivers Gas Pool consisting of the acreage shown in paragraph (d) of said Exhibit "A".

(7) That no testimony was received relative to contraction of the Rhodes Gas Storage Unit and that portion of this application should be dismissed.

(8) That the newly created Rhodes Yates-Seven Rivers Gas Pool will be a non-prorated Gas Pool.

(9) That the effective date of this order should be January 1, 1982.

(10) That approval of the subject application and all the pool contractions, extensions, and creation included therein will not result in waste and will not violate correlative rights.

IT IS THEREFORE ORDERED:

(1) That the Jalmat Tansill Yates-Seven Rivers Gas Pool as previously defined and described in Lea County, New Mexico, is hereby contracted as shown in paragraph (a) of Exhibit "A" attached to this order.

(2) That the Rhodes Yates-Seven Rivers Oil Pool as previously defined and described in Lea County, New Mexico, is hereby contracted as shown in paragraph (b) of Exhibit "A" attached to this order.

(3) That the Scarborough Yates-Seven Rivers Pool as previously defined and described in Lea County, New Mexico, is hereby extended as shown in paragraph (c) of Exhibit "A" attached to this order.

(4) That a new pool for Yates-Seven Rivers gas production is hereby created and designated the Rhodes Yates-Seven Rivers Gas Pool with vertical limits consisting of the Yates and Seven Rivers formations and horizontal limits as shown in paragraph (d) of Exhibit "A" attached to this order, provided however, that the vertical limits of said pool in Section 4, Township 26 South, Range 37 East, NMPM, shall be the Yates formation and all of the Seven Rivers formation except the lowermost 100 feet thereof.

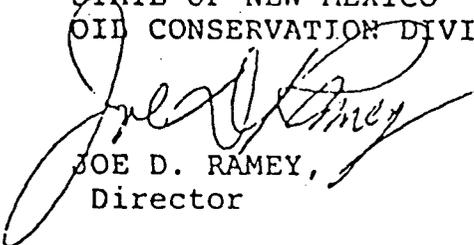
(5) That the portion of this case seeking deletion of certain lands from the Rhodes Gas Storage Unit is hereby dismissed.

(6) That the effective date of this order and of the pool contractions, extensions and creation and the dismissal contained herein shall be January 1, 1982.

(7) 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

- (a) Contraction of the Jalmat Tansill Yates-Seven Rivers Gas Pool, Lea County, New Mexico:

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM

Sections 4, 5, and 6: All  
Section 7: E/2 E/2  
Sections 8 and 9: All  
Section 10: W/2  
Section 14: SW/4  
Section 15, 16, and 17: All  
Section 18: E/2 E/2  
Section 19: E/2 NE/4  
Sections 20, 21, and 22: All  
Sections 27 and 28: All  
Section 29: NE/4  
Section 33: E/2 E/2  
Section 34: All

- (b) Contraction of the Rhodes Yates-Seven Rivers Oil Pool, Lea County, New Mexico:

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM

Sections 4, 5, and 6: All  
Section 7: E/2  
Section 8: N/2, E/2 SE/4, SW/4 SE/4, and SE/4 SW/4  
Section 9: All  
Section 10: S/2  
Sections 15 and 16: All  
Section 17: NE/4, E/2 SE/4, and E/2 W/2  
Section 21: N/2 N/2, SW/4 NW/4, and SE/4 NE/4  
Section 22: N/2, N/2 SE/4, SE/4 SE/4, and NE/4 SW/4  
Section 23: S/2

- (c) Extension of the Scarborough-Yates-Seven Rivers Pool, Lea County, New Mexico:

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM

Section 6: SW/4 SW/4  
Section 29: NE/4

- (d) Creation of the Rhodes-Yates-Seven Rivers Gas Pool, Lea County, New Mexico:

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM

Section 4: All  
Section 5: E/2  
Section 8: NE/4, E/2 SE/4, SW/4 SE/4, and  
SE/4 SW/4  
Section 9: All  
Section 10: W/2  
Section 14: SW/4  
Section 15 and 16: All  
Section 17: NE/4, E/2 W/2, and E/2 SE/4  
Section 21: N/2 N/2, SE/4 NE/4, and SW/4 NW/4  
Section 22: N/2, N/2 SE/4, SE/4 SE/4, and NE/4 SW/4  
Section 23: S/2

U N I T   A G R E E M E N T

FOR THE DEVELOPMENT AND OPERATION OF THE RHODES AREA

This agreement, entered into as of the 1st day of January, 1944, by and between the parties subscribing or consenting hereto,

WITNESSETH:

WHEREAS, the parties subscribing or consenting hereto are the owners of operating, royalty, or other oil or gas interests in the Rhodes unit area hereinafter defined;

WHEREAS, it is the purpose of the parties hereto to conserve the natural resources, prevent avoidable waste, and obtain the other benefits obtainable through development and operation of said unit area (or the part thereof made subject to this agreement) under the terms, conditions, and limitations hereinafter set forth, under and pursuant to the provisions of sections 17, 27 and 32 of the act of Congress, approved February 25, 1920, entitled "An act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain," 41 Stat. 443, 448, 450, as amended or supplemented by the acts of March 4, 1931, 46 Stat. 1525, and August 21, 1935, 49 Stat. 677, 678; 30 U. S. C. 226, 184 and 189;

NOW, THEREFORE, in consideration of the premises and the promises hereinafter contained, the parties hereto and the parties consenting hereto agree among themselves and with the

Secretary of the Interior as follows:

ENABLING ACT  
AND  
REGULATIONS

1. The act of February 25, 1920, supra, as amended, and all pertinent regulations heretofore and all pertinent and reasonable regulations hereafter issued thereunder, including operating regulations, are accepted and made a part of this agreement.

UNIT AREA

2. The following described lands shown on the map attached hereto are hereby designated and recognized as constituting the Rhodes unit area:

Section 4: W/2 W/2; E/2 SW/4; W/2 SE/4; SE/4 SE/4

Section 5: All

Section 6: NE/4 NW/4; NE/4; N/2 SE/4; SE/4 SE/4

Section 7: NE/4 NE/4

Section 8: NW/4; N/2 SW/4; SE/4 SW/4; E/2

Section 9: All

Section 10: NW/4 NW/4; S/2 NW/4; S/2

Section 15: All

Section 16: All

Section 17: E/2; E/2 NW/4

Section 20: E/2

Section 21: All

Section 22: All

Section 23: SW/4 NW/4; SW/4

Section 26: All

Section 27: All

Section 28: All

Section 29: E/2 NE/4

All in Township 26 South, Range 37 East, N. M. Meridian.

Total 8 520 Acres

The above described unit area may be modified upon application by the Group 1 Unit Operator hereinafter referred to and by the unit operator or operators for the unitized substances in Group 2 and Group 3, or, if there be no unit operator for the unitized substances in both or either of said Groups, then the owners of the operating rights as to unitized substances in the Group for which there is no unit operator upon the majority of the lands then subject to this agreement, and with the approval of the Secretary of the Interior, to include additional land reasonably regarded as necessary or desirable for the purposes of this agreement or to exclude land reasonably proved to be unnecessary for such purposes. Such increase or decrease shall be effective as of the first of the month following approval.

LANDS SUBJECT  
TO  
THIS AGREEMENT

3. All tracts within the unit area as to which the oil and gas operating rights are committed to this agreement constitute the lands subject to this agreement. Signature hereof or consent hereto by any person commits to this agreement the interests (whether operating rights or other interests) specified opposite such person's signature hereof or specified in such person's consent hereto:

UNITIZED  
SUBSTANCES

4. All oil, gas, natural gasoline, and associated fluid hydrocarbons in lands subject to this agreement in any and all sands or horizons are unitized under the terms of this agreement and are hereinafter called "unitized substances".

SEGREGATION  
OF UNITIZED  
SUBSTANCES

5. It is the intent and purpose of the parties to this agreement that the unitized substances shall be subject to development and operation in separate groups as follows:

- Group 1. Gas (including casinghead gas) in any and all sands at or above a depth of 4,000 feet from the ground surface, whether such gas is now in place or is hereafter injected.
- Group 2. Oil in any and all sands at or above a depth of 4,000 feet from the ground surface.
- Group 3. All unitized substances below a depth of 4,000 feet from the ground surface.

GROUP 2  
AND/OR  
GROUP 3  
UNIT OPERATOR  
OR OPERATORS

6. No Unit Operator has been appointed for the unitized substances in Group 2 and/or Group 3, nor need be unless the appointment of such a Unit Operator be demanded by the Secretary.

The terms and conditions for the development and operation of unitized substances in Group 2 and/or Group 3 shall (unless and until a plan for their development be established as below provided) be deemed to be the terms and conditions of the leases, contracts, and other agreements under which said unitized substances are now being developed and operated, except insofar as said leases, contracts or other agreements may require adjustment or modification to conform with the herein provided terms and conditions.

The holders of the operating rights as to the unitized substances in Group 2 and Group 3, or either, may at any

time select, and they agree upon demand of the Secretary promptly to select, a Unit Operator for the unitized substances in Group 2 and Group 3, or either, and in either such case they shall also submit a schedule showing a method of allocation of benefits and costs of operations as to said unitized substances and the ratio of apportionment thereof among the parties entitled to such benefits or chargeable with such costs. After approval by the Secretary of the Unit Operator so selected, and of the schedule so submitted, and within 30 days after demand by the Supervisor, said Unit Operator shall submit for the approval of the Supervisor a plan of development and/or operation for the unitized substances in Groups 2 and/or 3, which plan or plans, when so approved, shall constitute the further drilling and operating obligations of said Unit Operator for the unitized substances involved. Said plan or plans shall be as nearly complete and adequate as the Supervisor may determine to be necessary and advisable to conserve properly the unitized substances covered by such plan or plans. Said plan or plans may be modified from time to time upon approval of said Supervisor, or at the direction of said Supervisor, to meet changed conditions, and the further obligations of the Unit Operator or Operators involved shall be conformed thereto.

GROUP 1  
UNIT  
OPERATOR

7. El Paso Natural Gas Company is hereby designated as unit operator for Group 1 unitized substances, hereinafter designated as Group 1 Unit Operator, and by signature hereof commits to this agreement all interests vested in it in lands within the unit area and agrees

to accept the duties and obligations of such unit operator to conduct and manage the operation of the lands subject to this agreement for the development, storage and production of Group 1 unitized substances as herein provided.

SUCCESSOR  
UNIT  
OPERATOR

8. Whenever a Unit Operator for a Group or groups of unitized substances designated under this agreement shall be removed or shall relinquish his rights as Unit Operator under this agreement, the owners of the majority of operating rights as to such group or groups of unitized substances according to their total acreage interests in the lands subject to this agreement as to such group or groups shall select a new unit operator for such group or groups of unitized substances. Such selection shall not become effective until (a) the unit operator so selected shall accept the duties and responsibilities of such unit operator and (b) the selection shall have been approved by the Secretary. Any unit operator shall be subject to removal for failure to perform effectively his duties and obligations as Unit Operator hereunder on notice by the Secretary, such notice to be given only after reasonable opportunity has been given to correct any specified default in performance.

The right to relinquish all rights as a unit operator may be exercised whenever said operator is not in default under this agreement but no Unit Operator shall be relieved from his duties and obligations as Unit Operator for a period of six months after notice of intention to relinquish such duties and obligations has been served by him on all other parties hereto

holding operating rights in respect to the unitized substances involved and the Secretary, unless a new operator shall have been selected and shall have taken over and assumed the duties and obligations of such Unit Operator prior to the expiration of said period. At any time prior to the date on which relinquishment by or removal of a Unit Operator becomes effective, the owners of operating rights as to the unitized substances involved or a duly qualified new Unit Operator may elect to purchase on reasonable terms all or any part of the preceding Unit Operator's equipment, material, and appurtenances in or upon the lands subject to this agreement, provided that, no such equipment, material, or appurtenances so selected for purchase shall be removed pending determination of reasonable terms of purchase. Any equipment, material, and appurtenances not so purchased and not so necessary for the preservation of wells may be removed by the retiring Unit Operator at any time within six (6) months after the relinquishment or removal becomes effective, but if not so removed shall become the joint property of the owners of the operating rights as to the unitized substances involved.

Acquisition or assignment of operating rights pertaining to Federal lands subject to this agreement and the consideration therefor shall be subject to approval by the Secretary.

RIGHTS AND  
OBIGATIONS  
OF GROUP 1  
UNIT OPERATOR

9. The exclusive right, privilege, and duty of exercising any and all rights of the parties signatory hereto which are necessary or convenient for prospecting for, producing,

storing and disposing of the Group 1 unitized substances is hereby vested in the Group 1 Unit Operator and shall be exercised by said Unit Operator as provided in this agreement. Acceptable evidence of title to said rights shall be deposited with said Unit Operator, and, together with this agreement, shall constitute and define said Unit Operator's rights, privileges, and obligations in the premises; provided, that nothing herein shall be construed to transfer title to any lands, leases, or operating agreements, it being understood that the Group 1 Unit Operator shall have rights of possession and use merely for the purposes herein specified, and for any and all other purposes all existing agreements in respect to Group 1 unitized substances remain in force and effect. Like provisions shall be applicable to Group 2 and/or Group 3 unitized substances if and when a unit operator or operators for those substances are selected as herein provided.

The Group 1 Unit Operator shall pay all costs and expenses of operations with respect to the development, storage and recovery of Group 1 unitized substances.

PLAN OF  
OPERATION  
AS TO GROUP 1  
UNITIZED  
SUBSTANCES

10. The Group 1 Unit Operator is authorized to shut-in or produce the unitized substances in Group 1, or supplement such substances by injection of gas, according to a plan of development and/or operations which shall be submitted by said Unit Operator for approval by the Oil and Gas Supervisor within 30 days after approval of this agreement and when

so approved shall constitute the obligations of said Unit Operator for development and operation of such unitized substances; provided that said plan shall be subject to modification from time to time at the option of said Unit Operator subject to like approval; and provided further that the Oil and Gas Supervisor may require that a new plan of development and/or operations shall be submitted when, in his opinion, such action is necessary and advisable in the public interest.

ALLOCATION  
OF GROUP 1  
UNITIZED  
SUBSTANCES

11. Group 1 unitized substances, as and when produced, will be deemed to be produced equally on an acreage basis from all the lands subject to this agreement and will be allocated to the several tracts in the ratio that the total acreage of each bears to the total acreage subject to this agreement.

PAYMENTS OF  
ROYALTIES  
ON GROUP 1  
UNITIZED  
SUBSTANCES

12. Group 1 Unit Operator, on behalf of the respective lessees, shall pay all royalties due the United States, the State of New Mexico, and others entitled thereto, on account of Group 1 unitized substances; provided, that if said Unit Operator defaults in any such payments and no bond has been posted by said Unit Operator which is adequate to cover such default, or when there is no Group 1 Unit Operator, the obligation to pay royalties on Group 1 Unitized Substances shall rest upon the respective lessees.

ROYALTIES  
AND RENTALS

13. (a) Royalties on Group 1 unitized substances payable to the United

States shall be:

(1) A royalty of 3.79 per cent on the value of the gas as to production thereof allocated to Federal lands for a period of 25 years subject to the provisions of the following paragraphs of this section, regardless of whether the production was originally in place or was injected by Group 1 Unit Operator, and thereafter the lease rates shall prevail unless a modification of such rates is agreed upon by the Secretary of the Interior and Group 1 Unit Operator.

(2) Royalties on gasoline or other liquid hydrocarbons allocated to Federal lands shall be paid at the lease rates.

(3) If for any reason Group 1 Unit Operator does not inject into sands or horizons containing Group 1 unitized substances a total of 65,000,000 M.c.f. of gas within 15 years from the effective date hereof or if, upon the permanent discontinuance of the injection of gas, Group 1 Unit Operator has failed to inject 65,000,000 M.c.f., the rate of royalty due the United States on the gas recovered from the production of Group 1 unitized substances shall be 3.79 per cent plus that percentage of 6.54 per cent which the difference between 65,000,000 M.c.f. and the amount of such gas injected bears to 65,000,000 M.c.f.

(4) If the total volume of gas produced per acre equals the amount injected per acre plus 4,136 M.c.f. per acre at 15.025# pressure base, the rate of Federal royalty on all subsequent production shall be at the lease rates.

13.(b) Royalties for Groups 2 and 3 unitized substances payable to the United States shall be paid

at the rates specified in the respective leases subject to this agreement. If and when such substances are produced under a plan of development and/or operation approved pursuant to this agreement, said royalties shall be computed on the basis of the amount or value of production allocated to said leases.

13.(c) Rental for lands of the United States subject to this agreement shall be paid at the rates specified in the leases, except that, as to leaseholds determined by the Secretary of the Interior to be valuable only for storage or production of Group 1 unitized substances, the rental shall be paid at an annual rate of 25 cents an acre during the first 25 years following the effective date of this agreement. In any and all events, the leases shall be deemed to be in a status of operating leases while being used for storage of Group 1 unitized substances.

CONSERVATION

14. All operations shall be conducted so as to provide for the most economical and efficient recovery of unitized substances to the end that maximum ultimate yield may be obtained without waste, and for the purpose of more properly conserving the natural resources, the production of unitized substances at all times shall be without waste as defined by State or Federal law; and production from gas wells shall be limited to such quantity as can be put to beneficial use with adequate realization of fuel values; and, in the discretion of the Secretary of the Interior, production of unitized substances shall be limited by the beneficial demand as determined by said Secretary.

DRAINAGE

15. Any Unit Operator shall take appropriate and adequate measures to prevent drainage of the unitized substances as to which he is Unit Operator from the unitized lands by wells not on the lands subject to this agreement, or, with approval of the Secretary of the Interior, pay a fair and reasonable compensatory royalty as determined by the Supervisor.

LEASES AND  
CONTRACTS  
CONFORMED  
TO AGREEMENT

16. The parties hereto or consenting hereto holding Federal leases subject to this agreement, consent that the Secretary shall, and said Secretary, by his approval of this agreement, does, establish, alter, change or revoke the drilling, producing, royalty and rental requirements of such leases and the regulations in respect thereof, to conform said requirements to the provisions of this agreement.

The Secretary further agrees, consents and determines that during the effective life of this agreement, the prospecting, drilling, and producing operations performed upon any lands subject hereto will be accepted and deemed to be operations under and for the benefit of all such leases; that suspension of operations or production on any such lease shall be deemed not to have occurred if there be operations or production on any part of the lands subject hereto; and that suspension of all operations and production on said lands pursuant to any approved plan of development and/or operation or to the direction or consent of said Secretary, shall be deemed to constitute such suspension with respect to each such lease; and no such lease

shall be deemed to expire by reason of such approved suspension.

All agreements by and between the parties hereto or consenting hereto are hereby modified or amended to the extent that such agreements are not consistent herewith and in case of any conflict the terms of this unit agreement shall prevail.

The parties hereto owning rights in any Federal oil and gas lease which covers lands part of which are within, and part of which are outside, the Rhodes Unit Area described in this agreement, by their signature hereto hereby consent and agree that lands covered by any such lease located outside said Rhodes Unit Area will, upon request of the Secretary of the Interior, be made subject to any future unit agreement approved or prescribed by the Secretary.

COVENANTS  
RUN  
WITH LAND

17. The covenants herein run with the land until this agreement terminates, and any grant, transfer, or lease of interest in lands or leases subject hereto shall be conditioned on the assumption of all privileges and obligations hereunder by the grantee, transferee, lessee, or other successor in interest and as to Federal land shall be subject to approval by the Secretary.

EFFECTIVE DATE  
AND TERM

18. This agreement upon approval by the Secretary shall be deemed to have become effective as of January 1, 1944, and shall terminate two (2) years after said effective date unless (1) gas has been or is being injected into the horizons containing Group 1 unitized substances, as herein provided, or (2) a plan for the development and operation of Group 2 or Group 3 unitized substances has been established, pursuant to section (6) hereof,

provided that this agreement may be terminated by the Secretary of the Interior upon request of Group 1 Unit Operator and the unit operator or operators for unitized substances in Groups 2 and 3, or, if there be no unit operator for unitized substances in said Groups or either of them, then the owners of the operating interests as to unitized substances as to which there is no unit operator upon the majority of the lands then subject to this agreement, after notice of intention to request such termination has been served on all parties in interest who are not parties to the request for such termination.

REGULATION  
OF DEVELOPMENT  
AND PRODUCTION

19. All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute; provided that the Secretary is vested with authority, pursuant to the mineral leasing act, to alter or modify from time to time in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification.

DETERMINATIONS  
BY OPERATOR AND  
REVIEW THEREOF

20. Operator shall determine all matters involved in this agreement for which a different method of determination is not herein established; provided that Operator shall give timely notice of all such

determinations to all interested parties, including the Secretary; provided further, that all such determinations may be reviewed by the Secretary on his own initiative or on written request of any interested party, notice of any such review to be given to all interested parties, including Operator, within 60 days after receipt of notice of Operator's determination; and provided further, that any matters so reviewed, on request or consent of Operator, may be submitted to a committee of three competent persons appointed by said Secretary, one on nomination of Operator, one on nomination of the other interested parties, and the third on nomination of the first two, the cost of such committee to be a cost of operation and its report (which shall be binding on the committee when concurred in by any two of its members) shall be submitted to said Secretary, the Operator, and other interested parties; and provided further, that opportunity shall be given in said review for all interested parties to present their contentions and supporting evidence by written or oral communication to said committee or said Secretary, and that after consideration of all credible evidence, said Secretary shall render a reasonable decision based thereon and in conformity therewith, which decision, so made and rendered, shall be final and binding on all parties hereto or consenting hereto.

"Operator", as used in this Section 20, means (a) where unitized substances in Group 1 are concerned, the Group 1 Unit Operator; (b) where unitized substances in Groups 2 and 3 are involved, the unit operator or operators for such substances, or, if there be no unit operator for the unitized substances

in both or either of said groups, then the owners of the operating interests as to the unitized substances for which there is no unit operator upon the majority of the lands then subject to this agreement; and (c) where unitized substances in Groups 1, 2 and 3 are involved, the Group 1 Unit Operator and the unit operator or operators for unitized substances in Groups 2 and 3, or if there be no such unit operator for the unitized substances in Groups 2 and 3 or either of them, the owners of the operating interests as to the unitized substances in said groups or group upon the majority of the lands then subject to this agreement.

BOND

21. Any Unit Operator shall furnish within 30 days after approval hereof by the Secretary of the Interior or after his selection and maintain at all times thereafter a bond in the penal sum of \$5,000.00 with approved corporate surety, or with deposit of United States bonds as surety therefor, conditioned upon compliance with the terms of this agreement applicable to him, provided that additional bond may be required at any time deemed necessary by the Secretary of the Interior.

22. It is understood and agreed that the calculations upon which the royalty percentages mentioned in paragraphs 1 and 3 of Section 13(a) and the M.c.f. per acre mentioned in paragraph 4 of said Section 13(a) are based on 5,480 acres of Group 1 unitized substances, initially committed to this agreement. If at any time it is mutually agreed to change the number of acres initially included within Group 1 unitized

substances, then the aforesaid royalty percentages and M. c. f. per acre shall be recalculated on the basis of the new acreage and facts appertaining thereto. No change shall be made in the aforesaid royalty percentages and M.c.f. per acre until such changes are mutually agreed upon by the Secretary of the Interior and Group 1 Unit Operator.

COUNTERPARTS . 23. This agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and set opposite their respective names the date of execution and a list of the lands or interests made subject to this agreement. (Note: When any person executes this agreement in a representative capacity of any type, there should be attached thereto a duly certified or photostatic copy of the instrument(s) setting forth his authority to execute this agreement.)

Date March 13th, 1944.

EL PASO NATURAL GAS COMPANY

By C. C. CRAGIN (sgd)  
Vice President

Attest: J. E. FRANEY (sgd)  
Secretary

Sec. 7: NE $\frac{1}{4}$ NE $\frac{1}{4}$

Oil rights only above 4000' and all gas rights in:

Sec. 9: SW $\frac{1}{4}$ NE $\frac{1}{4}$

Gas rights only to 4000' depth in:

✓ Sec. 4: W $\frac{1}{2}$ NW $\frac{1}{4}$ ; SW $\frac{1}{4}$ ; W $\frac{1}{2}$ SE $\frac{1}{4}$ ; SE $\frac{1}{4}$ SE $\frac{1}{4}$

Sec. 10: SW $\frac{1}{4}$ SW $\frac{1}{4}$ ; SE $\frac{1}{4}$ SE $\frac{1}{4}$

✓ Sec. 15: NE $\frac{1}{4}$ NE $\frac{1}{4}$ ; NW $\frac{1}{4}$ NW $\frac{1}{4}$ ; S $\frac{1}{2}$ N $\frac{1}{2}$

✓ Sec. 5: All

✓ Sec. 6: NE $\frac{1}{4}$ NW $\frac{1}{4}$ ; NE $\frac{1}{4}$ ; N $\frac{1}{2}$ SE $\frac{1}{4}$ ; SE $\frac{1}{4}$ SE $\frac{1}{4}$

✓ Sec. 8: NW $\frac{1}{4}$ ; N $\frac{1}{2}$ SW $\frac{1}{4}$ ; SE $\frac{1}{4}$ SW $\frac{1}{4}$ ; E $\frac{1}{2}$

✓ Sec. 9: E $\frac{1}{2}$ NE $\frac{1}{4}$ ; NW $\frac{1}{4}$ NE $\frac{1}{4}$ ; W $\frac{1}{2}$ ; SE $\frac{1}{4}$

✓ Sec. 10: W $\frac{1}{2}$ NW $\frac{1}{4}$ ; SE $\frac{1}{4}$ NW $\frac{1}{4}$

✓ Sec. 15: S $\frac{1}{2}$

✓ Sec. 17: N $\frac{1}{2}$ NE $\frac{1}{4}$

✓ Sec. 21: E $\frac{1}{2}$ NE $\frac{1}{4}$ ; NW $\frac{1}{4}$ NE $\frac{1}{4}$

✓ Sec. 22: All

✓ Sec. 26: All

✓ Sec. 27: E $\frac{1}{2}$

✓ Sec. 28: S $\frac{1}{2}$

All in Township 26 South, Range 37 East, N.M.P. Meridian.

Date March 22, 1944, 1944.

THE TEXAS COMPANY

By J. S. LEACH (sgd)  
Vice President

Attest: J. B. DUKE (sgd)  
SEAL J. B. Duke  
Assistant Secretary

Sec. 5: All

Sec. 6: NE $\frac{1}{4}$ NW $\frac{1}{4}$ ; NE $\frac{1}{4}$ ; N $\frac{1}{2}$ SE $\frac{1}{4}$ ; SE $\frac{1}{4}$ SE $\frac{1}{4}$

Sec. 8: NW $\frac{1}{4}$ ; N $\frac{1}{2}$ SW $\frac{1}{4}$ ; SE $\frac{1}{4}$ SW $\frac{1}{4}$ ; E $\frac{1}{2}$

Sec. 9: E $\frac{1}{2}$ NE $\frac{1}{4}$ ; NW $\frac{1}{4}$ NE $\frac{1}{4}$ ; W $\frac{1}{2}$ ; SE $\frac{1}{4}$

Sec. 10: W $\frac{1}{2}$ NW $\frac{1}{4}$ ; SE $\frac{1}{4}$ NW $\frac{1}{4}$

Sec. 15: S $\frac{1}{2}$

Sec. 17: N $\frac{1}{2}$ NE $\frac{1}{4}$

Sec. 21: E $\frac{1}{2}$ NE $\frac{1}{4}$ ; NW $\frac{1}{4}$ NE $\frac{1}{4}$

Sec. 22: All

Sec. 26: All

Sec. 27: E $\frac{1}{2}$

Sec. 28: S $\frac{1}{2}$

All in Township 26 South, Range 37 East, N.M.P. Meridian.

Date March 31, 1944.

COLUMBIAN CARBON COMPANY

By REID L. CARR (sgd)  
President

Attest: GEO. L. BUBB (sgd)  
SEAL Asst. Secretary

Date April 6, 1944.

AMERADA PETROLEUM CORPORATION

By ALLMAND M. BLOW (sgd)  
Vice-Pres.

Attest: L. G. ETCHISON (sgd)  
SEAL Asst. Secy.

Approved as to terms:

?? 3/16/44 C. B. WILLIAMS (sgd)

*Annex I*

"SIDE" AGREEMENT

dated as of March 13, 1944

between

THE TEXAS COMPANY,  
AMERADA PETROLEUM CORPORATION and  
COLUMBIAN CARBON COMPANY  
Seller

and

EL PASO NATURAL GAS COMPANY  
Buyer

THE STATE OF NEW MEXICO )  
COUNTY OF LEA )

WHEREAS, under date of September 17, 1928, El Paso Gas Utilities Corporation, a Delaware Corporation, entered into an agreement with Texas Production Company, a Colorado corporation, Columbian Carbon Company, a Delaware corporation, and Amerada Petroleum Corporation, a Delaware corporation, by the terms of which El Paso Gas Utilities Corporation agreed to purchase from the other corporations above mentioned certain gas to be produced from certain lands in Lea County, New Mexico, then covered by oil and gas prospecting permits issued by the Department of the Interior, Texas Production Company, Columbian Carbon Company, and Amerada Petroleum Corporation having acquired the right to produce and market gas under said permits and the leases into which they should or might mature, and

WHEREAS, El Paso Gas Utilities Corporation assigned its interest in said agreement of September 17, 1928, to El Paso Natural Gas Company, a Delaware corporation, and Texas Production Company assigned its interest in said agreement of September 17, 1928, to The Texas Company, a Delaware corporation, and

WHEREAS, on October 27, 1937, said The Texas Company, Columbian Carbon Company, and Amerada Petroleum Corporation, and said El Paso Natural Gas Company, entered into a supplemental agreement providing for the extraction by El Paso Natural Gas Company of natural gasoline from said gas, and

WHEREAS, said The Texas Company, Columbian Carbon Company, and Amerada Petroleum Corporation, and said El Paso Natural Gas Company, entered into various supplemental agreements in respect to the purchase and sale of gas and gasoline, butane, propane, etc., therefrom, and

WHEREAS, there is now covered by said agreements and supplements thereto the list of leases and acreage specifically described in Exhibit "A" attached hereto and herein referred to for all purposes, and

WHEREAS, there have been drilled upon said leases the 17 wells described in Exhibit "B" attached hereto and herein referred to for all purposes, and

WHEREAS, The Texas Company above mentioned was merged into The Texas Corporation, a Delaware corporation, whose name was change to The Texas Company, and

WHEREAS, said last mentioned The Texas Company and said Columbian Carbon Company and Amerada Petroleum Corporation are hereinafter referred to as Seller, and said El Paso Natural Gas Company is hereinafter referred to as Buyer.

NOW, THEREFORE, Seller and Buyer enter into the following agreement, which shall, when and if it becomes effective under paragraph 18 hereof, supersede all the agreements above mentioned or referred to, except for the obligations and rights thereunder in respect to the period prior to January 1, 1944, which obligations and rights in respect to the period prior to January 1, 1944, shall remain in full force and effect.

1.

For and in consideration of the payments and covenants hereinafter provided to be made and performed by Buyer, and subject to the conditions herein stated, Seller hereby grants to Buyer the exclusive right to drill for and produce gas to a depth of 4,000 feet below the surface, in the case of all the leases described in said Exhibit "A", except the W. T. Lanehart lease, and to a depth of 3,500 feet below the surface in the case of said W. T. Lanehart lease, and Seller also sells to Buyer the seventeen wells described in said Exhibit "B", together with all equipment, valves, connections, pipe, derricks, etc., now used in connection with said wells and on said leases. Whenever the depth of 4,000 feet is hereinafter referred to in this agreement, it shall be taken to mean not 4,000 feet but 3,500 feet, in the case of the said W. T. Lanehart lease, but in the case of all other leases it shall have its natural meaning. Buyer shall, so far as Seller is concerned, have the right, (and Seller, so far as, but only so far as, Seller has the power to do so, confers upon the Buyer the right), to inject gas, no matter from what lands produced, into the horizons above 4,000 feet in the lands described in said Exhibit "A", and thereafter to produce said injected gas the same as if it had originally been in place in said horizons, and to use any of said seventeen wells as input wells, or to close in any of said wells, all in its absolute discretion in the operation of said lands for gas above 4,000 feet. The word "gas" as

used herein includes the natural gasoline, propane, butane and other content of the gas.

2.

(a) In consideration for said grant and sale, Buyer agrees to pay Seller the following sums:

(i) Buyer shall pay Seller the sum of \$75,000.00 in cash on the execution and delivery of this instrument.

(ii) Commencing with January 1944 and continuing until and including June 1944, Buyer shall pay Seller a monthly sum computed as follows:

Multiply 4.65¢ by the number of thousand cubic feet which shall constitute 45% of Buyer's total pipeline requirements for the month in question;

each month's payment to be made on or before the 25th day of the succeeding month.

(iii) If 45% of Buyer's total pipeline requirements for the period from January 1944 to June 1944, both inclusive shall be less than 8,100,000,000 cubic feet of gas, then Buyer shall pay Seller, on or before July 25, 1944, a sum of money computed by multiplying 1¢ by the number of thousand cubic feet representing the difference between 8,100,000,000 cubic feet and said 45%.

(iv) Commencing with the month of July 1944, Buyer shall pay Seller a monthly sum computed as follows:

Multiply 1.86¢ by the number of thousand cubic feet which shall constitute 45% of Buyer's total pipeline requirements for the month in question.

Said monthly payments shall continue until the total amount paid under this subdivision (iv) shall aggregate \$161,882.00.

(b) For the purposes of subdivisions (ii), (iii) and (iv) of subparagraph (a) of this paragraph 2, Buyer's total pipeline requirements means "the total requirements of said " (Buyer's) "pipeline" as defined in the contract dated September 17, 1928, and supplements and amendments thereto, including the Supplemental Agreement of October 25, 1939, determined on the basis of measurements specified in the contract dated September 17, 1928. On or before the 25th day of February 1944, and on or before the 25th day of each month thereafter until the completion of all payments under this contract, Buyer shall submit to Seller a statement showing 45% of its total pipeline requirements for the calendar month preceding. On or before July 25, 1944, Buyer shall submit to Seller a statement showing 45% of its total pipeline requirements for the entire period from January 1944 to June 1944, both inclusive. The foregoing statements are to be submitted for the purpose of determining the payments due from Buyer to Seller under subdivisions (ii), (iii) and (iv) of subparagraph (a) of this paragraph 2.

(c) All and singular the foregoing payments mentioned in this paragraph 2 shall be made by Buyer irrespective of whether or not any gas is taken from said wells or leases and irrespective of whether or not said wells or leases are or shall be capable of supplying 45% of Buyer's total pipeline requirements.

3.

Buyer agrees to pay all royalties and taxes upon gas produced from said land above 4,000 feet. In the event

there is any increase before July 1, 1944, in the rate of the taxes now levied upon gas, such increase shall, as to the quantities used in calculating monthly payments to Seller subsequent to such increase under subdivision (ii) of subparagraph (a) of paragraph 2 hereof, be prorated equally between the Seller and the Buyer. Buyer agrees to indemnify and hold Seller harmless from all liability, expenses and damages of any kind or character attributable to or resulting from any failure by Buyer to pay any royalties or taxes which Buyer is obligated by this paragraph to pay, or Buyer's shutting in any of said seventeen wells, or Buyer's injection of gas into formations above 4,000 feet below the surface, or Buyer's failure to produce gas from said horizons, or anything which Buyer may do or refrain from doing in or about the development and operation of said lands to a depth of 4,000 feet for gas.

4.

Any oil which Buyer may produce from a well then owned by it on said lands not deeper than 4,000 feet, either incident to the production of gas, or under any other circumstances, when under this agreement Buyer has the right to produce such oil from such well, shall be and remain the property of Seller. Buyer shall provide storage and any other necessary equipment therefor, and handle all shipments required in the marketing of such oil. Seller shall pay to Buyer 37-1/2 percent of The Texas Company's posted price of such oil at the wells, less production tax, as compensation

to Buyer for such production and handling. Seller shall be responsible for the payment of all royalties and production taxes upon such oil so produced. Notwithstanding the foregoing provision of this paragraph 4, oil produced by Buyer pursuant to the provisions of paragraph 9(b) hereof during the period therein specified shall be the property of Buyer, and Buyer shall pay all royalties and production taxes on such oil.

5.

It is specifically understood and agreed that the following wells are deemed to be oil wells and are to be retained by Seller and are to be operated by Seller as such:

H. G. Moberly	(a)	#1
W. H. Rhodes	(b)	#1
W. H. Rhodes	(b)	#2
W. H. Rhodes	(b)	#3

6.

Either party shall have the right to drill a well on any forty acre tract (based on legal subdivisions) on said lands (provided, however, Buyer may not drill to a depth in excess of 4,000 feet) but, except upon demand of the Oil and Gas Supervisor, neither party shall have the right to drill a well for the purpose of producing from the presently known producing horizons above 4,000 feet from the surface of the ground on any forty acre tract (based on legal subdivisions) on which there is then an existing oil or gas well which is producing from a horizon above 4,000 feet from the surface of the ground.

7.

For the purposes of this agreement the production from any well shall at any given time be considered predominantly oil when the value of the oil then being produced from such well at the current posted market price at the well exceeds the current market value at the well of the gas then being produced from such well, and the production from any well shall at any given time be considered predominantly gas when the current market value at the well of the gas then being produced from such well exceeds the value of the oil then being produced from such well at the current posted market price at the well.

8.

As to any of the seventeen wells transferred to Buyer hereunder whose production may hereafter become predominantly oil, Buyer shall immediately discontinue producing such well and promptly notify Seller of such occurrence and Seller shall have the right within thirty days after receipt of such notice to take over the ownership and operation of such well upon payment to Buyer of \$4,411.00, whereupon title to such well and any equipment which is necessary for its operation and located at such well shall be transferred to Seller and such well shall thereafter be subject to operation by Seller under the provisions of this agreement, including but without limitation, paragraph 12.

If for any reason Seller should not elect to take over such well, then it shall be retained by Buyer and re-

main its property, and be subject to operation by Buyer under the provisions of this agreement, including but without limitation, paragraph 4.

9.

(a) As to any well which may hereafter be drilled by Buyer whose production is or becomes predominantly oil, Buyer shall immediately discontinue producing such well and notify Seller of such occurrence and Seller shall have the right within thirty days after receipt of such notice to take over the ownership and operation of such well upon the payment to Buyer of Buyer's cost of drilling and completing such well, whereupon title to such well and equipment pertinent thereto shall be transferred to Seller, and such well shall thereafter be subject to operation by Seller under the provisions of this agreement, including, but without limitation, paragraph 12.

(b) If for any reason Seller should not elect to take over such well, then it shall be retained and operated by Buyer until the gross value of oil, at The Texas Company's posted price of such oil at the well, and gas, the gross value of gas being determined at the current market value thereof at the well, less royalty and taxes, produced by Buyer from such well shall equal 150 percent of Buyer's cost for drilling and equipping such well, whereupon title to such well and equipment pertinent thereto shall be transferred to Seller, and such well shall thereafter be subject to operation by Seller under the provisions of this agreement, including, but without limitation, paragraph 12.

10.

As to any of the four wells in paragraph 5 hereof, whose production may hereafter become predominantly gas, Seller shall immediately discontinue producing such well and notify Buyer of such occurrence and Buyer shall have the right within thirty days after receipt of such notice to take over the ownership and operation of such well upon payment to Seller of \$4,411.00 whereupon title to such well and equipment pertinent thereto shall be transferred to Buyer, and such well shall thereafter be subject to operation by Buyer under the provisions of this agreement, including, but without limitation, paragraph 4.

If for any reason Buyer shall fail to exercise this right, then Seller shall have the right either to continue operating the well under the provisions of this agreement, including, but without limitation, paragraph 12, or at its option to plug, abandon and salvage such well.

11.

As to any well which may hereafter be drilled by Seller, the production from which, in any stratum at or above 4,000 feet below the surface, is or becomes predominantly gas, Seller shall have the right to plug, abandon, and salvage such well, or at its option to offer to transfer such well to Buyer upon payment to Seller of \$4,411.00, and upon such offer made with offer of delivery of proper transfer of said well Buyer shall be obligated to accept same and pay said consideration, upon payment of which consideration

such well shall become the property of Buyer and thereafter be subject to operation by Buyer under the provisions of this agreement, including, but without limitation, paragraph 4. It is understood in this connection that at the time of the offer and transfer of said well the well shall be equipped with tubing and shall be in substantially as good operating condition as the seventeen wells provided to be taken over by Buyer under this agreement.

12.

It is understood that all gas as and when produced from depths above 4,000 feet below the surface of the ground shall be the property of Buyer, and, when such gas is produced by Seller, it shall be tendered to Buyer at available pressures at the outlet of the well or at the outlet of the trap serving such well, but Buyer's failure to take delivery of any such gas shall not prohibit Seller from producing the well in order to produce its oil, providing same is operated under applicable regulations.

13.

Except where Seller plugs, abandons and salvages a well in accordance with paragraph 10 or paragraph 11 hereof, either party shall have the right to acquire from the other party a well and the equipment therein at the net salvage value of such equipment when any such well is proposed to be abandoned by the other party.

14.

Notwithstanding anything herein contained to the contrary, it is understood that, before Seller shall be re-

quired to tender any well to Buyer because the production from such well is or has become predominantly gas, Seller shall have the right to plug back, deepen, redrill, or carry on such other remedial work in such well as Seller may desire, in an attempt to cause the well's production to become predominantly oil. In the event Seller, as to any such well, plugs back, deepens, redrills or carries on such other remedial work in such well in an attempt to cause the well's production to become predominantly oil, Seller shall have the right to discontinue such work at any time it desires to do so and to then tender said well to Buyer in its then existing condition.

In like manner and notwithstanding anything herein contained to the contrary, it is understood that, before Buyer shall be required to tender any well to Seller, as hereinabove provided, because the production from such well is or has become predominantly oil, Buyer shall have the right to plug back, deepen, redrill, or carry on such other remedial work in such well as Buyer may desire in an attempt to cause the well's production to become predominatly gas. In the event Buyer as to any such well plugs back, deepens, redrills or carries on such other remedial work in such well in an attempt to cause the well's production to become predominantly gas, Buyer shall have the right to discontinue such work at any time it desires to do so and to then tender said well to Seller in its then existing condition.

Seller agrees to pay the rentals due to the United States or to the State of New Mexico applicable to any lands included in Exhibit "A" which are covered by a Federal or State lease, except such rentals as under the terms of any unit agreement then in effect are solely gas rentals, i. e., the lands to which such rentals apply are determined by the Secretary of the Interior to be valuable only for storage or production of gas (including casinghead gas) at a depth of 4,000 feet or less, which gas rentals Buyer shall pay. Buyer agrees to reimburse Seller for such portion of the net rentals paid by Seller to the United States or to the State of New Mexico applicable to any lands included in Exhibit "A" which are covered by a Federal or State lease as the value of the gas production marketed from such lands during the lease year in question bears to the aggregate value of the gas production and the oil production marketed from such lands during such lease year; provided, however, that if neither gas production nor oil production was marketed from such lands during such lease year, then the reimbursement by Buyer to Seller shall, in the case of lands subject to any unit agreement be of one-half the rental applicable to such lands paid by Seller, and in the case of lands not subject to a unit agreement, be of 25¢ per acre. "Net rentals" means rentals paid to the extent that they are not credited against royalties. In case of lands as to which a unit agreement is in effect, gas production or oil production marketed from lands means gas production or oil production marketed which

under the unit agreement is allocable to the lands in question.

16.

It is understood that Seller's rights in the lands included in Exhibit "A" which are covered by Federal leases were obtained under and by virtue of operating agreements (the term "operating agreements" as used in this paragraph includes any supplements or amendments thereof), and that in cases where Seller holds legal title to such a Federal lease it does so subject to the terms and conditions of the applicable operating agreement. If at any time Seller desires to surrender its operating agreement as to any lands included in Exhibit "A" which are covered by a Federal lease, it shall first offer to assign said operating agreement as to such lands to Buyer, and in connection therewith (if it holds legal title thereto) to assign the lease involved, as to such lands, to the Buyer subject to the terms and conditions under which Seller holds such lease. Unless Buyer within 15 days after such offer accepts such assignment (thereby assuming all obligations under said operating agreement as to the lands covered by the assignment thereof) Seller shall be free to surrender said operating agreement as to the lands in question and in connection with such surrender (if it holds legal title thereto) to assign, as to said lands, the Federal lease involved to whoever is then entitled under the operating agreement to receive such assignment, or to release said lease as to such lands to the United States. It is understood and recognized that such surrender of the

operating agreement will destroy Buyer's rights in respect to the lands affected by such surrender. This agreement shall terminate as to any lands as to which Seller assigns to Buyer the applicable operating agreement as aforesaid or as to which Seller surrenders said operating agreement as aforesaid. Any assignment or surrender of a lease under the provisions of this section shall be made subject to approval by the Secretary of the Interior.

17.

The provisions of this contract shall extend to and be binding upon the heirs, successors, and assigns of the parties hereto, providing, however, that same may be assigned to a Trustee as security under a mortgage without the necessity of the Trustee assuming any of the obligations hereof.

18.

This agreement shall become effective only when (a) it has been approved by the Secretary of the Interior, which approval is hereby requested; and (b) a unit agreement in the form, a draft of which has been initialled by the parties hereto (or said form as it may be amended by mutual consent of the parties hereto), has become effective with the approval of the Secretary of the Interior as to the lands described in Exhibit "A" which are within the Rhodes Unit Area as defined in said draft; but when conditions (a) and (b) have been fulfilled the effective date of this agreement shall for all purposes, as between the parties hereto, be deemed to be January 1, 1944. Notwithstanding the

Secretary's approval of this agreement, nothing herein shall be deemed to alter or revoke any of the terms or conditions of any Federal lease upon any of the lands described in Exhibit "A" or to affect any of the operating regulations applicable to any such lease.

EXECUTED IN QUADRUPLICATE THIS 13th day of March, 1944.

(SEAL)

THE TEXAS COMPANY

ATTEST:

s/ J. B. Duke  
Assistant Secretary

By s/ J. S. Leach  
Vice President

(SEAL)

COLUMBIAN CARBON COMPANY

ATTEST:

s/ Geo. L. Bubb  
Asst. Secretary.

By s/ Reid L. Carr  
President.

(SEAL)

AMERADA PETROLEUM CORPORATION

ATTEST:

s/ L. G. Etchison  
Asst-Sec'y

By s/ Allmand M. Blow  
Vice-Pres.

SELLER

(SEAL)

EL PASO NATURAL GAS COMPANY

ATTEST:

s/ J. E. Franey

By s/ C. C. Cragin

BUYER

APPROVED AS TO FORM:

APPROVED AS TO TERMS:

\_\_\_\_\_

O.K. 3/16/44 C. B. Williams

STATE OF TEXAS )  
COUNTY OF HARRIS )

On the 22 day of March, 1944, before me personally appeared J. S. Leach, to me personally known, who, being by me duly sworn, did say that he is the Vice President of The Texas Company and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. S. Leach acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal on this the day and year first above written. (SEAL)

My Commission expires: June 1, 1945  
s/ J. R. Haley  
Notary Public, in and for  
Harris County, Texas. J. R. Haley

STATE OF NEW YORK )  
COUNTY OF NEW YORK )

On the 31st day of March, 1944, before me personally appeared Reid L. Carr, to me personally known, who, being by me duly sworn, did say that he is the President of Columbian Carbon Company and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said Reid L. Carr acknowledged said instrument to be the free act and deed of said corporation.

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

(SEAL)  
My Commission expires: March 30, 1946  
s/ Lyman J. Potter  
Notary Public, in and for  
New York County, New York.  
Lyman J. Potter  
Notary Public Kings Co #74, Reg. #87-P-6  
Cert. filed in N.Y.Co Clk's #78, Reg. #50-P-6  
Commission Expires March 30, 1946

STATE OF Oklahoma )  
COUNTY OF Tulsa )

On the 7th day of April, 1944, before me personally appeared Allmand M. Blow, to me personally known, who, being by me duly sworn, did say that he is the Vice-President of Amerada Petroleum Corporation and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said Allman M. Blow acknowledged said instrument to be the free act and deed of said corporation.

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

(SEAL)

s/ Lucille Bradley  
Notary Public, in and for  
Tulsa County Okla.

My Commission expires

Jan. 15, 1948.

STATE OF TEXAS        Y  
                              |  
                              |  
COUNTY OF EL PASO    |

On the 13th day of March, 1944, before me personally appeared C. C. Cragin, to me personally known, who, being by me duly sworn, did say that he is the Vice President of El Paso Natural Gas Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said C. C. Cragin acknowledged said instrument to be the free act and deed of said corporation.

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

s/ Mary C. McGurn  
Notary Public, in and for  
El Paso County, Texas.

My commission expires:

MARY C. MCGURN (SEAL)  
Notary Public, In And For El Paso County, Texas  
My commission Expires June 1, 1945

EXHIBIT WA

ATTACHED TO AND MADE A PART OF AGREEMENT DATED March 13, 1944,  
 BY AND BETWEEN THE TEXAS COMPANY, COLUMBIAN CARBON COMPANY AND  
 AMERADA PETROLEUM CORPORATION, AS SELLER, AND EL PASO NATURAL GAS  
 COMPANY, AS BUYER

FEDERAL LEASES

T.T.Co. FILE NO.	Name	Las Cruces Serial No.	Description	Sec- tion	Town- ship	Range	Acreage
41667	C. W. Shepherd	030177 (a)	Lots 1 & 2; E $\frac{1}{2}$ of NW $\frac{1}{4}$ ; NE $\frac{1}{4}$ ;	6	26S	37E )	480.00
			NW $\frac{1}{4}$ ;	1	26S	36E )	
			NW $\frac{1}{4}$ ;	1	26S	36E )	160.00
41665	Clifton C. Cagle	030177 (b)	Lots 3 & 4; E $\frac{1}{2}$ of SW $\frac{1}{4}$ ; SE $\frac{1}{4}$	6	26S	37E )	1120.30
			SE $\frac{1}{4}$ ;	1	26S	36E )	
			ALL	5	26S	37E )	
			SW $\frac{1}{4}$ ;	1	26S	36E )	320.00
			NW $\frac{1}{4}$ ;	35	25S	36E )	
41665	Clifton C. Cagle	030176 (a)	N $\frac{1}{2}$ of NE $\frac{1}{4}$ ; SE $\frac{1}{4}$ of NE $\frac{1}{4}$ ; W $\frac{1}{2}$ ; SE $\frac{1}{4}$ ;	9	26S	37E )	640.00
			SW $\frac{1}{4}$ of NW $\frac{1}{4}$ ;	10	26S	37E )	
			SE $\frac{1}{4}$ ;	15	26S	37E )	600.00
SW $\frac{1}{4}$ ;	3	26S	37E )				
N $\frac{1}{2}$ of NW $\frac{1}{4}$ ; SE $\frac{1}{4}$ of NW $\frac{1}{4}$ ;	10	26S	37E )				
41666	H. G. Moberly	030181 (a)	ALL	8	26S	37E )	640.00
			030181 (b)	SW $\frac{1}{4}$ of NW $\frac{1}{4}$ ; W $\frac{1}{2}$ of SW $\frac{1}{4}$ ; N $\frac{1}{2}$ of NE $\frac{1}{4}$ ;	17	26S	37E )
W $\frac{1}{2}$ ;	20	26S		37E )			
N $\frac{1}{2}$ of NE $\frac{1}{4}$ ; SE $\frac{1}{4}$ of NE $\frac{1}{4}$ ;	21	26S		37E )			

(Continued)

EXHIBIT "A" (Continued)

FEDERAL LEASES

TTCo. FILE NO.	Name	Las Cruces Serial No.	Description	Sec- tion	Town- ship	Range	Acreage
41652	Wm. H. Rhodes	030174 (a)	ALL	22	26S	37E	640.00
		030174 (b)	ALL	26	26S	37E )	
			NE $\frac{1}{4}$ ;	27	26S	37E )	1280.00
			SE $\frac{1}{4}$ ;	28	26S	37E )	
41668	Margaret L. Parker	032604 (a)	W $\frac{1}{2}$ of W $\frac{1}{2}$ ;	29	26S	37E	160.00

STATE LEASES

TTCo. FILE NO.	Name	State Lease No.	Description	Sec- tion	Town- ship	Range	Acreage
80650	State of New Mexico	B-8014	S $\frac{1}{2}$ of NE $\frac{1}{4}$ ;	16	26S	37E	80.00
80995	State of New Mexico	B-1431	N $\frac{1}{2}$ of NE $\frac{1}{4}$ ; NE $\frac{1}{4}$ of NW $\frac{1}{4}$ ;	16	26S	37E	120.00

PRIVATE LEASES

63870	W. T. Lanehart		NE $\frac{1}{4}$ ;	29	25S	37E	160.00
			TOTAL				7,040.30

EXHIBIT "B"

ATTACHED TO AND MADE A PART OF AGREEMENT DATED March 13, 1944,  
BY AND BETWEEN THE TEXAS COMPANY, COLUMBIAN CARBON COMPANY AND  
AMERADA PETROLEUM CORPORATION, AS SELLER, AND EL PASO NATURAL  
GAS COMPANY, AS BUYER

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- C. C. Cagle (a) No. 1 (Lease No. 41665), located  
1650' from South line and 1650' from West line of  
Section 9, Township 26 South, Range 37 East, Lea  
County, New Mexico.
- C. C. Cagle (a) No. 2 (Lease No. 41665), located  
990' South and 990' West of the Northeast Corner  
of the NW $\frac{1}{4}$  of Section 9, Township 26 South, Range  
37 East, Lea County, New Mexico.
- C. C. Cagle (b) No. 1 (Lease No. 41665), located  
660' from West and 1980' from South lines of Sec-  
tion 15, Township 26 South, Range 37 East, Lea  
County, New Mexico.
- C. C. Cagle (b) No. 2 (Lease No. 41665), located  
Center of SW $\frac{1}{4}$  of SW $\frac{1}{4}$  of Section 15, Township 26  
South, Range 37 East, Lea County, New Mexico.
- W. T. Lanehart No. 1 (Lease No. 41516), located  
1320' from North and East lines of Section 29,  
Township 25 South, Range 37 East, Lea County, New  
Mexico.
- H. G. Moberly (b) No. 1 (Lease No. 41666), located  
Center of the NE $\frac{1}{4}$  of the NE $\frac{1}{4}$  of Section 21, Town-  
ship 26 South, Range 37 East, Lea County, New  
Mexico.
- H. G. Moberly (b) No. 2 (Lease No. 41666), located  
Center of the NW $\frac{1}{4}$  of the NE $\frac{1}{4}$  of Section 21, Town-  
ship 26 South, Range 37 East, Lea County, New  
Mexico.
- M. L. Parker No. 1 (Lease No. 41668), located  
660' South of North line and 660' East of West  
line of Section 29, Township 26 South, Range 37  
East, Lea County, New Mexico.
- W. H. Rhodes (a) No. 1 (Lease No. 41652), located  
990' South of North line and 330' West of East  
line of NE $\frac{1}{4}$  of NW $\frac{1}{4}$  of Section 22, Township 26  
South, Range 37 East, Lea County, New Mexico.

(Continued)

- W. H. Rhodes (a) No. 2 (Lease No. 41652), located 1650' from South and 1650' from East lines of Section 22, Township 26 South, Range 37 East, Lea County, New Mexico.
- C. W. Shepherd (a) No. 1 (Lease No. 41667), located 330' from East line and 2310' from North line of Section 6, Township 26 South, Range 37 East, Lea County, New Mexico.
- C. W. Shepherd (a) No. 2 (Lease No. 41667), located Center of SW $\frac{1}{4}$  of NW $\frac{1}{4}$  of Section 6, Township 26 South, Range 37 East, Lea County, New Mexico.
- C. W. Shepherd (b) No. 1 (Lease No. 41667), located 2310' North of South line and 330' East of West line of Section 5, Township 26 South, Range 37 East, Lea County, New Mexico.
- C. W. Shepherd (b) No. 2 (Lease No. 41667), located 330' South of North line and 990' West of East line of SE $\frac{1}{4}$  of Section 6, Township 26 South, Range 37 East, Lea County, New Mexico.
- C. W. Shepherd (b) No. 3 (Lease No. 41667), located 990' South and 990' West of the Northeast corner of Section 5, Township 26 South, Range 37 East, Lea County, New Mexico.
- C. W. Shepherd (b) No. 4 (Lease No. 41667), located 1320' North and 1320' West of the Southeast corner of Section 5, Township 26 South, Range 37 East, Lea County, New Mexico.
- State of New Mexico "Y" Lease Well No. 1 (Lease No. 80650), located 660' North and 1270' West of the Southeast corner of the NE $\frac{1}{4}$  of Section 16, Township 26 South, Range 37 East, Lea County, New Mexico.

UNITED STATES DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT  
N.M. OIL CONS. COMMISSION  
P.O. BOX 1980  
HOBBS, NEW MEXICO 88240

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1. TYPE OF WORK  
 DRILL  DEEPEN

2. TYPE OF WELL  
 OIL WELL  GAS WELL  OTHER   
 SINGLE ZONE  MULTIPLE ZONE

3. NAME OF OPERATOR  
 Meridian Oil Inc.

4. ADDRESS AND TELEPHONE NO.  
 P.O. Box 51810 Midland, Texas 79710-1810 915-688-6943

5. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)  
 At surface  
 330' FNL & 1470' FWL  
 At proposed prod. zone *Unit C*

6. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE\*  
 6.8 miles south of Jal, New Mexico

7. DISTANCE FROM PROPOSED\* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any)  
 330'

8. DISTANCE FROM PROPOSED LOCATION\* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.  
 Unk.

9. ELEVATIONS (Show whether DF, RT, GR, etc.)  
 2994'

10. LEASE DESIGNATION AND SERIAL NO.  
 LC 030174-B

11. IF INDIAN, ALLOTTEE OR TRIBE NAME

12. UNIT AGREEMENT NAME

13. FARM OR LEASE NAME, WELL NO.  
 Rhodes 'B' Federal # 7

14. AP WELL NO.

15. FIELD AND POOL, OR WILDCAT  
 Rhodes Gas Pool *Y-SR*

16. SEC., T., R., M., OR BLK. AND SURVEY OR AREA  
 S26, T26S, R37E

17. COUNTY OR PARISH  
 Lea

18. STATE  
 NM

19. NO. OF ACRES IN LEASE

20. NO. OF ACRES ASSIGNED TO THIS WELL  
 160

21. ROTARY OR CABLE TOOLS  
 Rotary

22. APPROX. DATE WORK WILL START\*  
 Upon Approval

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
12 1/4"	8 5/8"	28#	550'	300 SXS CIRCULATE
7 7/8"	4 1/2"	11.6#	3150'	650 SXS (TIE BACK)

Not in Potash Area  
 Not in Prairie Chicken Area  
 Hydrogen Sulfide Plan is attached  
 Notice of Staking submitted on October 6, 1995  
 Contact Person: Donna Williams, 915-688-6943

Approval for drilling only -- CANNOT produce until Non-Standard Location is approved.

OPER. OGRID NO. 26485  
 PROPERTY NO. 17608  
 POOL CODE 52250  
 EFF. DATE 1/16/96  
 API NO. 30-025-33249

RECEIVED  
 OCT 26 10 37 AM '95  
 AREA  
 REGS

1. ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

SIGNED [Signature] TITLE Regulatory Compliance DATE 10/23/95

(This space for Federal or State office use)

PERMIT NO. \_\_\_\_\_ APPROVAL DATE \_\_\_\_\_ APPROVAL SUBJECT TO GENERAL REQUIREMENTS AND SPECIAL SPECIFICATIONS ATTACHED

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to a share of the production thereon.

CONDITIONS OF APPROVAL, IF ANY: \_\_\_\_\_  
 APPROVED BY \_\_\_\_\_ TITLE \_\_\_\_\_ DATE \_\_\_\_\_

**ATTACHMENT H**

\*See Instructions On Reverse Side

**U.S. OIL CONS. COMMISSION**  
**P.O. BOX 1980**  
**HOBBS, NEW MEXICO 87401**  
**UNITED STATES**  
**DEPARTMENT OF THE INTERIOR**  
**BUREAU OF LAND MANAGEMENT**

**SUBMIT IN TRIPLICATE\***  
(Other instructions on reverse side)

Form approved.  
Budget Bureau No. 1004-0136  
Expires: December 31, 1991

**APPLICATION FOR PERMIT TO DRILL OR DEEPEN**

**A. TYPE OF WORK**  
 DRILL  DEEPEN

**B. TYPE OF WELL**  
 OIL WELL  GAS WELL  OTHER  SINGLE ZONE  MULTIPLE ZONE

**2. NAME OF OPERATOR**  
 Meridian Oil Inc.

**3. ADDRESS AND TELEPHONE NO.**  
 P.O. Box 1810 Midland, Texas 79710-1810 915-688-6943

**4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)\***  
 At surface 2418' FSL & 553' FEL  
 At proposed prod. zone *Unit I*

**14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE\***  
 6.8 miles south of Jal, New Mexico

**10. DISTANCE FROM PROPOSED\* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any)** 553'

**16. NO. OF ACRES IN LEASE**

**17. NO. OF ACRES ASSIGNED TO THIS WELL** 160

**18. DISTANCE FROM PROPOSED LOCATION\* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.** Unk.

**19. PROPOSED DEPTH** 3150'

**20. ROTARY OR CABLE TOOLS** Rotary

**21. ELEVATIONS (Show whether DF, RT, GR, etc.)** 2980'

**22. APPROX. DATE WORK WILL START\*** Upon Approval

**5. LEASE DESIGNATION AND SERIAL NO.**  
 LC 030174- B

**6. IF INDIAN, ALLOTTEE OR TRIBE NAME**

**7. UNIT AGREEMENT NAME**

**8. FARM OR LEASE NAME, WELL NO.**  
 Rhodes 'B' Federal # 4

**9. API WELL NO.**

**10. FIELD AND POOL, OR WILDCAT**  
 Rhodes Gas Pool *Y-SR*

**11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA**  
 27, T26S, R37E

**12. COUNTY OR PARISH** Lea **13. STATE** NM

**23. PROPOSED CASING AND CEMENTING PROGRAM**

SIZE OF HOLE	GRADE SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
12 1/4"	8 5/8"	28#	550'	300 SXS <b>CIRCULATE</b>
7 7/8"	4 1/2"	11.6#	3150'	650 SXS <b>(TIE BACK)</b>

Not in Potash Area  
 Not in Prairie Chicken Area  
 Hydrogen Sulfide Plan is attached  
 Notice of Staking submitted on October 6, 1995  
 Contact Person: Donna Williams, 915-688-6943

Approval for drilling only -- CANNOT produce until Non-Standard Location is approved.

OPER. GRID NO. 26485  
 PROPERTY NO. 17608  
 POOL CODE 52250  
 EFF. DATE 1/16/96  
 API NO. 30-025-33248

RECEIVED  
 OCT 26 10 29 AM '95  
 CANNONVILLE DISTRICT OFFICES

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

**24.** [Signature] **SIGNED** Regulatory Compliance **TITLE** 10/23/95 **DATE**

(This space for Federal or State office use)

PERMIT NO. \_\_\_\_\_ APPROVAL DATE \_\_\_\_\_

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

CONDITIONS OF APPROVAL, IF ANY:

APPROVAL SUBJECT TO  
 GENERAL REQUIREMENTS AND  
 SPECIAL STIPULATIONS  
 ATTACHED

APPROVED BY \_\_\_\_\_ TITLE \_\_\_\_\_ DATE \_\_\_\_\_

\*See Instructions On Reverse Side

**ATTACHMENT H**

FOR

MICHAEL

STOENER

---

GALLEGOS LAW FIRM      PHONE: 505/983-6686  
460 St. Michaels Dr.  
Building 300  
Santa Fe NM 87505

**IMPORTANT**

THE INFORMATION CONTAINED IN THIS FACSIMILE MESSAGE IS  
CONFIDENTIAL AND INTENDED SOLELY FOR THE USE OF THE INDIVIDUAL  
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IMMEDIATELY BY TELEPHONE, AND RETURN THE FACSIMILE TO THE  
SENDER AT THE ABOVE ADDRESS VIA THE UNITED STATES POSTAL  
SERVICE. THANK YOU.

**GALLEGOS LAW FIRM**

A Professional Corporation

460 St. Michael's Drive  
Building 300  
Santa Fe, New Mexico 87505  
Telephone No. 505-983-6686  
Telefax No. 505-986-1367  
Telefax No. 505-986-0741

March 21, 1996

MICHAEL J. CONDON

**HAND-DELIVERED**

William J. LeMay, Director  
New Mexico Oil Conservation Division  
2040 South Pacheco Street  
Santa Fe, NM 87505

Re: Application of Doyle Hartman and Margaret Hartman dba Doyle Hartman, Oil Operator, and James A. Davidson for (i) de novo hearing, (ii) order authorizing discovery, (iii) withdrawal of Administrative Order NSL-3633, (iv) denial of Meridian application, (v) and redefinition of Rhodes Gas Pool boundary

Dear Mr. LeMay:

Thank you for your letter of March 19, 1996 setting this matter for an examiner hearing. Our preference is to be placed on the docket on May 2, 1996 in Santa Fe. We will direct discovery requests to the Division hearing examiner shortly.

With respect to your proposed caption and advertisement notice, we would recommend an amendment deleting reference to the Rhodes "B" Federal Well No. 4 in Section 27. We have not objected to that well, nor did we intend by our application to challenge the treatment afforded the Rhodes "B" Federal Well No. 4 by the Division. Our only concern with respect to Administrative Order NSL-3633 involves the Rhodes "B" Federal Well No. 7. I would suggest that the notice be amended as follows:

**Application of Doyle Hartman and Margaret Hartman dba Doyle Hartman, Oil Operator, and James A. Davidson for redefinition of the Rhodes Gas Pool boundary and for withdrawal of Administrative Order NSL-3633 which granted an unorthodox well location to Meridian Oil Inc., Lea County, New Mexico. Applicant seeks redefinition of the boundary of the Rhodes Gas Pool pursuant to Division Rule 5d to include the Rhodes "B" Federal Well No. 7 of Meridian Oil Inc. located 330 feet from the North line and 1470 feet from the West line (Unit C) of Section 26, Township 26 South, Range 37 East. Applicant further seeks withdrawal of Division Administrative Order NSL-3633 which approved an unorthodox well location to Meridian Oil Inc. in the Rhodes-Yates-Seven Rivers Oil Pool, the above-described Rhodes "B" Federal Well No. 7 located 330 feet from the North line and 1470 feet from the West line (Unit C) of Section 26, located in Township 26 South, Range 37 East. Said area is located approximately 7 miles south-southeast of Jal, New Mexico.**

William J. LeMay  
March 21, 1996  
Page 2

I would appreciate clarification regarding the procedure which will be followed at the Examiner Hearing regarding the burden of proof. Although Hartman and Davidson are the applicants who sought the de novo hearing, Meridian should shoulder the burden of proof at the hearing in its attempt to justify its request for approval of an unorthodox location for the No. 7 well. As we pointed out in our Application, Meridian still has not provided any substantive evidence supporting its requested treatment of the No. 7 well as an unorthodox location or as a gas well in an oil pool on 40-acre spacing. The Division has never made a finding on either issue. Meridian should have the burden of justifying its application. Had the Division set this matter for hearing initially, as it should have, Meridian would have the burden of proof on these issues.

I recognize that Hartman and Davidson will have the burden of supporting the application to the extent that it seeks redefinition of the Rhodes Gas Pool boundary. If the burden of proof the Division intends to employ a different burden of proof allocation at hearing, please let me know.

Thank you for your consideration and attention to this matter.

Very truly yours,

GALLEGOS LAW FIRM, P.C.

By   
MICHAEL J. CONDON

MJC:sa

- fx: W. Thomas Kellahin
- William F. Carr
- Donna Williams
- Leslyn Swierc
- Doyle Hartman
- James A. Davidson
- David Catanach
- Michael Stogner
- Rand Carroll
- Jerry Sexton
- Carolyn Sebastian
- ioc: J.E. Gallegos

*Atty* Mar. 26,  
1996



State of New Mexico  
OIL CONSERVATION COMMISSION

From

MICHAEL E. STOGNER  
PETROLEUM ENGINEER

# Memo

To Commissioner William J. Kelley

I on behalf of the Division  
would object in staying Division  
Administration's Order NSL-3633, Doyle  
Hartman as applicant in this matter  
can now continue indefinitely this case.  
By keeping the well on-line would serve  
to provide the needed initiative to have  
this matter brought to an expeditious  
conclusion.

P.O. BOX 2088  
LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
505-827-5611

*Michael E. Stogner*



NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505  
(505) 827-7131

Mike

March 19, 1996

J. E. Gallegos  
Michael J. Condon  
Gallegos Law Firm  
460 St. Michael's Drive-Building 300  
Santa Fe, NM 87505

RE: Application of Doyle Hartman and Margaret Hartman dba Doyle Hartman, Oil Operator, and James A. Davidson for (i) de novo hearing, (ii) order authorizing discovery, (iii) withdrawal of Administrative Order NSL-3633, (iv) denial of Meridian application, (v) and redefinition of Rhodes Gas Pool boundary

Dear Messrs. Gallegos and Condon:

Reference is made to the above-described application. The New Mexico Oil Conservation Commission does not hear direct appeals of administrative orders and will not therefore set this matter for a de novo hearing. However, the Commission will refer this matter to the Division and direct the Division to set this matter for an examiner hearing and direct the Division to stay Administrative Order NSL-3633 pending the outcome of such hearing. Discovery requests should be directed to the Division hearing examiner.

The first available examiner hearing, given the 20 day notice period, is April 18th in Farmington. A May 2nd is the next hearing date in Santa Fe. Please inform Florene Davidson (Phone # 827-7132) <sup>stay</sup> of your preference. Unless we hear from you otherwise, this matter will be captioned and advertised <sup>for</sup> as follows:

**Application of Doyle Hartman and Margaret Hartman dba Doyle Hartman, Oil Operator, and James A. Davidson for redefinition of the Rhodes Gas Pool boundary and for withdrawal of Administrative Order NSL-3633 which granted unorthodox well locations to Meridian Oil Inc., Lea County, New Mexico.** Applicant seeks a redefinition of the boundary of the Rhodes Gas Pool pursuant to Division Rule 5 to include the Rhodes "B" Federal Well No. 7 of Meridian Oil Inc. located 330 feet from the North line and 1470 feet from the West line (Unit C) of Section 26, Township 26 South, Range 37 East. Applicant further seeks withdrawal of Division Administrative Order NSL-3633 which approved two unorthodox well locations to Meridian Oil Inc. in the Rhodes-Yates-Seven Rivers Oil Pool, the Rhodes "B" Federal Well No. 4 located 2418 feet from the South line and 553 feet from the East line (Unit I) of Section 27 and the above-described Rhodes "B" Federal Well No. 7 located 330 from the North line and 1470 feet from the West line (Unit C) of Section 26, both wells located in Township 26 South, Range 37 East. Said area is located approximately 7 miles south-southeast of Jal, New Mexico.

Would you do this please? Thx.

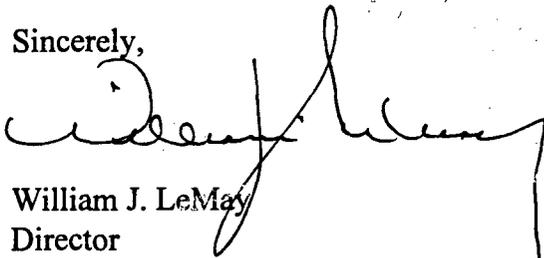
I don't think this action is appropriate and  
I'll withdraw the order on 3-28-96 who agreed to drop it  
stay  
for  
you.

J. E. Gallegos  
March 19, 1996  
Page Two

Hartman, as applicant, will be responsible for giving the appropriate notice in this case.

If you have any questions regarding this matter, please feel free to contact the Division.

Sincerely,

A handwritten signature in black ink, appearing to read "William J. LeMay". The signature is fluid and cursive, with a long horizontal stroke at the end that extends to the right.

William J. LeMay  
Director

cc: W. Thomas Kellahin - Attorney for Meridian Oil Inc.  
William F. Carr - Attorney for Texaco Exploration and Production, Inc.  
Donna Williams - Meridian Oil Inc.  
Leslyn Swierc - Meridian Oil Inc.  
Doyle Hartman, Oil Operator  
James A. Davidson  
David Catanach - OCD  
Michael Stogner - OCD  
Rand Carroll - OCD  
Jerry Sexton - OCD, Hobbs

**BEFORE THE  
OIL CONSERVATION DIVISION  
NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES**

**IN THE MATTER OF THE APPLICATION  
OF DOYLE HARTMAN AND MARGARET  
HARTMAN D/B/A DOYLE HARTMAN, OIL  
OPERATOR, AND JAMES A. DAVIDSON  
FOR EXTENSION OF THE RHODES GAS  
POOL BOUNDARY, AND CONTRACTION  
OF RHODES OIL POOL BOUNDARY IN  
SECTION 26, T26S, R37E, LEA COUNTY,  
NEW MEXICO, FOR WITHDRAWAL  
OF ADMINISTRATIVE ORDER NSL-3633  
ONLY INsofar AS IT GRANTED AN  
UNORTHODOX WELL LOCATION TO  
MERIDIAN OIL INC., FOR ITS RHODES  
"B" FEDERAL WELL NO. 7, LEA COUNTY,  
NEW MEXICO, AND FOR DENIAL OF  
MERIDIAN'S APPLICATION FOR APPROVAL  
OF AN UNORTHODOX WELL LOCATION.**

NO. \_\_\_\_\_

**MOTION FOR DISCOVERY**

Applicants Doyle and Margaret Hartman, d/b/a Doyle Hartman, Oil Operator, ("Hartman") and James A. Davidson ("Davidson"), pursuant to NMSA 1978 § 70-2-8 (1995 Repl.) and Rule 1211 of the OCD Rules and Regulations, hereby request that the Division authorize applicants to serve interrogatories and requests for production on Meridian Oil Inc. in connection with this Application, and to take depositions of Meridian representatives in preparation for the hearing in this matter presently scheduled for May 2, 1996. As grounds for this Motion, Hartman and Davidson state as follows:

1. Meridian initiated this controversy by filing an application for administrative approval for an unorthodox location for its Rhodes "B" Federal No. 7 well

("No. 7 well") in Section 26, T-26-S, R-37-E, Lea County, New Mexico on December 21, 1995. The matter was referred to Michael Stogner, an OCD examiner.

2. Meridian sought administrative approval for the unorthodox location for the No. 7 well based upon alleged "topographic problems due to power lines, pipelines, etc."

3. Notwithstanding the record objections by Hartman, Davidson and Texaco requesting that Meridian's application be set for hearing, the Division granted Meridian's application by Administrative Order NSL-3633 issued February 28, 1996.

4. Numerous procedural irregularities burdened the initial process of the OCD review and subsequent grant of administrative approval to Meridian. These problems were graphically detailed in Hartman's and Davidson's Application to the Oil Conservation Commission for De Novo Hearing on Meridian's application, for Order Authorizing Discovery, withdrawal of Administrative Order NSL-3633, Denial of Meridian application, and Redefinition of Rhodes Gas Pool boundary to include Meridian's Rhodes "B" Federal No. 7 well. Hartman and Davidson incorporate that pleading herein by reference. The procedural irregularities and infirmities in the OCD approval process included:

(a) Meridian's failure to provide proper notice under applicable rules to Hartman, Davidson and Texaco regarding its original application;

(b) Meridian's failure to give proper notice under applicable rules to Hartman, Davidson and Texaco of the change in and amendment to the original application which occurred at some point during the application review process under facts not fully disclosed to applicants;

(c) Meridian's failure to provide any evidentiary support for its request for administrative approval or its allegation that the unorthodox location was based upon "topographic problems";

(d) Meridian's failure to apprise the OCD that it had previously attempted to secure the agreement of Texaco and Oryx authorizing Meridian to drill a well in the SW/4 of Section 23, until Meridian learned that Hartman, Davidson, et. al., not Oryx, owned the operating rights as to the Dublin Federal lease in Section 23;

(e) the Division's determination to consider Meridian's application administratively, without affording Hartman, Davidson and Texaco a hearing on the merits of the application, notwithstanding objections of record by Hartman, Davidson and Texaco to Meridian's proposed application;

(f) the occurrence of ex parte communications between Meridian and the OCD regarding the substantive merits of Meridian's application, which contacts or communications may have occurred after Hartman, Davidson and Texaco filed their objections of record to the Meridian application;

(g) Meridian's failure to apprise and inform the OCD that recently acquired geological information, as well as actual production in the affected area of Section 26, including the NW/4 where Meridian's No. 7 well is located, indicates that that area should be assigned to the Rhodes Gas Pool, not the Rhodes Oil Pool; and

(h) The Division's determination to grant Meridian's application without any finding or evidentiary determination supporting the approval of an unorthodox location for the No. 7 well based upon alleged "topographic problems."

5. On March 15, 1996, Hartman and Davidson filed their Application to the Commission seeking a de novo hearing on and denial of Meridian's application, seeking withdrawal of Administrative Order NSL-3633, requesting discovery, and seeking a redefinition of the Rhodes Gas Pool boundary to include the No. 7 well.

6. By Order dated March 19, 1996, the Commission referred the Application of Hartman and Davidson to the Division and directed the Division to set the matter for examiner hearing, staying Administrative Order NSL-3633 pending the outcome of such hearing. The Commission has not withdrawn Administrative Order NSL-3633. The Commission ordered that discovery requests be directed to the Division hearing examiner.

7. Hartman and Davidson seek by this application, inter alia, the withdrawal of Administrative Order NSL-3633. That Order should be withdrawn for several reasons. First, the procedural irregularities and due process violations referenced in paragraph 3 render the Order void. Second, Meridian did not and cannot support its application for administrative approval of an unorthodox location for the No. 7 well based upon "topographic problems." The No. 7 well could have and should have been drilled in an orthodox location. Third, Meridian's actions in connection with its application constitute a blatant effort to circumvent problems with the location of the No. 7 well (i.e. inadequate acreage to dedicate to the well), an attempt to avoid the need for a hearing requesting approval for a non-standard proration unit, an attempt to avoid the obvious need to seek redefinition of pool boundaries, and an improper attempt to avoid penalty provisions and production limitations which should apply to the operation of the well. Finally, Meridian's

conduct represents an attempt to deprive applicants of their real property interest in recoverable gas reserves under their Dublin lease located in the SW/4 of Section 23.

8. Since much of the information which relates to this issue is solely within the knowledge, custody and control of Meridian, Hartman and Davidson require discovery from Meridian in connection with this administrative proceeding. Hartman and Davidson are entitled to know the process by which Meridian's application came to be drafted and submitted to the OCD, then subsequently amended, the identity of the person or persons involved in the change, why the change, which is a highly substantive change relating to the application, was never communicated to Hartman and Davidson throughout the application process, and why Meridian failed to give proper notice of the application. Hartman and Davidson are also entitled to know the nature and extent of communications between Meridian representatives and the OCD regarding the Meridian application and the approval process.

9. Administrative proceedings must conform to the fundamental principles of justice and due process requirements. This requires that the administrative process authorize pre-trial discovery under appropriate circumstances such as exist here. In re Miller, 88 N.M. 492, 542 P.2d 1182 (Ct. App.) cert., denied, 89 N.M. 5, 546 P.2d 70 (1975).

10. Discovery procedures are expressly authorized under NMSA 1978 § 70-2-8 (1995 Repl.), which authorizes the Division to subpoena witnesses and to require the production of books, papers and records in any proceeding before the Commission or the Division. See also Rule 1211 of the OCD's Rules and Regulations.

11. Hartman and Davidson request that the Division authorize Hartman and Davidson to take depositions of Meridian employees Leslyn Swierc and Donna Williams. Ms. Swierc and Ms. Williams have been identified in prior correspondence and documents as Meridian employees who were involved in and had responsibility for the prosecution of Meridian's application for administrative approval of the unorthodox location for the No. 7 well. These depositions will be scheduled at a mutually convenient time in Midland, Texas, substantially prior to the May 2, 1996 hearing.

12. Hartman and Davidson also seek authorization from the Division to serve interrogatories on Meridian. A copy of the proposed First Set of Interrogatories is attached as Exhibit A. The interrogatories seek basic information regarding the No. 7 well and Meridian's application for administrative approval for that well, including the identification of documents and files in Meridian's possession, custody and control which relate to the well and the application process, and the identification of all Meridian personnel involved in the administrative application process related to the No. 7 well.

13. Hartman and Davidson finally request that the Division authorize service of requests for production on Meridian and require that Meridian produce books, papers and records relevant to this proceeding. A copy of the proposed request for production is attached hereto as Exhibit B. Hartman and Davidson seek production of all Meridian's documents related to correspondence and communications with the OCD on its application for administrative approval, background documents related to the alleged "topographic problems" which formed the alleged basis of Meridian's initial administrative application, all Meridian files and documents related to the No. 7 well, as well as Meridian's

1995 attempt to develop the SW/4 of Section 23 in which Hartman and Davidson own an interest.

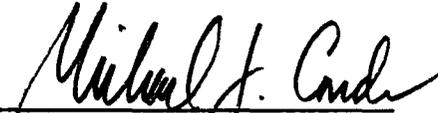
14. Hartman and Davidson request that Meridian be ordered to respond to the discovery requests within twenty (20) days in light of the May 2, 1996 hearing date.

15. The requested discovery is limited in nature to that information necessary to allow Hartman and Davidson to support their Application presently scheduled for hearing May 2, 1996. Hartman and Davidson reserve their right, based upon discovery from Meridian, to request additional discovery from individuals or entities who may be identified during the discovery process.

WHEREFORE, based upon the foregoing points and authorities, Hartman and Davidson respectfully request that the Division authorize applicants to secure discovery from Meridian, take depositions of Leslyn Swierc and Donna Williams, and require Meridian to serve responses to the attached interrogatories and requests for production on or before April 22, 1996.

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.

By 

J. E. GALLEGOS  
MICHAEL J. CONDON

460 St. Michael's Drive - Bldg. 300  
Santa Fe, New Mexico 87505  
(505) 983-6686  
Attorneys for Applicant

**CERTIFICATE OF SERVICE**

I hereby certify that I have caused a true and correct copy of the foregoing to be hand-delivered on this 28th day of March, 1996, to the following counsel of record:

William F. Carr, Esq.  
Campbell, Carr & Berge, P.A.  
110 N. Guadalupe, Suite 1  
Santa Fe, New Mexico 87501

Thomas W. Kellahin, Esq.  
Kellahin & Kellahin  
117 N. Guadalupe  
Santa Fe, New Mexico 87501

and mailed to:

Donna Williams  
Meridian Oil, Inc.  
Post Office Box 51810  
Midland, Texas 79710-1810

  
\_\_\_\_\_  
MICHAEL J. CONDON

**BEFORE THE  
OIL CONSERVATION DIVISION  
NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES**

**IN THE MATTER OF THE APPLICATION  
OF DOYLE HARTMAN AND MARGARET  
HARTMAN D/B/A DOYLE HARTMAN, OIL  
OPERATOR, AND JAMES A. DAVIDSON  
FOR EXTENSION OF THE RHODES GAS  
POOL BOUNDARY, AND CONTRACTION  
OF RHODES OIL POOL BOUNDARY IN  
SECTION 26, T26S, R37E, LEA COUNTY,  
NEW MEXICO, FOR WITHDRAWAL  
OF ADMINISTRATIVE ORDER NSL-3633  
ONLY INsofar AS IT GRANTED AN  
UNORTHODOX WELL LOCATION TO  
MERIDIAN OIL INC., FOR ITS RHODES  
"B" FEDERAL WELL NO. 7, LEA COUNTY,  
NEW MEXICO, AND FOR DENIAL OF  
MERIDIAN'S APPLICATION FOR APPROVAL  
OF AN UNORTHODOX LOCATION.**

No. \_\_\_\_\_

**HARTMAN'S AND DAVIDSON'S  
FIRST SET OF REQUEST FOR PRODUCTION  
OF DOCUMENTS TO MERIDIAN OIL INC.**

Doyle and Margaret Hartman d/b/a Doyle Hartman, Oil Operator and James A. Davidson (hereinafter collectively "Hartman"), pursuant to NMSA 1978 § 70-2-8 (1995 Repl.), Rule 1211 of the OCD Rules and Regulations, and SCRA 1986, 1-026 and 1-034, hereby request that Meridian Oil Inc. (hereinafter "Meridian") answer, in writing and under oath, each of the following interrogatories within twenty (20) days after service of this First Request for Production.

Exhibit A

## DEFINITIONS

Definitions for the following terms used in this First Set of Request for Production of Documents are as stated:

A. "Meridian" means Meridian Oil Inc. and includes any and all predecessors, successors, and their present or former officers, directors, agents, employees and all other persons or entities acting or purporting to act on behalf of any of them. Further, "Meridian" also includes parent corporations, subsidiaries and affiliates and their present or former officers, directors, agents, employees, and all other persons or entities acting or purporting to act on behalf of any of them

B. "Document(s)" has the same meaning as in SCRA 1986, 1-034 including, inter alia, (1) all written, printed, typed, recorded or graphic matter, (2) all film, videographic and photographic matter, (3) all tapes or other reproductions of sound or auditory material, (4) computer files, disks, databases, tapes, inputs or outputs, however stored, generated, produced or reproduced, (5) any other matter or medium from which or on which information or images may be or is transcribed, stored, and/or retrieved; and (6) all non-identical copies of a "document". "Document(s)" also includes, inter alia, any code, software, index, key or other information or material necessary or helpful to retrieve, interpret, and/or understand such documents or the information, images, and/or representations contained therein. "Document(s)" further includes, inter alia, all such materials whether or not such materials were intended or planned for distribution or dissemination to persons outside of the organization generating, creating or storing the materials. "Non-identical copies" means, inter alia, all reproductions or other versions of a

"document", however made, of the original "document", and which have notations, markings, interlineations, comments, images, or other material not appearing on the original.

C. "Communication" means any contact or transfer of information between two or more persons or organizations and shall include, inter alia, (1) written contact by such means as letter, memorandum, telegram, telecopier, or by any other document, (2) oral contact by such means as face-to-face meetings, voice mail, or telephone conversations, (3) electronic contact by such means as electronic mail, E-mail, modem or computer, or (4) any form of actual or attempted transmittal or transfer of information or images.

D. "Concerning" includes, inter alia, referring to, alluding to, responding to, relating to, connected with, commenting on, in reference of, about, regarding, discussing, noting, showing, describing, mentioning, reflecting, analyzing, constituting, evidencing, or pertaining to.

E. "Identify", when used with respect to a person, means to provide the person's (1) full name, (2) business address and employer, (3) job title, (4) business department and (5) telephone number.

F. "Identify", when used with respect to a document, means to provide (1) the title of the document, (2) a description of the subject and contents of the document, (3) the date of the document, and further means to (4) identify the author, and (5) identify all recipients of the document.

G. "No. 7 Well" means the Rhodes "B" Federal No. 7 well located in Section 26, T-26-S, R-37-E, Lea County, New Mexico.

**REQUEST FOR PRODUCTION**

**REQUEST NO. 1:** Please produce all documents concerning or related in any way to the alleged "topographic problems" referenced in your application for administrative approval of an unorthodox location for the Rhodes "B" Federal No. 7 well dated December 21, 1995.

**RESPONSE:**

**REQUEST NO. 2:** Please produce all files and documents concerning the application for administrative approval for the No. 7 well.

**RESPONSE:**

**REQUEST NO. 3:** Please produce all documents, including well files, analyses, drainage estimates and evaluations, AFEs, requests for and justifications for management or other internal authorizations or approvals for, and reserve calculations concerning the drilling and location of No. 7 well.

**RESPONSE:**

**REQUEST NO. 4:** Please produce all files and documents concerning your attempt to drill a gas well in the SW/4 of Section 23 during 1995, including but not limited to any and all documents concerning communications with Texaco Exploration and Production, Inc. ("Texaco") and/or Oryx Energy Company ("Oryx").

**RESPONSE:**

**REQUEST NO. 5:** Please produce all personal files of Leslyn Swierc and Donna Williams concerning the No. 7 well.

**RESPONSE:**

**REQUEST NO. 6:** Please produce all expense report sheets for Leslyn Swierc and Donna Williams for the period October, 1995 through February, 1996 pertaining in any way whatsoever to either Meridian's application for administrative

approval for unorthodox location filed December 21, 1995, or concerning the No. 7 well itself.

**RESPONSE:**

**REQUEST NO. 7:** Please produce all documents concerning or related to any communication between Meridian and the Oil Conservation Division ("OCD"), and/or any OCD agent, employee, representative, attorney or hearing examiner pertaining to the application for administrative approval for an unorthodox location for the No. 7 well.

**RESPONSE:**

**REQUEST NO. 8:** Please produce all documents, including well files and administrative files pertaining to the Lineberry "B" Federal No. 1 well which you drilled in the N/2 of Section 26, T-26-S, R-37-E.

**RESPONSE:**

**REQUEST NO. 9:** Please produce all documents or files concerning the location of the oil/gas contact in Section 26, T-26-S, R-37-E, Lea County, New Mexico.

**RESPONSE:**

**REQUEST NO. 10:** Please produce all documents and files concerning the boundary between the Rhodes Oil Pool and the Rhodes Gas Pool in T-26-S, R-37-E.

**RESPONSE:**

**REQUEST NO. 11:** Please produce all survey plats concerning the No. 7 well.

**RESPONSE:**

**REQUEST NO. 12:** Please produce all documents concerning or depicting any and all locations which you staked for the No. 7 well.

**RESPONSE:**

Respectfully submitted,

**GALLEGOS LAW FIRM, P.C.**

By \_\_\_\_\_

**J.E. GALLEGOS**

**MICHAEL J. CONDON**

460 St. Michael's Drive, Bldg. 300

Santa Fe, New Mexico 87505

(505) 983-6686

Attorneys for Applicants

**CERTIFICATE OF SERVICE**

I hereby certify that I have caused a true and correct copy of the foregoing to be hand-delivered on this \_\_\_\_\_ day of March, 1996, to the following counsel of record:

William F. Carr, Esq.  
Campbell, Carr & Berge, P.A.  
110 N. Guadalupe, Suite 1  
Santa Fe, New Mexico 87501

Thomas W. Kellahin, Esq.  
Kellahin & Kellahin  
117 N. Guadalupe  
Santa Fe, New Mexico 87501

and mailed to:

Donna Williams  
Meridian Oil, Inc.  
Post Office Box 51810  
Midland, Texas 79710-1810

\_\_\_\_\_  
**MICHAEL J. CONDON**

**BEFORE THE  
OIL CONSERVATION DIVISION  
NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES**

**IN THE MATTER OF THE APPLICATION  
OF DOYLE HARTMAN AND MARGARET  
HARTMAN D/B/A DOYLE HARTMAN, OIL  
OPERATOR, AND JAMES A. DAVIDSON  
FOR EXTENSION OF THE RHODES GAS  
POOL BOUNDARY, AND CONTRACTION  
OF RHODES OIL POOL BOUNDARY IN  
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ONLY INsofar AS IT GRANTED AN  
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MERIDIAN OIL INC., FOR ITS RHODES  
"B" FEDERAL WELL NO. 7, LEA COUNTY,  
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MERIDIAN'S APPLICATION FOR APPROVAL  
OF AN UNORTHODOX LOCATION.**

NO. \_\_\_\_\_

**HARTMAN'S AND DAVIDSON'S  
FIRST SET OF INTERROGATORIES  
TO MERIDIAN OIL INC.**

Doyle and Margaret Hartman d/b/a Doyle Hartman, Oil Operator and James A. Davidson (hereinafter collectively "Hartman"), pursuant to NMSA 1978 § 70-2-8 (1995 Repl.), Rule 1211 of the OCD Rules and Regulations, and SCRA 1986, 1-026 and 1-033, hereby request that Meridian Oil Inc. (hereinafter "Meridian") answer, in writing and under oath, each of the following interrogatories within twenty (20) days after service of this First Set of Interrogatories.

**DEFINITIONS**

Definitions for the following terms used in this First Set of Interrogatories

are as stated:

A. "Meridian" means Meridian Oil Inc. and includes any and all predecessors, successors, and their present or former officers, directors, agents, employees and all other persons or entities acting or purporting to act on behalf of any of them. Further, "Meridian" also includes parent corporations, subsidiaries and affiliates and their present or former officers, directors, agents, employees, and all other persons or entities acting or purporting to act on behalf of any of them.

B. "Document(s)" has the same meaning as in SCRA 1986, 1-034 including, inter alia, (1) all written, printed, typed, recorded or graphic matter, (2) all film, videographic and photographic matter, (3) all tapes or other reproductions of sound or auditory material, (4) computer files, disks, databases, tapes, inputs or outputs, however stored, generated, produced or reproduced, (5) any other matter or medium from which or on which information or images may be or is transcribed, stored, and/or retrieved; and (6) all non-identical copies of a "document". "Document(s)" also includes, inter alia, any code, software, index, key or other information or material necessary or helpful to retrieve, interpret, and/or understand such documents or the information, images, and/or representations contained therein. "Document(s)" further includes, inter alia, all such materials whether or not such materials were intended or planned for distribution or dissemination to persons outside of the organization generating, creating or storing the materials. "Non-identical copies" means, inter alia, all reproductions or other versions of a "document", however made, of the original "document", and which have notations,

markings, interlineations, comments, images, or other material not appearing on the original.

C. "Communication" means any contact or transfer of information between two or more persons or organizations and shall include, inter alia, (1) written contact by such means as letter, memorandum, telegram, telecopier, or by any other document, (2) oral contact by such means as face-to-face meetings, voice mail, or telephone conversations, (3) electronic contact by such means as electronic mail, E-mail, modem or computer, or (4) any form of actual or attempted transmittal or transfer of information or images.

D. "Concerning" includes, inter alia, referring to, alluding to, responding to, relating to, connected with, commenting on, in reference of, about, regarding, discussing, noting, showing, describing, mentioning, reflecting, analyzing, constituting, evidencing, or pertaining to.

E. "Identify", when used with respect to a person, means to provide the person's (1) full name, (2) business address and employer, (3) job title, (4) business department and (5) telephone number.

F. "Identify", when used with respect to a document, means to provide (1) the title of the document, (2) a description of the subject and contents of the document, (3) the date of the document, and further means to (4) identify the author, and (5) identify all recipients of the document.

G. "No. 7 Well" means the Rhodes "B" Federal No. 7 well located in Section 26, T-26-S, R-37-E, Lea County, New Mexico.

**INTERROGATORIES**

**INTERROGATORY NO. 1:** Please identify the person or persons responding to these interrogatories.

**ANSWER:**

**INTERROGATORY NO. 2:** Please identify all Meridian agents, representatives or employees involved in the drafting, preparation, and submittal of the request for administrative approval for the unorthodox location for the No. 7 well from the time the No. 7 well was first contemplated through February 28, 1996.

**ANSWER:**

**INTERROGATORY NO. 3:** Please identify all Meridian agents, representatives and employees involved in the decision to drill the No. 7 well at the present drill site and location.

**ANSWER:**

**INTERROGATORY NO. 4:** Please identify all Meridian agents, representatives and employees with knowledge of the alleged "topographic problems" which form the basis of your request for an unorthodox location for the No. 7 well.

**ANSWER**

**INTERROGATORY NO. 5:** Please identify all Meridian agents, representatives and employees who had contact with any representative of the New Mexico Oil Conservation Division in connection with the application for administrative approval for the unorthodox location for the No. 7 well from October, 1995 through the present.

**ANSWER:**

**INTERROGATORY NO. 6:** Please identify every agent, employee or representative of the OCD with whom you had contact concerning your application for administrative approval for an unorthodox location for the No. 7 well.

**ANSWER:**

**INTERROGATORY NO. 7:** Please identify every location you considered or staked for the No. 7 well. For each such location, state the reasons why you finally decided upon or rejected such location.

**ANSWER:**

**INTERROGATORY NO. 8:** Please identify all Meridian agents, employees, and representatives involved in communications with Texaco and Oryx during 1995 regarding the possible development of, and drilling by Meridian of a gas well in, the SW/4 of Section 23, T-26-S, R-37-E, Lea County, New Mexico.

**ANSWER:**

**INTERROGATORY NO. 9:** Please describe in detail how the C-102 form which you originally submitted in connection with your December 21, 1995 application for administrative approval for an unorthodox location for the No. 7 well came to be amended to reflect an application for a gas well in the Rhodes Oil Pool on 40-acre spacing. In responding to this Interrogatory, please identify:

(a) All Meridian agents, employees and representatives involved in the amendment;

(b) The person or persons with the OCD involved in amending the C-102 form; and

(c) The date when the amendment actually occurred.

**ANSWER:**

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.

By \_\_\_\_\_

J.E. GALLEGOS  
MICHAEL J. CONDON  
460 St. Michael's Drive, Bldg. 300  
Santa Fe, New Mexico 87505  
(505) 983-6686  
Attorneys for Applicants

**CERTIFICATE OF SERVICE**

I hereby certify that I have caused a true and correct copy of the foregoing to be hand-delivered on this \_\_\_\_\_ day of March, 1996, to the following counsel of record:

William F. Carr, Esq.  
Campbell, Carr & Berge, P.A.  
110 N. Guadalupe, Suite 1  
Santa Fe, New Mexico 87501

Thomas W. Kellahin, Esq.  
Kellahin & Kellahin  
117 N. Guadalupe  
Santa Fe, New Mexico 87501

and mailed to:

Donna Williams  
Meridian Oil, Inc.  
Post Office Box 51810  
Midland, Texas 79710-1810

\_\_\_\_\_  
MICHAEL J. CONDON

CAMPBELL, CARR, BERGE  
& SHERIDAN, P.A.  
LAWYERS

MICHAEL B. CAMPBELL  
WILLIAM F. CARR  
BRADFORD C. BERGE  
MARK F. SHERIDAN

MICHAEL H. FELDEWERT  
TANNIS L. FOX  
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April 12, 1996

RECEIVED

APR 12 1996

Oil Conservation Division

HAND-DELIVERED

William J. LeMay, Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
2040 South Pacheco Street  
Santa Fe, New Mexico 87505

Re: Request for Shut-In Order and Response of Texaco Exploration and Production Inc. to Motion of Meridian Oil Inc. for Protective Order, for Denial of Hartman's Request for a Stay of Order NSL-3633 and for a Continuance of Hearing

Dear Mr. LeMay:

The purpose of this letter is to (1) request the Motion of Mr. Hartman for a stay of Order NSL-3633 be granted, (2) request that the Meridian Rhodes "B" Federal Well No. 7 be immediately shut-in; and (3) respond to Meridian's Motion for Protective Order, for Denial of Hartman's Request for a Stay of Order No. NSL-3633 and for a Continuance of the Hearing.

**STAY OF ORDER NSL-3633**

As you know Meridian filed an application with the Division on December 21, 1995, for administrative approval of an unorthodox well location for its Rhodes "B" Federal Com Well No. 7. On January 29, 1996, Meridian notified Texaco and Doyle Hartman of this application. On February 2, 1996, Texaco filed its objection to this location with the Division. Order NSL-3633 approved this location on February 28, 1996.

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Texaco's objection was apparently disregarded because the Division concluded that we lacked standing to object. The Division stated that Meridian controlled the offsetting gas rights and that "proper notification was therefore provided under Rule 104.F(3)(a) since Meridian itself in this instance is the only affected party."

As set out below, Texaco was entitled to notice of this application, has standing to object and once it presented its objection to the Division the unorthodox location could not be administratively approved.

Rule 104, prior to amendment by Order No. R-10533, provided for notice of proposed unorthodox well locations to "all **operators** of proration or spacing units in the unit for which the unorthodox location is sought ..." Rule 104(F)(1). "Operator" is defined as ... "any person or persons who, duly authorized is in charge of the development of a lease **or** the operation of a producing property." (Rule 1).

Since Texaco is authorized to develop the W/2 SW/4 of Section 23, Township 26 South, Range 37 East, it was entitled to notice of Meridian's application for unorthodox location.

Under Rule 104, as amended, the operator, or lessee of record, or unleased mineral owner of an adjoining or diagonal spacing unit is entitled to notice of a proposed unorthodox well location. Adjoining and diagonal spacing units are defined as "those immediately adjacent existing spacing units in the same pool(s) as the proposed unorthodox well and towards which the unorthodox well location encroaches." Meridian's location for its Rhodes "B" Federal Well No. 7 encroaches on the West side of the NE/4 NW/4 of Section 26. Texaco is the lessee of record in the NW/4 NW/4 of Section 26 (the adjacent offset operator), and the SW/4 NW/4 of Section 26 (the diagonal offset operator) in the Rhodes Oil Pool. Texaco is also lessee of record in the SW/4 SW/4 of Section 23 (the diagonal offset operator) in the Rhodes Gas Pool. Accordingly under either version of Rule 104, Texaco was entitled to notice of Meridian's application for this unorthodox well location.

Meridian provided notice to Texaco of this location. Texaco filed a timely objection. Once there is an objection, under Rule 104 administrative approval of a proposed unorthodox location may not be granted. Once Texaco objected to this application a hearing was

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required. At the time the objection was received the application was no longer an administrative application because there was a dispute involving constitutionally protected property rights. Discussions with the applicant in the context of an unopposed administrative application may have been proper, however, when the objection was received all ex parte communications with any party had to cease to assure fundamental fairness to the opposing interest owners.

Division Order NSL-3633 was entered after Texaco and Hartman had objected to it without a hearing on these objections. Accordingly, it was improperly entered in violation of Division rules and it must be stayed pending further hearings.

#### **WHAT IS THE RELATIONSHIP OF THE OIL CONSERVATION DIVISION TO THE OIL CONSERVATION COMMISSION**

On March 16, 1996 Chairman LeMay advised that the Oil Conservation Commission will "direct the Division to stay administrative Order NSL-3633" pending the outcome of Mr. Hartman's application for a de novo hearing in this matter. Consistent with this letter, Mr. Hartman has requested that the Rhodes "B" Federal Well No. 7 be shut-in. Meridian objected to the request of Hartman for a shut-in order on April 10, 1996 stating "the Division has not yet acted to stay administrative Order NSL-3633." Meridian continues to produce its Rhodes "B" Federal Well No. 7 at this unorthodox location under what it calls "a valid and effective administrative order issued by the Division."

It appears that both the Division and Meridian are ignoring the Commission's decision that NSL-3633 must be stayed.

In Case 11334, a similar question was presented to the Commission. After the Commission's denial of certain issues raised by Phillips Petroleum Company, it filed a new case before the Division in which it asked the Division to overturn the Commission's decision. Chairman LeMay wrote Phillips on September 13, 1995 stating Phillips was requesting the "Examiner to issue a decision overturning the Commission's Order" and advised Phillips counsel "You have the process reversed."

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In this case, Meridian has the process reversed. The Commission has directed the Division to stay Order NSL-3633. The Division cannot override the Commission.

### **SUMMARY OF TEXACO'S ARGUMENT**

Texaco has correlative rights in the SW/4 of Section 23. Texaco contends that unrestricted production from the Meridian Rhodes "B" Federal Well No. 7 impairs these correlative rights. Texaco received notice of this well location from Meridian and timely objected. In total disregard of this objection and the provisions of Rule 104, the Division treated this application as if it were one for administrative approval. The Division approved the application concluding that proper notice of the application had been given. This approval was apparently based on the Division's determination that Texaco was not entitled to object because the SW/4 of Section 23 was within the Rhodes Unit Area and governed by the Rhodes Unit Agreement. The Division did not know that this tract had never been committed to the unit -- something it would have known if it had followed its own rules and given Texaco the hearing to which it is constitutionally entitled.

Now Meridian argues that its due process rights will be impaired unless there is a hearing on the Hartman request for an order shutting in the Rhodes "B" Federal Well No. 7. It is the violation of the due process rights of Texaco and Hartman that have caused this dispute. For Meridian to argue its due process rights at this stage of this dispute is simply outrageous. Meridian again has the process reversed.

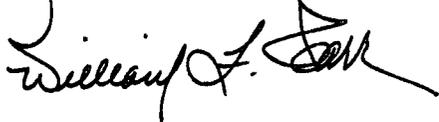
If it is to meet its duties under the Oil and Gas Act, the U.S. Constitution and the Constitution of the State of New Mexico, the Division must (1) schedule a hearing before an Examiner not previously involved in this dispute to review all pending motions, (2) stay of Order NSL-3633 pending the resolution of the issues presented at that hearing and (3) order an immediate shut-in of the Rhodes "B" Federal No. 7 Well until Meridian has properly obtained an Order authorizing that well to produce.

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Oil Conservation Division  
New Mexico Department of Energy,  
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Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is fluid and cursive, with a large initial "W" and a long, sweeping tail.

WILLIAM F. CARR

WFC:mlh

cc: Ronald W. Lanning  
Texaco Exploration and Production Inc.

W. Thomas Kellahin, Esq.  
Attorney for Meridian Oil Inc.

Michael J. Condon, Esq.  
Attorney for Doyle Hartman and Margaret Hartman  
d/b/a Doyle Hartman Oil Operator