1500/mo while drlg
164/mo when producing
no risk

CASE 5287: Application of MOBIL OIL CORP. for compulsory pooling, Eddy County, New Mexico.

CASE No.

5287

Application,

Transcripts,

Small Exhibits

ETC.

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
August 7, 1974

EXAMINER HEARING

IN THE MATTER OF:

Application of Mobil Oil Corporation for compulsory pooling, Eddy County, New Mexico

Case No. 5287

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: Thomas Derryberry
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

For the Applicant: James E. Sperling, Esq.
MODRALL, SPERLING, ROEHL, HARRIS & SISK
800 Public Service Building
Albuquerque, New Mexico

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0366

I N D E X

E X H I B I T S

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386

MR. NUTTER: The hearing will come to order. Call Case Number 5287.

MR. DERRYBERRY: Case Number 5287, application of Mobil Oil Corporation for compulsory pooling, Eddy County, New Mexico.

MR. SPERLING: James E. Sperling of Modrall, Sperling, Roehl, Harris & Sisk, Albuquerque, appearing for the applicant, Mobil Oil Corporation. We have one witness.

(THEREUPON, the witness was sworn.)

MR. NUTTER: Are there any other appearances in this case?

MR. JENNINGS: James T. Jennings, Jennings, Christy & Copple, appearing for Western Reserves and R.M. Moran and I don't anticipate that we will have any witnesses.

JOHN H. SEEREY

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. SPERLING:

Q Please state your name, your position and your employer and your place of residence?

A. John Seerey, employed as an Associate Engineer with the Midland area office of Mobil Oil Corporation.

Q. Have you on any previous occasion testified before the Commission so that your qualifications as an expert witness are a matter of record?

A. Yes, sir, I have.

MR. SPERLING: Are the witness's qualifications acceptable?

MR. NUTTER: Yes, they are.

Q. (Mr. Sperling continuing.) Please state what Mobil Oil Corporation seeks in this application?

A. Mobil Oil Corporation requests the Commission to authorize the pooling of all mineral interests in the Pennsylvanian formation underlying the north half of Section 12, Township 21 South, Range 26 East of the Burton Flats field area, Eddy County, New Mexico, to form a three hundred and twenty acre gas spacing and proration unit to be dedicated to the Federal 12 Com Well No. 1, located in Unit A, six hundred and sixty feet from the north line and six hundred and sixty feet from the east line of said Section 12. Mobil proposes to be the operator of this well.

The subject well is located at an unorthodox location because of topographical conditions and the Commission approved this location by Administrative Order

NSL-671 on July Second, 1974.

Q Mr. Seerey, why was it necessary to seek compulsory pooling in this matter?

A. In the proposed three hundred and twenty acre proration unit there is an unsigned mineral interest tract. This tract is unsigned because the title to the ownership of the tract is in dispute between the U.S.A. through the Bureau of Reclamation and Pecos Irrigation Company. The title to the subject tract will be determined at a later date.

Q Has Mobil advised the unsigned mineral interest owners that they may participate in the drilling of this well as working interest owners?

A. Mobil attempted to secure voluntary participation for the unsigned tract but could not do so due to the disputed title.

Originally Mobil thought Western Reserves owned the unsigned tract. However, on June the twentieth of 1974, Western Reserves informed us that they assumed that Pecos Irrigation Company owned the subject tract.

On June the twentieth, 1974, as shown on Exhibit One-A, Mobil wrote to Pecos Irrigation Company seeking approval and participation in the drilling of the subject well. However, on July the third, 1974, as shown on Exhibit

One-B, they informed us that the title to the tract was disputed and they could not participate in the drilling of the well until the title was cleared.

On June the twenty-seventh, 1974, the Carlsbad Irrigation District wrote to us and stated that they claimed the unsigned tract as shown on Exhibit One-C.

Q Is Mobil requesting any further relief so far as this application is concerned?

A. Yes. Mobil requests authorization to collect a one hundred and sixty-four dollar per month charge for supervision after the well is complete. Mobil further requests authorization to collect a fifteen hundred dollar per month charge for supervision while the well is drilling.

Q Now, would you please refer to what has been marked as Exhibit Number Two for identification in this matter and explain that exhibit?

A. Exhibit Number Two is a map showing the area of the Burton Flats field. The existing completions of the Wolfcamp, Strawn, Atoka, and Morrow formations are shown by the color coded circles. The legend at the bottom of the map describes the color code used on this map. The open uncolored circles shown represent the proposed locations or drilling wells as reported to us.

The proposed three hundred and twenty acre proration unit for Mobil's Federal 12 Com Well No. 1 is shown shaded in red.

Q Now, would you refer to what has been marked as Exhibit Three and explain the purpose of that exhibit?

A. Exhibit Three is a detail plat of the north half of Section 12 showing the various leases and tracts that we propose to pool to form the three hundred and twenty acre proration unit for the Federal 12 Com Well No. 1.

The tract shown shaded in green is the tract for which Mobil has not secured a lease or voluntary pooling agreement of the mineral interests. The tract shown is described as follows: All that part of the west half of the northwest quarter of Section 12, Township 21 South, Range 26 East, lying west of the east bank of the Pecos River in Eddy County, New Mexico.

Q Now, do I understand that your curve, your regularly curved line I guess you would say, which is shown running approximately through the center of Section 12 and cutting across from the northwest across the northeast quarter, is that supposed to represent the shoreline of Lake Avalon?

A. Yes, it is.

Q So that substantially all of the north half of Section 12, I take it to be under water, is that right?

A. Yes.

Q. And the location that you have described is being the location of the Federal Com Well No. 1 as shown in the northeast corner is about in the only dry spot in the north half?

A. Yes, sir. It is located within the limits of the lease in regard to the Bureau of Reclamation lease stipulation of being beyond the high water mark of the lake.

Q Okay. Now, is the remaining portion of the proration unit except for the unleased tract shown in green, leased for participation in the Federal 12 Com Well No. 1?

A. The remaining is leased. The other working interest owners have signed the AFE but have not signed the operating agreement.

Q Okay. Now, there is indicated in the northeast corner in the vicinity of the well location what I take to be a railroad right-of-way and track, is that correct?

A. Yes, sir.

Q Can you tell us what the significance of the location of that facility is?

A. A recently completed title opinion on the north-

east corner of Section 12, that is the tract of the drill site indicated that the Santa Fe Railway Company may have a prior claim to the right to lease the mineral within the railroad right of way and Lake View Station grounds in the extreme northeast corner of Section 12.

This right may be possible through the provisions of the act of May the twenty-first, 1930.

The tract referred to in the title opinion consists of six point nine-four acres of railroad right of way and nine point six-one acres of station grounds for a total of sixteen point fifty-five acres in the northeast corner of Section 12.

Mobil secured the Federal Oil and Gas Lease Number 0555283, on January the sixth, 1965, for one hundred and sixty acres consisting of the northeast quarter of Section 12. However, so that there will be no doubt we have not proceeded to secure an assignment of right to apply for an oil and gas lease from the Santa Fe Railway. On acceptance of this assignment by Santa Fe Railway, Mobil will proceed to secure another oil and gas lease from the Bureau of Land Management on the railroad tract.

Q Is it possible that Mr. James Jennings was the author of that title opinion?

A. I believe that is quite possible.

Q. Would you now refer to Exhibit Four please?

A. Exhibit Four is a diagrammatic sketch of the well bore of the Federal Com Well No. 1. This sketch shows the proposed casing, cement, tubing and total depth of eleven thousand five hundred feet. The proposed Morrow perforated interval will be selected later.

Q. Now, refer to Exhibit Number Five and explain the purpose of that exhibit?

A. Exhibit Five is a cost estimate, to drill, complete, equip and put into production a single Morrow completion for the Federal 12 Comm Well No. 1 as shown. The total estimate is three hundred and seventy-three thousand dollars.

Q. What is Exhibit Six?

A. Exhibit Six is a copy of the operating agreement which Mobil proposed to follow in the administration of the drilling and operation of the Federal 12 Comm Well No. 1. This has not been signed by the other working interest owners and certain points in it may still be negotiable.

Q. Do I understand, Mr. Seerey, that not only may there be a dispute insofar as the title of the tract shown in green on Exhibit Three is concerned, but there also may

some question as to the area which lies within that disputed ownership, is that correct?

A. To date there has been a question as to the exact acreage contained in the disputed tract. The only source and the best source available to us seems to be the plat that the Bureau of Reclamation has called the plat of the Pecos Irrigation and Improvements Companies Reservoir Number 2. The one thousand to one thousand inch map is number 5-500-174 and we believe that this map as far as we know is the best way and by planimeter thereof on the map to determine this acreage.

Unfortunately, by the use of planimeter various people get various acreages. I believe the ultimate figure used for this north half can and may have already been arbitrated by the various parties or will be.

Q. It is my information that there is no real dispute as to the area lying west of the Pecos River's east bank insofar as the entire Section 12 is concerned. And this problem is great only by the allocation of the acreage as between the north half which is of course the proration unit and the south half of that section?

A. There seems to be a general agreement on the acreage contained west of the east bank of the Pecos in the

entire Section 12, yes, sir.

Q Okay. Were you aware, Mr. Seerey, of the existence in the Commission's file of a letter dated August Two, 1974, from the Bureau of Reclamation addressed to Mr. Porter, Director of the Commission, setting forth the position of the United States insofar as this area is concerned?

A. Yes, sir, I am.

Q Before concluding your testimony, Mr. Seerey, would you please summarize what Mobil is asking?

A. Number one, Mobil is requesting the Commission to authorize the pooling of all mineral interests in the Pennsylvanian formation underlying the north half of Section 12, Township 21 South, Range 26 East, Eddy County, New Mexico, for a three hundred and twenty acre proration unit to be dedicated to Mobil's Federal 12 Comm Well No. 1.

Number two, Mobil requests authorization to collect a hundred and sixty-four dollar per month charge for supervision after the well is completed and a fifteen hundred dollar per month charge for supervision during the drilling of the well.

Q I take it from that summary that Mobil is not requesting the assignment of any risk factor in connection with the drilling of this well, is that correct?

A. That is correct.

Q. Do you have anything further?

A. Yes, we believe that the approval of this request will prevent waste, prevent the drilling of unnecessary wells, and protect correlative rights by allowing each owner of the separate tracts the opportunity to produce his just and equitable share of the gas without waste.

Q. Does that conclude your testimony?

A. Yes, it does.

MR. SPERLING: I will offer Exhibits One through Six, Mr. Examiner.

MR. NUTTER: Mobil's Exhibits One through Six will be admitted into evidence.

(THEREUPON, Applicant's Exhibits Numbers One through Six were admitted into evidence.)

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Seerey, you mentioned that you are asking for fifteen hundred dollars a month for overhead charge while drilling and a hundred and sixty-four dollars a month after the well is completed.

Yet Exhibit Six, the operating agreement, the

accounting procedure attachment to it provides for a charge -- oh, the fifteen-eighty is below the twelve thousand and you will drill this less than twelve?

A. Yes, sir.

Q. This is the same thing that is shown in your Exhibit Six then, fifteen hundred and one hundred and sixty-four?

A. Yes, sir, the wellbore sketch they estimate a total depth to be eleven thousand five hundred feet.

MR. NUTTER: Thank you. Are there any further questions of Mr. Seerey?

MR. JENNINGS: If it please, Mr. Examiner, I have a few questions?

MR. NUTTER: Mr. Jennings?

CROSS EXAMINATION

BY MR. JENNINGS:

Q. Mr. Seerey, referring to Exhibit Six, I believe is the operating agreement, I believe it is Exhibit One there too, is the unit area?

A. Yes, sir.

Q. Then the operating agreement actually covers all rights from the surface down through the Morrow formation, right?

A. That is correct, yes, sir.

Q. And again refer to Exhibit, I believe it is Two, which is the Burton Flats field, it reflects a number of wells?

A. Yes, sir.

Q. Are there various producing horizons in that area, prospective producing horizons?

A. Yes, sir.

Q. Are all of those Pennsylvanian?

A. No, sir.

Q. Is there a possibility of some production above the Pennsylvanian formation?

A. Yes, there is a possibility.

Q. And would Mobil consider it appropriate to amend its pooling in light of your testimony concerning the location, the only possible well location being in the northeast quarter, northeast quarter to ask the Commission to pool from the surface down to the base of the Morrow being the same formation as covered by the -- or the same area as covered by the operating agreement?

MR. SPERLING: We don't have any idea what the spacing is at this time, do we?

MR. NUTTER: No.

MR. JENNINGS: There isn't any space for any more

wells.

MR. SPERLING: I understand about the well location but that doesn't determine the spacing.

MR. NUTTER: If I might interject, Mr. Jennings, the Commission has determined previously that it can't pool an area larger than the spacing unit that would be assigned. So, that's the reason we have been limiting these pool cases to the Pennsylvanian formation or deeper when it's for three hundred and twenty acres.

For instance, the Wolfcamp formation which is productive over here on the east side of Exhibit Number Two, would normally have a one hundred and sixty acre spacing unless the Commission had approved three-hundred-and-twenty-acre spacing for a Wolfcamp pool.

Say that you would find production in the Delaware when you are drilling this well. Delaware oil is forty acres. I think that is all that could be pooled right now as far as the Pennsylvanian is concerned is three hundred and twenty and we couldn't pool another formation for greater than the spacing unit for that formation.

MR. JENNINGS: I guess it is of no consequence if the operating agreement covers the whole north.

MR. NUTTER: The operating agreement can cover

any amount of acres the operators choose. If they get a Delaware well maybe Bob will get in the offshore drilling business and drill that forty over there.

(THEREUPON, a short discussion was held off the record.)

MR. JENNINGS: We have no further questions.

MR. NUTTER: If there are no further questions of the witness you may be excused.

(THEREUPON, the witness was excused.)

MR. NUTTER: Do you have anything further, Mr. Sperling?

MR. SPERLING: No, sir.

MR. NUTTER: I think that inasmuch as we have received this letter from the Department of Interior we will read it into the record. I am not sure that it even relates to this case but a copy of the docket for this case was sent to the Department of Interior, Bureau of Reclamation in Amarillo and we received this letter addressed to Mr. Porter and the letter is dated August the second, 1974, and reads as follows:

"Enclosed is an area map depicting the acreage under operation and control of the Carlsbad Irrigation District, title of which is claimed in whole by the United

States. Recent oil and gas leases indicate that third parties may be claiming interest of the surface and minerals before your Commission.

"We would appreciate any information you may have as to third party claims to property interests in the Carlsbad Irrigation District.

"Of course we have no objection to your informing these third parties of the claims of the United States and should any conflicts between the claims the third parties and the claims of the United States develop we will expedite our title review of the disputed area.

"Thank you for your cooperation in this matter, Sincerely yours, J.A. Bradley, Regional Director, of the Bureau of Reclamation Southwest Region, Herring Plaza, Box H-43377, Amarillo, Texas."

MR. JENNINGS: Could we have a copy of that, Mr. Examiner?

MR. NUTTER: We will prepare a copy of that for you. That is the only one we have got.

Do you want a copy of it, too, Mr. Sperling?

MR. SPERLING: Please.

MR. NUTTER: Does anyone have anything further in Case Number 5287? We will take the case under advisement.

STATE OF NEW MEXICO)
)ss.
COUNTY OF SANTA FE)

I, SIDNEY F. MORRISH, Court Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

SIDNEY F. MORRISH
Court Reporter

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 5287, heard by me on 8/7, 1974.

, Examiner
New Mexico Oil Conservation Commission

THE NYE REPORTING SERVICE
STATE-WIDE DEPOSITION NOTARIES
225 JOHNSON STREET
SANTA FE, NEW MEXICO 87501
TEL. (505) 982-0386

Mobil Oil Corporation

P.O. BOX 633
MIDLAND, TEXAS 79701

September 9, 1974

Carlsbad Irrigation District
Attn: Francis G. Tracy
Carlsbad, New Mexico 88220

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

WELL COST ESTIMATE
MOBIL-FEDERAL "12" COM.
NO. 1, N/2 SECTION 12,
T-21-S, R-26-E, EDDY
COUNTY, NEW MEXICO

Gentlemen:

In compliance with the New Mexico Oil Conservation Commission Order No. R-4844 dated August 27, 1974, attached please find two copies of a well cost estimate for the drilling of a Morrow test 660' FNL and 660' FEL Section 12, described above. As of this time, we are not certain as to the ownership of approximately 21 acres in this unit which may be owned by one of the addressees. Upon determination of the ownership, we would be pleased to have your approval of the well cost estimate indicating your participation in the drilling of the proposed Morrow test.

Yours very truly,

John D. Howard
Joint Interest Administrator
Midland Producing Area

ERFrazier/bg
Attach.

cc: New Mexico Oil Conservation Commission
Attn: Mr. A. L. Porter, Jr.
P. O. Box 2088
Santa Fe, New Mexico 87501

OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

August 27, 1974

I. R. TRUJILLO
CHAIRMAN

LAND COMMISSIONER
ALEX J. ARMIJO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

Re: CASE NO. 5287
ORDER NO. R-4844
Applicant:
Mobil Oil Corporation

Mr. James E. Sperling
Modrall, Sperling, Roehl, Harris & Sisk
Attorneys at Law
Public Service Building
Box 2168
Albuquerque, New Mexico 87103

Dear Sir:

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

Very truly yours,

A. L. Porter, Jr.

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other Mr. Jim Jennings, Pecos Irrigation Company, Bureau of Land Management, Santa Fe, U. S. Geological Survey, Artesia, Carlsbad Irrigation District, Carlsbad.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5287
Order No. R-4844

APPLICATION OF MOBIL OIL CORPORATION
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 7, 1974, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 27th day of August, 1974, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Mobil Oil Corporation, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the N/2 of Section 12, Township 21 South, Range 26 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well for said unit at an unorthodox location 660 feet from the North line and 660 feet from the East line of said Section 12.

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

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

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

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

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs.

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

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

(11) That $1500 per month should be fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that $164.00 per month should be fixed as a reasonable charge for supervision while producing; that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 30, 1974, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the N/2 of Section 12, Township 21 South, Range 26 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location for said unit 660 feet from the North line and 660 feet from the East line of said Section 12.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 30th day of November, 1974, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 30th day of November, 1974, Order (1) of this order shall be null and void and of no effect whatsoever;

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

(2) That Mobil Oil Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs.

(5) That the operator shall furnish the Commission and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Commission will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold from production the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within

30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That $1500.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) while drilling, and that $164.00 per month is hereby fixed as a reasonable charge for supervision while producing; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member

A. L. PORTER, Jr., Member & Secretary

S E A L
jr/

Case 5287

United States Department of the Interior

BUREAU OF RECLAMATION

SOUTHWEST REGION
HERRING PLAZA BOX H-4377
AMARILLO, TEXAS 79101

IN REPLY
REFER TO: 425

773.

AUG 2 1974

Mr. A. L. Porter, Director
New Mexico Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Porter:

Enclosed is an area map depicting the acreage under operation and control of the Carlsbad Irrigation District, title to which is claimed in whole by the United States.

Recent oil and gas leases indicate that third parties may be claiming interests of the surface and minerals before your commission. We shall appreciate any information you may have as to third-party claims to property interests on the Carlsbad Irrigation Project. Of course, we have no objection to your informing these third parties of claims of the United States.

Should any conflict between the claims of third parties and the claims of the United States develop, we will expedite our title review of the disputed area.

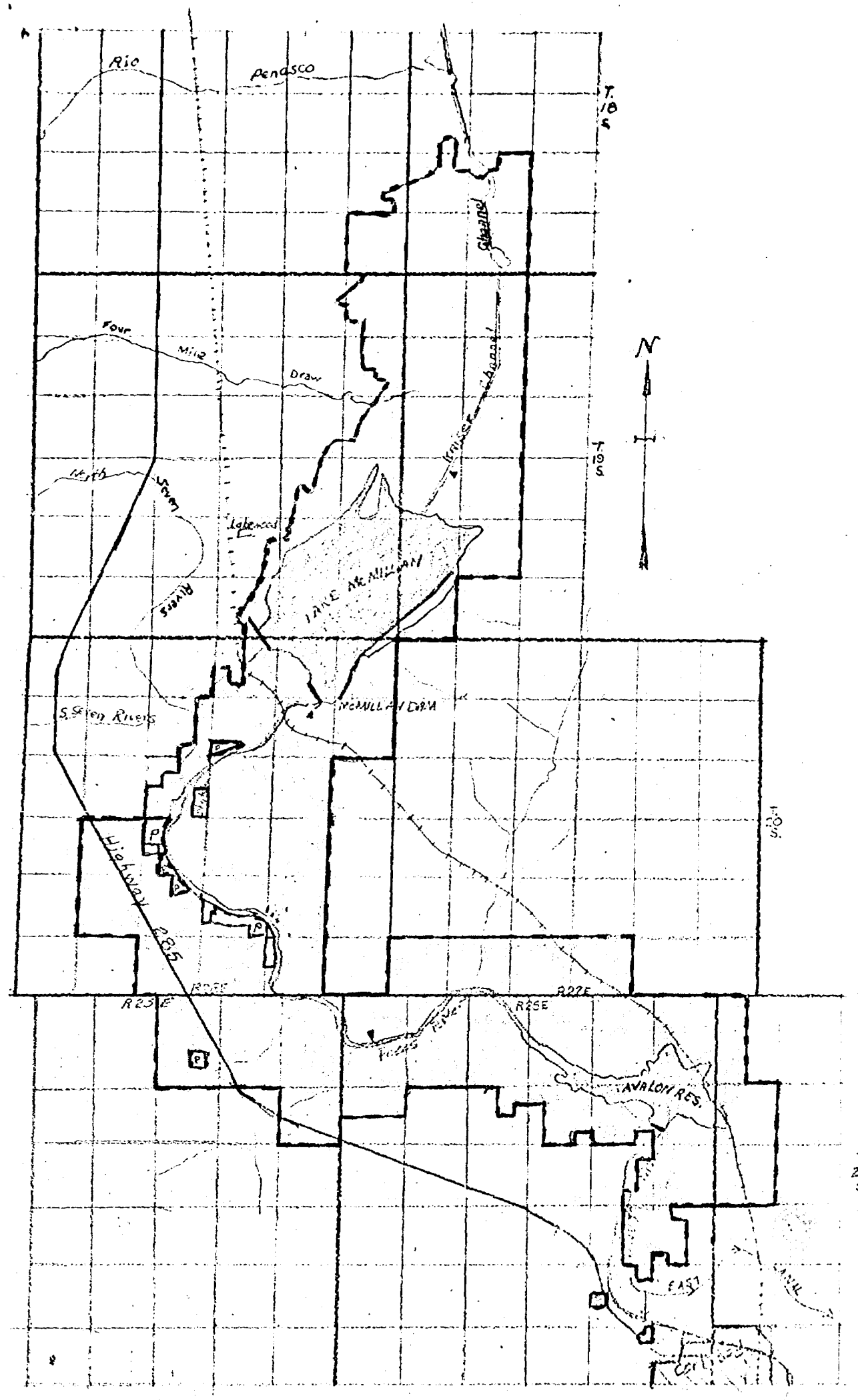
Thank you for your cooperation in this matter.

Sincerely yours,

J. A. Bradley
Regional Director

Enclosure

cc: Mr. Francis G. Tracy, Manager
Carlsbad Irrigation District
303 West Fox Street
Carlsbad, New Mexico 88220
(w/c enclosure)
State Director
Bureau of Land Management
Post Office Box 1449
Santa Fe, New Mexico 87501
(w/c enclosure)
District Manager
Bureau of Land Management
Post Office Box 1397
Roswell, New Mexico 88201
(w/c enclosure)
Mr. James A. Knauf
District Engineer
U.S. Geological Survey
Post Office Drawer U
Artesia, New Mexico 88210
(w/c enclosure)
Mr. Gayle E. Manges
Field Solicitor
Post Office Box 1042
Santa Fe, New Mexico 87501
(w/c enclosure)
Field Solicitor, Amarillo, Texas
(w/c enclosure)



AREA MAP
CARLSBAD PROJECT
New Mexico

Amarillo, Texas June 1954

Dockets Nos. 24-74 and 25-74 are tentatively set for hearing on August 21 and September 4. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 7, 1974

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

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

CASE 4749: (Reopened) (Continued from the July 10, 1974, Examiner Hearing)

In the matter of Case No. 4749 being reopened pursuant to the provisions of Order No. R-4338-A, which order continued special rules for the Humble City-Strawn Pool, Lea County, New Mexico. All interested parties may appear and show cause why said pool should not be developed on 40-acre spacing.

CASE 4946: (Reopened) (Continued from the July 10, 1974, Examiner Hearing)

In the matter of Case No. 4946 being reopened pursuant to the provisions of Order No. R-4581, which order established temporary rules for the Crosby-Fusselman Associated Pool, Lea County, New Mexico. All interested parties may appear and show cause why said rules should not be rescinded.

CASE 5282: (Continued from the July 24, 1974, Examiner Hearing)

Application of Union Texas Petroleum Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Jalmat and Langlie-Mattix production in certain of its wells in the Langlie-Jal Unit Area, currently being waterflooded under authority of Commission Order No. R-4051.

CASE 5287: Application of Mobil Oil Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the N/2 of Section 12, Township 21 South, Range 26 East, adjacent to the Burton Flats-Morrow Gas Pool, Eddy County, New Mexico, to form a standard 320-acre unit to be dedicated to applicant's Federal 12 Com Well No. 1 to be drilled at a previously approved unorthodox location 660 feet from the North and East lines of said Section 12. Also to be considered will be the cost of drilling and completing said well and the allocation of such costs, as well as actual operating costs and charges for supervision. Also to be considered is the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 5288: Application of Merrion & Bayless for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of hydrocarbon production from the top of the Gallup formation at 5434 feet to the base of the Dakota formation at 6570 feet in its Keeling Federal Well No. 1 located in Unit B of Section 20, Township 25 North, Range 8 West, Dufers Point-Dakota Pool, San Juan County, New Mexico.

CASE 5033: (Reopened)

In the matter of Case No. 5033 being reopened pursuant to the provisions of Order No. R-4539-A, which order established a special gas-oil ratio limitation of 5000 to 1 for the Bell Lake-Bone Spring Pool, Lea County, New Mexico. All interested parties may appear and show cause why said pool should not be produced under the standard 2000 to 1 gas-oil ratio limit.

CASE 5289: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit LeRoy Sumruld, American Employers Insurance Co., and all other interested parties to appear and show cause why the LeRoy Sumruld South Roberts SWD Well No. 2 located in Unit M of Section 14, Township 9 South, Range 32 East, Lea County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

CASE 5290: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Western Oil Producers, Inc., U.S. Fidelity & Guaranty Co., and all other interested parties to appear and show cause why the Western Oil Producers State A Well No. 1 located in Unit L of Section 34, Township 13 South, Range 33 East, Lea County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

CASE 5291: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Wil-Mc Oil Corporation, Trinity Universal Insurance Co., and all other interested parties to appear and show cause why the Wil-Mc Oil Corporation New Mexico State Well No. 2 located in Unit K of Section 11, Township 10 South, Range 32 East, Lea County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

CASE 5292: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit El Paso Natural Gas Company, United States Fidelity and Guaranty Co., and all other interested parties to appear and show cause why each of the following wells should not be plugged and abandoned in accordance with a Commission-approved plugging program:

EPNG Ludwick Well No. 11, located in Unit B,
Section 19, Township 30 North, Range 10 West,
San Juan County, New Mexico;

(Case 5292 continued from Page 2)

EPNG Rincon Unit Well No. 127, located in Unit A, Section 28, Township 27 North, Range 6 West, Rio Arriba County, New Mexico; and

EPNG Warren A Well No. 2, located in Unit A, Section 23, Township 28 North, Range 9 West, San Juan County, New Mexico.

CASE 5293: Southeastern nomenclature case calling for the creation and extension of certain pools in Chaves, Eddy and Lea Counties, New Mexico.

(a) Create a new pool in Eddy County, New Mexico, classified as an oil pool for Delaware production and designated the South Carlsbad-Delaware Pool. Further, to assign approximately 22,270 barrels of oil discovery allowable to the discovery well, the Hannifin & Cook Merland Well No. 1, located in Unit J of Section 24, Township 22 South, Range 26 East, NMPM. Said well was completed February 26, 1974. The top of the perforations is at 4454 feet. Said pool would comprise:

TOWNSHIP 22 SOUTH, RANGE 26 EAST, NMPM
Section 24: SE/4

(b) Extend the Antelope Ridge-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 34 EAST, NMPM
Section 9: N/2

(c) Extend the Blinebry Oil and Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 6: SE/4

(d) Extend the East Morton-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM
Section 3: NW/4

(e) Extend the Ranger Lake-Bough Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 12 SOUTH, RANGE 34 EAST, NMPM
Section 26: SW/4

(f) Extend the West Sawyer-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 9 SOUTH, RANGE 37 EAST, NMPM
Section 32: SE/4

(g) Extend the Tres Papalotes-Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 15 SOUTH, RANGE 34 EAST, NMPM
Section 5: SE/4

(h) Extend the Vest Ranch-Queen Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 14 SOUTH, RANGE 30 EAST, NMPM
Section 16: SE/4
Section 21: NE/4

Docket No. 18-74

DOCKET: COMMISSION HEARING - TUESDAY - AUGUST 13, 1974

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

ALLOWABLE: (1) Consideration of the allowable production of gas from seventeen prorated pools in Lea, Eddy, Roosevelt, and Chaves Counties, New Mexico, for September, 1974;

(2) Consideration of the allowable production of gas from five prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico, for September, 1974.

CASE 5264: Application of El Paso Natural Gas Company for the amendment of Order No. R-1670, Blanco Mesaverde Pool, San Juan and Rio Arriba Counties, New Mexico. Applicant, in the above-styled cause, seeks the amendment of the pool rules promulgated by Order No. R-1670, as amended, for the Blanco Mesaverde Pool in San Juan and Rio Arriba Counties, New Mexico, to authorize the Secretary-Director of the Commission to approve the drilling of a second well on an existing proration unit without notice and hearing, provided that the second well would be drilled in the quarter section of the unit which does not contain a well, and provided further that in calculating the allowable for a proration unit containing two wells, the deliverability of both wells would be combined for determining the unit's "AD Factor", and the unit allowable could be produced from either or both wells. For purposes of balancing underproduction or overproduction, both wells on a proration unit would be considered as one well; for determining whether a unit would be classified marginal or non-marginal, the production from both wells would be compared with the unit's allowable; and for reporting production, the total unit production for the month would be reported as well as the individual well production.

OFFICIAL FILE COPY

June 20, 1974

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

Attention Mr. Don G. McCormick

PROPOSED DEVELOPMENT WELL
MOBIL-FEDERAL "12" COM. #1
660' FNL AND 660' FEL
SECTION 12, T-21-S, R-26-E
EDDY COUNTY, NEW MEXICO

Gentlemen:

Please refer to the attached letter of June 7, 1974, in which an AFE was transmitted to the Working Interest Owners in the proposed development well. Mr. R. C. Beveridge with Western Reserves Oil Company now advises that your company owns an interest in the proposed communitized area.

For approval to participate in the proposed location, please return one signed copy of the AFE at your earliest convenience. In order to complete the preparation of the Operating Agreement and Communitization Agreement, please submit copies of your lease covering the land in the proposed unit area at your earliest convenience.

Yours very truly,

John D. Howard
Joint Interest Administrator
Midland Producing Area

ERFrazier/bg
Attachment

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Appl. EXHIBIT NO. #1-A
CASE NO. 5287

CHARTERED 1903

DON G. McCORMICK
PRESIDENT
MARY G. NEAL
VICE PRESIDENT
E. C. PAINE
SECRETARY-TREASURER

PECOS IRRIGATION COMPANY
BUJAC BUILDING
P. O. BOX 1718
CARLSBAD, NEW MEXICO 88220

TELEPHONES
TU 5-3141
TU 5-3142

3 July 1974

Mr. John D. Howard
Joint Interest Administrator
Mobil Oil Corporation
P. O. Box 663
Midland, Texas 79701

Re: PROPOSED DEVELOPMENT WELL
MOBIL-FEDERAL "12" COM. #1
660' FNL AND 660' FEL
SECTION 12, T-21-S, R-26-E
EDDY COUNTY, NEW MEXICO

Dear Mr. Howard:

On 21 June 1974, I wrote you stating that Pecos Irrigation Company owned in fee the oil, gas and other minerals under the following lands, to-wit:

> All that part of the W½NW¼ of Section 12, Township 21 South, Range 26 East, lying West of the East bank of the Pecos River, containing 19.21 acres more or less, all in Eddy County, New Mexico.

Also on 24 June 1974, I sent you the approved AFE.

It has now been brought to our attention that our title to this land is in dispute. The U.S.A., through the Bureau of Reclamation and the Carlsbad Irrigation District is contending that it has title to this tract of land.

Therefore, we want it specifically understood that we cannot participate in the drilling of this well until this dispute is resolved and will not be liable for any portion of the drilling expenses unless our title is determined to be perfect.

I had a phone conversation with your Mr. Morris and he stated that this would be all right and that you are going to force pool the acreage that was in dispute and let the title be determined at a later time.

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. #1-B
CASE NO. 5287

We regret this turn of events. I hope it does not cause you any undue convenience.

Very truly yours,

PECOS IRRIGATION COMPANY

By _____
Don G. McCormick
President

DGM:cy

cc: Mobil Oil Corporation
P. O. Box 663
Midland, Texas 79701
Attention: Mr. Morris

CARLSBAD IRRIGATION DISTRICT

June 27, 1974

Mr. L. A. Davis
Area Operations Engineer
Mobil Oil Corporation
P. O. Box 633
Midland, Texas 79701

Federal 12 Com, Well #1
Undesignated (Morrow) Pool
Eddy County, New Mexico

Dear Mr. Davis:

This will acknowledge receipt of your copy of a letter from you to Mr. Jim Knauf dated June 24, 1974 concerning the above captioned well. This letter advised that "Mobil has recently learned that Pecos Irrigation Company owns a lease in the W½W½ Section 12."

I do not know what you mean by "a lease", but have checked the Eddy County records and find that on January 31, 1974, the Pecos Irrigation Company paid ten years back taxes ending with the tax year 1973 in an effort, I suppose, to attempt to claim some interest in this land.

This is to advise that the Carlsbad Project is entitled to all royalty payments made on the land claimed by the Pecos Irrigation Company as a credit against our obligation to the United States Government. This is further to advise that I cannot take any action which might jeopardize the claim of the Carlsbad Project to these royalties, consequently I am referring this request for a permit to the Carlsbad Irrigation District's Board of Directors with the advice that they employ counsel to investigate this matter.

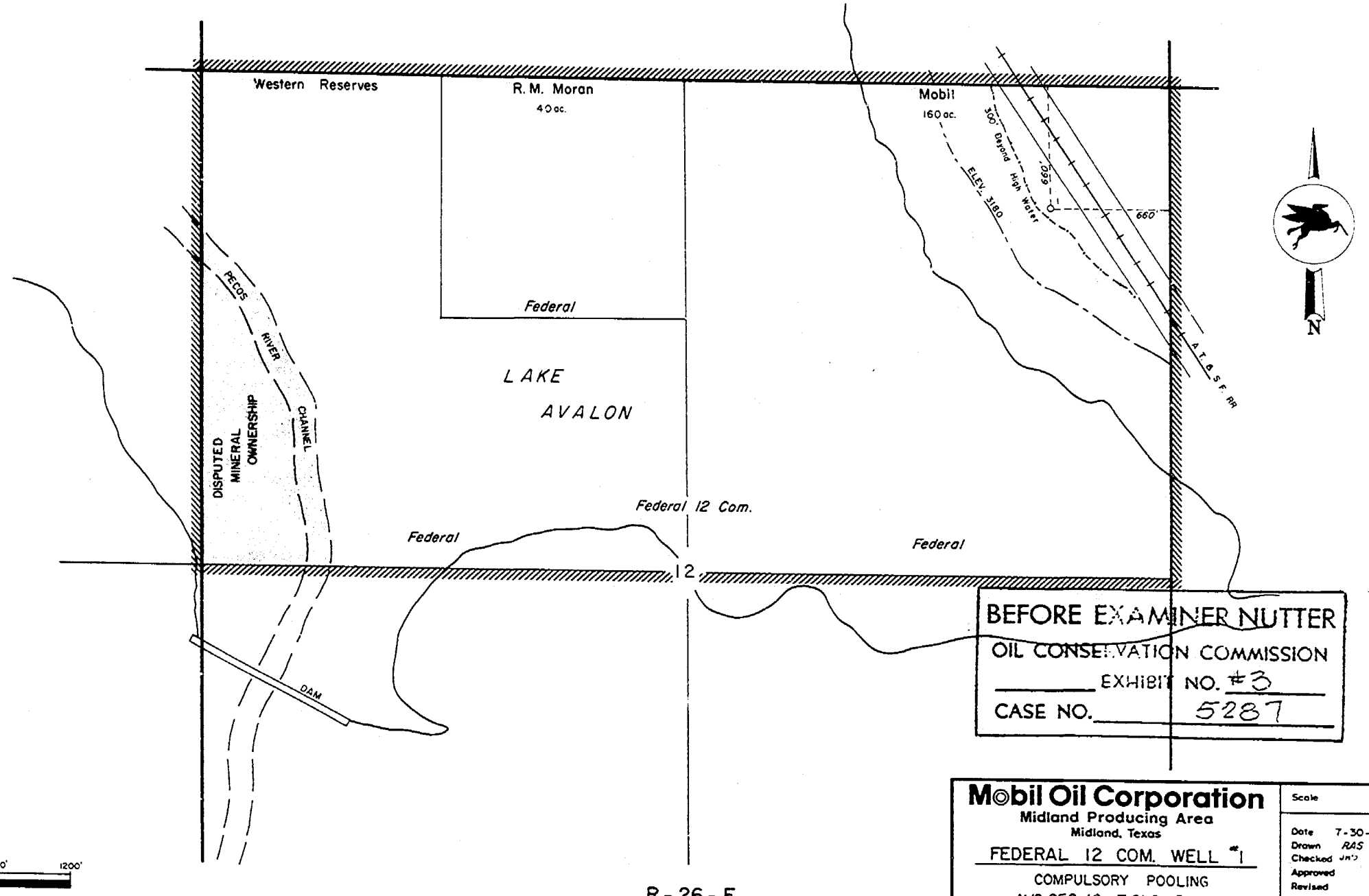
Our next Board meeting will be held on Tuesday, July 9, 1974 at 2:00 P. M. Should a representative of Mobil Oil Corporation wish to be present at that time, I am sure our Board will welcome him, however, should Mobil accept this invitation, please advise in order that we may have our attorney present at that meeting.

Sincerely,

Carlsbad Irrigation District

Francis G. Tracy, Manager

FGT:kw
CC: Jim Knauf
James A. Bradley



BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. #3
CASE NO. 5287

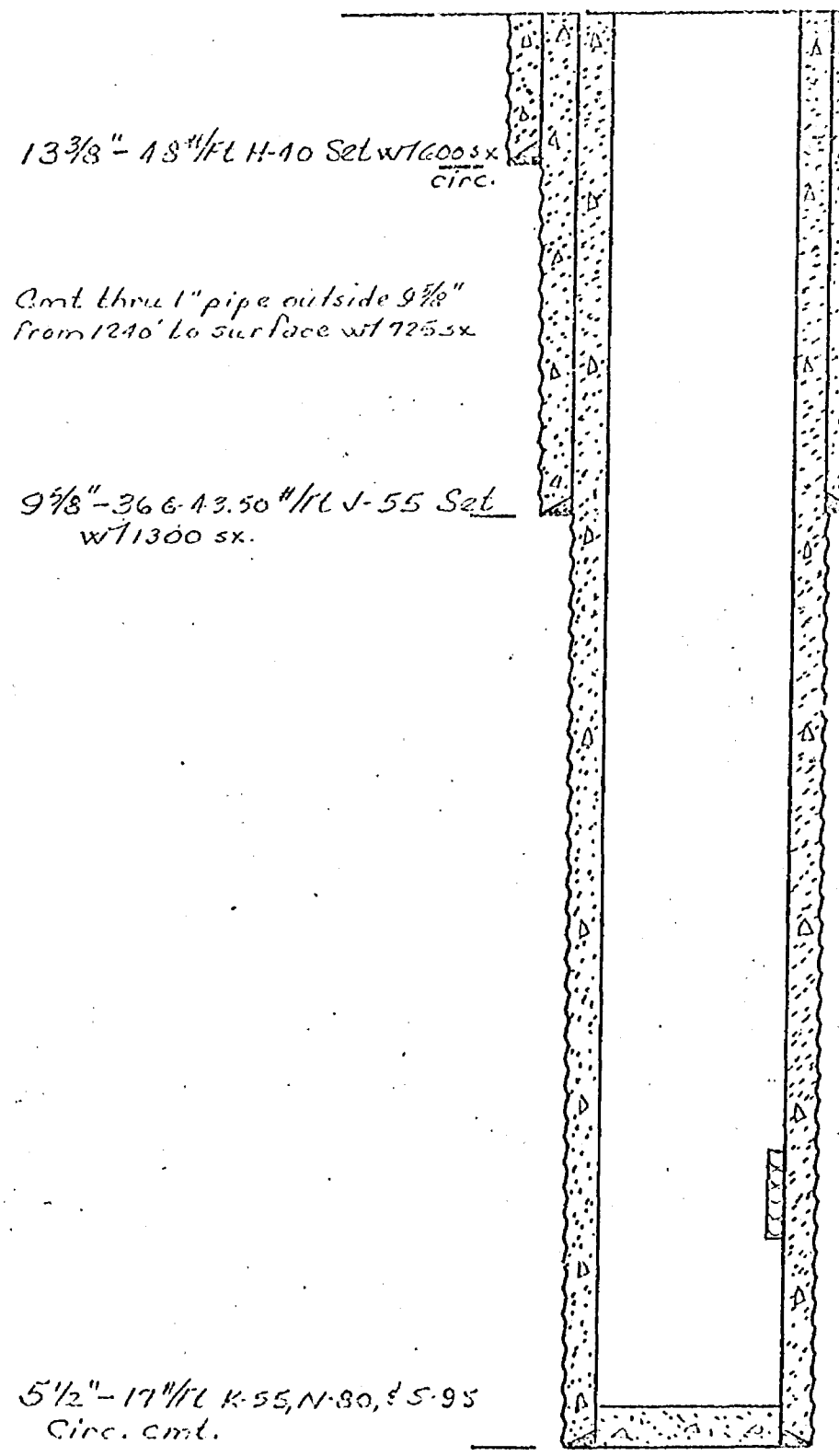
Mobil Oil Corporation
Midland Producing Area
Midland, Texas

FEDERAL 12 COM. WELL #1
COMPULSORY POOLING
N/2 SEC 12, T-21-S, R-26-E
EDDY COUNTY, TEXAS

Scale

Date 7-30-74
Drawn RAS
Checked JWD
Approved
Revised

Diagrammatic Well Sketch
Federal "12" Com Well No. 1
Eddy County, New Mexico



BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. #4
CASE NO. 5287

Morrow Perfs to be selected later

1-30-74
IGW

WELL COST ESTIMATE

FEDERAL 12 COM WELL NO. 1
BURTON FLATS-MORROW GAS POOL
EDDY COUNTY, NEW MEXICO

SINGLE COMPLETION-MORROW

DRILLING COST-INTANGIBLE		ESTIMATE
Drilling		
Footage Cost $10/ft to 10,000 ft		$100,000
Day Work Cost		30,000
Other Drilling Cost		6,000
	Total Drilling	$136,000
Other		
Location and Roads		$ 6,000
Logging and Testing		19,000
Water		5,000
Mud and Chemicals		35,000
Cement and Cementing Services		22,000
Trucking and Water Transportation		1,000
Perforating, Acidizing and Frac.		10,000
Bits		12,000
Equipment Rental		6,000
Miscellaneous		10,000
	Total Other	$126,000
	TOTAL WELL COST-INTANGIBLE	$262,000

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. #5
CASE NO. 5287

WELL EQUIPMENT-TANGIBLE	ESTIMATE
Casing	
350 ft of 13-3/8"	$ 3,000
2500 ft of 9-5/8"	25,000
9200 ft of 5-1/2" L	28,000
Tubing	
11,400 ft of 2-3/8"	14,000
Casing Head	2,000
Christmas Tree and Connections	6,000
Other Equipment	5,000
Total Well Equipment-Tangible	$ 83,000
TOTAL DRILLING WELL COST	$345,000

RELATED LEASE EQUIPMENT	
Wing Valve Controller and Pilots	$ 900
Line Heater and 1000 psig Separator	7,400
125 psig Vertical Separator	2,200
210 bbl Welded Steel Tank	2,100
Wellsite Labor - Installation	7,000
Trucking	300
Contingencies	3,100
Pipe, Valves, Fittings, Meter Run	5,000
Total Related Equip. Cost	$ 28,000
TOTAL WELL COST	$373,000

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956

Non-Federal Lands

OPERATING AGREEMENT

DATED

JUNE 28, , 19 74,

FOR UNIT AREA IN N/2 SECTION 12, TOWNSHIP 21 SOUTH, RANGE 26 EAST,

EDDY COUNTY, STATE OF NEW MEXICO.

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. · A.A.P.L. NO. 610
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
ROSS - MARTIN COMPANY, BOX 800, TULSA 74101

TABLE OF CONTENTS

A.A.P.L. FORM 610

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 28th day of June, 19 74, between MOBIL OIL CORPORATION, hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

(1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.

(2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.

(3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.

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

(5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

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

(7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.

(8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

Title to the drillsite lease or leases shall be examined by Operator's attorneys. The cost of title examination, including abstracts, attorney fees and other expenses, shall be charged to the joint account, but no such expenditures shall be made for or charged to the joint account without the prior written consent of the parties to be charged therefor. Acceptance and approval of an AFE for the drilling of a well shall be considered such consent as to the examination of the drillsite tract. Copies of all opinions and curative material obtained will be furnished each party to the agreement upon request. No charge shall be made for any examination by Operator's staff attorneys.

"Individual Loss"
Revised 1967

6/26/74

~~to which title is approved or accepted, or until the parties fail to select another drillsite. As in the case of the~~ drillsite first selected, so also with ~~successive~~ choices if the time comes that the parties have not approved title and are unable to agree upon an alternate drillsite, the contract shall, ~~in that case and~~ at that time, come ~~to an end and all parties shall forfeit their rights and be relieved of obligations under this contract.~~

No well other than the first test shall be drilled in the Unit Area until after (1) the title to the lease covering the lands upon which such well is to be located has been examined by Operator's attorney, and (2) the title has been approved by the examining attorney and the title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Failure of Title:

Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and

(1) The party whose lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and

(2) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Unit Area by the amount of the interest lost; and

(3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the Unit Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(4) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, or equipment previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and

(5) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production.

C. Loss of Leases for Causes Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

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

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If the interest of any party in any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eigthh (⅛) royalty, such party shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

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

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL

On or before the 1st day of December, 19 74, Operator shall commence the drilling of a well for oil and gas in the following location:

660' FNL & 660' FEL of Section 12, T-21-S, R-26-E, Eddy County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Lower Morrow formation or to 11,500', whichever is the lesser depth,

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.

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

If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ten percent (10%) per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

6/26/74

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination. This agreement shall terminate 90 days after cessation of production on the Unit Area.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Ten Thousand Dollars ($ 10,000.00) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. ~~Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of $~~

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(B) 300%of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

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

Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production as set out on Exhibit "A" regardless of whether it is taking and selling such share and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Delay rentals and shut-in well payments which may be required under the terms of any lease shall be paid by the party who has subjected such lease to this agreement, at its own expense. Proof of each payment shall be given to Operator at least ten (10) days prior to the rental or shut-in well payment date. Operator shall furnish similar proof to all other parties concerning payments it makes in connection with its leases. Any party may request, and shall be entitled to receive, proper evidence of all such payments. If, through mistake or oversight, any delay rental or shut-in well payment is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to pay a rental or shut-in well payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, the interests of the parties shall be revised on an acreage basis effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Unit Area on account of the ownership of the lease which has terminated. In the event the party who failed to pay the rental or the shut-in well payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(1) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(2) proceeds, less operating expenses thereafter incurred attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which would, in the absence of such lease termination, be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(3) any moneys, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Unit Area or becoming a party to this contract.

Operator shall attempt to notify all parties when a gas well is shut-in or returned to production, but assumes no liability whatsoever for failure to do so.

~~18. PREFERENTIAL RIGHT TO PURCHASE~~

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

19. SELECTION OF NEW OPERATOR

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

20. MAINTENANCE OF UNIT OWNERSHIP

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

(1) the entire interest of the party in all leases and equipment and production; or

(2) an equal undivided interest in all leases and equipment and production in the Unit Area.

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

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

21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

22. LIABILITY OF PARTIES

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

23. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

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

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

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

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.
The provisions of this Paragraph 23 shall only apply to leases, or portions of leases, located within the Unit Area.

24. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

26. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

27. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State of New Mexico. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State of New Mexico and to maintain such other insurance as Operator may require.

Operator shall not be obligated to provide any other insurance for the Joint Account of the parties hereto. Any party may, at its own expense, acquire such insurance as it deems proper to protect itself against any claims, losses, damages, or destruction arising out of operation of the Unit Area.

28. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand ($1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

29. FORCE MAJEURE

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

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

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

30. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

31. OTHER CONDITIONS, IF ANY, ARE:

A. Notwithstanding anything herein to the contrary, if any working interest owner shall, subsequent to execution of this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its working interest (herein called "subsequently created interest"), such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement. If the working interest owner from which such subsequently created interest is created (a) fails to pay, when due, its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses, or (b) elects to go non-consent under Section Twelve, or (c) elects to abandon a well under Section Sixteen hereof, elects to surrender a lease under Section Twenty-Four hereof, or otherwise withdraws from this agreement, the subsequently created interest shall be chargeable with a pro-rata portion of all costs and expenses hereunder in the same manner as if such subsequently created interests were a working interest, and Operator shall have the right to enforce against such subsequently created interests the lien and all other rights granted in Section Nine hereof for the purpose of collecting costs and expenses chargeable to subsequently created interests.

B. In the performance of this contract, Operator shall not engage in any conduct or practice which violates any applicable law, order or regulation prohibiting discrimination against any person by reason of race, religion, color, sex, national origin or age; and Operator further agrees to comply fully with the non-discrimination provisions of Section 202 of Executive Order No. 11246 (30 F.R. 12319), which are hereby included in this contract as fully as if copied herein. Operator shall also abide by the requirements of Executive Order #11598 Occupational Safety and Health Act and by Executive Order #11640 Veterans Hire Regulation which orders are inserted herein by reference.

C. This agreement shall be subject to the conservation laws of the State of New Mexico; to the valid rules, regulations, and orders of the Oil Conservation Commission of New Mexico; and to all other applicable federal, state, and municipal laws, rules, regulations and orders.

D. Gas well production shall be governed by Exhibit "D", Gas Balancing Agreement attached hereto.

E. In spite of any provision to the contrary appearing in Section 11 hereof, consent to the drilling of a well shall not be deemed as consent to the setting of casing and completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice to Non-Operators. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday or Sunday or legal holidays) in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of all of the parties. If one or more, but less than all, of the parties elect to set pipe and to attempt a completion, the provisions of Section 12 shall apply to the operation thereafter conducted by less than all parties. The provisions of this paragraph shall not be available to any party who shall have elected to be a non-consenting party in drilling the well.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

MOBIL OIL CORPORATION

By J. R. Wright
Attorney in Fact

APPROVED	
JT. INT.	
CONTR.	
N. GAS	
ENGR.	
LEGAL	
LAND	
TITLE R	
Opr	

OPERATOR

WESTERN RESERVES OIL COMPANY

ATTEST:

_____

By _____

R. M. MORAN

ATTEST:

_____

By _____

ATTEST:

_____

_____

NEW MEXICO SINGLE ACKNOWLEDGMENT

STATE OF _____ I
I
COUNTY OF _____ I

The foregoing instrument was acknowledged before me this _____ day of _____, 1970, by _____.

_____
Notary Public

* * * * *

NEW MEXICO CORPORATION ACKNOWLEDGMENT

STATE OF Texas I
I
COUNTY OF Midland I

The foregoing instrument was acknowledged before me this 17th day of July, 1970, by E. S. Wright, Jr., Attorney-in-Fact of Mobil Oil Corporation, a New York corporation, on behalf of said corporation.

My commission expires
June 1, 1972

Wanda Phillips
Notary Public

WANDA PHILLIPS, Notary Public
In and for Midland County, Texas

* * * * *

NEW MEXICO CORPORATION ACKNOWLEDGMENT

STATE OF _____ I
I
COUNTY OF _____ I

The foregoing instrument was acknowledged before me this _____ day of _____, 1970, by _____, _____ of _____, a _____ corporation, on behalf of said corporation.

_____
Notary Public

EXHIBIT "A"

Attached to and made a part of Operating Agreement dated June 28, 1974, between Mobil Oil Corporation, as Operator, and Western Reserves Oil Company, et al, as Non-Operators.

A. UNIT AREA

North Half (N/2) Section 12, T-21-S, R-26-E, Eddy County, New Mexico, as to all depths below the surface of the ground.

B. PERCENTAGE INTEREST OF PARTIES UNDER THIS AGREEMENT

Mobil Oil Corporation P. O. Box 633 Midland, Texas 79701	50.0000%
Western Reserves Oil Company P. O. Box 993 Midland, Texas 79701	30.8125%
R. M. Moran P. O. Box 1919 Hobbs, New Mexico 88240	12.5000%
Undetermined	6.6875%
	100.0000%

Producer's 88—(Producer's Revised 1967) (New Mexico) Form 342-U Printed and for sale by Hall-Poorbaugh Press, Inc., Roswell, N. M.

OIL & GAS LEASE
EXHIBIT "B"

THIS AGREEMENT made this _____ day of _____ 19____, between _____

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED JUNE 28, 1974, BY AND BETWEEN MOBIL OIL CORPORATION AND WESTERN RESERVES OIL COMPANY, ET AL, AS NON-OPERATORS.

_____ of _____
(Post Office Address)

herein called lessor (whether one or more) and _____, lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the

following described land in _____ County, New Mexico, to-wit:

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise _____ acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of ten (10) years from this date (called "primary term"), and as long thereafter as oil or gas, is produced from said land or land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, one-eighth of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipe line to which the wells may be connected; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the mouth of the well of one-eighth of the gas so sold or used, provided that on gas sold at the wells the royalty shall be one-eighth of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas and/or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance annual shut-in royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered this lease shall not terminate and it will be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing, or be paid or tendered to the credit of such party or parties in the depository bank and in the manner hereinafter provided for the payment of rentals.

4. If operations for drilling are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of $ _____ which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during the primary term. Payment or tender may be made to the lessor or to the credit of the lessor in the _____ Bank at _____, which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's heirs and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason shall fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another acceptable method of payment or tender, and any depository charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or any lessor if more than one, on or before the rental paying date. Any timely payment or tender of rental or shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depositories shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof by certified mail from lessor together with such instruments as are necessary to enable lessee to make proper payment.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the New Mexico Oil Conservation Commission or by other lawful authority for the pool or area in which said land is situated, plus a tolerance of 10%. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the number of surface acres in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit. Lessee is further granted the right and power to commit this lease as to all or any portion of the above described lands or horizons thereof to any unit agreement for the purpose of conserving the natural resources of any oil or gas pool, field or area covered thereby; provided, such unit agreement contains usual and customary provisions for the allocation of oil and gas produced from the unit area and such unit agreement embraces lands of either the United States or State of New Mexico or both, and the form of unit agreement has been approved by either the United States Geological Survey or Commissioner of Public Lands or both and the New Mexico Oil Conservation Commission, and upon such commitment the provisions of this lease shall be conformed to the unit agreement.

6. If prior to the discovery of oil or gas hereunder, lessee should drill and abandon a dry hole or holes hereunder, or if after discovery of oil or gas the production thereof should cease for any cause, this lease shall not terminate if lessee commences reworking or additional drilling operations within 60 days thereafter and diligently prosecutes the same, or (if it be within the primary term) commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of three months from date of abandonment of said dry hole or holes or the cessation of production. If at the expiration of the primary term oil or gas is not being produced but lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such operations are diligently prosecuted with no cessation of more than 60 consecutive days. If during the drilling or reworking of any well under this paragraph, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations then within 30 days after the abandonment of said operations lessee may commence another well and drill the same with due diligence. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns; but no change or division in the ownership of the land, or in the ownership of or right to receive rentals, royalties or payments, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may pay or tender any rentals, royalties or payments to the credit of the deceased or his estate in the depository bank until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall so comply or make such payments. Rentals as used in this paragraph shall also include shut-in royalty.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land, and agrees that lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, rental, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its/his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the rentals and shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

_____	_____
_____	_____
_____	_____

AMERICAN 601 TULSA, OKLAHOMA 74101

COPAS — 1968
Recommended by the Council of Petroleum Accountants Societies of North America

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated June 28, 1974, between Mobil Oil Corporation, as Operator, and Western Reserves Oil Company, et al. as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

"Controllable Material" shall be defined as set forth under the subparagraph selected below:

A. [XX] Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

B. [ ] Material which is ordinarily so classified and controlled by Operator in the conduct of its operations. List shall be furnished Non-Operators upon request.

2. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under the subparagraph selected below:

A. [ ] Statement in detail of all charges and credits to the Joint Account.

B. [ ] Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

C. [XX] Statement of all charges and credits to the Joint Account, summarized by appropriate classification indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of ten per cent (10%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser.

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

Where an approval or other agreement of Non-Operators is expressly required under Paragraphs 5A, 5B, 6A and 8 of Section II, Section III, Section V, Section VI, and Paragraph 4 of Section VII, of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the Operator shall notify all Non-Operators and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

A. (1) Salaries and wages of Operator's employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of first-level supervisors in the field if such charges are excluded from overhead rates in Option A of Section III.

(3) Salaries and wages of technical employees temporarily assigned to and directly employed on the Joint Property if such charges are excluded from overhead rates in Option B of Section III.

(4) Salaries and wages of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from overhead rates in Option C of Section III.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1A of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III shall be chargeable as indicated in the subparagraph selected below:

A. [ ] Operator's actual cost.

B. [X] Operator's actual cost not to exceed fifteen per cent (15%).

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

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

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by Operators and Non-Operators. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by Operator and Non-Operators.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of $100 or less.

6. Services

A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 1B of Section III. The cost of professional consultant services shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.

B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. Legal Expense

All costs and expenses of handling, investigating, and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorney's fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), unless agreed to by Operator and Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

9. Taxes

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

10. Insurance

Net premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties

In the event Joint Operations are conducted in a state in which Operator may act as self insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self insurance program and in that event, Operator shall include a charge thereof on the following basis:

11. Other Expenditures

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

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus the rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraph 1 of this Section III or by combining all three of said items under the rates provided for in Paragraph 2 or 3 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE INDIRECT COSTS TO THE JOINT ACCOUNT UNDER THE TERMS OF:

[ ] Paragraph 1. (District Expense, Administrative Overhead and Warehousing)
[X] Paragraph 2. (Combined Rates - Well Basis)
[ ] Paragraph 3. (Combined Rates - Percentage Basis)

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by Operator and Non-Operators as a direct charge to the Joint Account.

THE OVERHEAD RATES PROVIDED FOR IN ANY OF THE PARAGRAPHS SELECTED ABOVE

A. [ ] shall [X] shall not include salaries and personal expenses of first-level supervisors in the field.

B. [X] shall [ ] shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.

C. [X] shall [ ] shall not include salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property.

1. District Expense, Administrative Overhead and Warehousing

A. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's

office located at or near

(or a comparable office if location changes); and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

B. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1A of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charge shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged direct as provided in Paragraphs 2 and 3 of Section II. Such charge shall be made on the basis indicated below, either (1) well basis or (2) percentage basis, at the rates shown thereunder.

(1) [ ] Well Basis

RATE PER WELL PER MONTH

	DRILLED WELL RATE (On Total Depth)		PRODUCING WELL RATE (On Completion Producing Depth)	
Well Depth	Each Well	First Five	Next Five	All Wells Over Ten

(2) [ ] Percentage Basis

PERCENTAGE BASIS

Development:

Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraphs 6 of Section II and all salvage credits.

Operating:

Percent (%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

C. Operator's Warehouse Operating and Maintenance Expense

[ ] Included in district expense

[ ] No charge either direct or indirect

[ ] Percentage basis (describe fully) .....

.....

.....

2. Combined Rates - Well Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

RATE PER WELL PER MONTH

Well Depth	DRILLING WELL RATE (Use Total Depth) Each Well	PRODUCING WELL RATE (Use Current Producing Depth) All Wells	Next Five	All Wells Over Ten
0'- 8,000'	$1,420	$142		
8,001'-12,000'	$1,500	$164		
Below 12,000'	$1,580	$186		

3. Combined Rates - Percentage Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

PERCENTAGE BASIS

A. Development:

..... Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

B. Operating:

..... Percent (%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

4. Application of Administrative Overhead or Combined Rates - Well Basis

The following limitations, instructions and charges shall apply in the application of the rates as provided under either Paragraph 1B (1) or Paragraph 2 of this Section III.

A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

(1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for waterflooding operations and salt water disposal wells shall be considered the same as producing oil wells.

(2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. Any well being plugged or produced during any portion of the month shall be considered as a producing well for the entire month.

(3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling rig or workover rig capable of drilling shall be considered the same as drilling wells.

(4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, shut-in wells shall be counted in determining the charge hereunder for such month if said wells contribute allowable production that is actually produced during such month from one or more unit wells as a result of allowable transfer, inclusion in the unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during the month.

(5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.

(6) Wells completed in multiple horizons, shall be considered as a producing well for each separately producing horizon, providing each completion is considered a separate well by governmental or other statewide regulatory authority.

C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, irrespective of individual leases.

D. The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian Index as published by the Dominion Bureau of Statistics, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

5. Application of Administrative Overhead or Combined Rates - Percentage Basis

For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 of this Section III, Development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when well is not completed as a producer; and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 6 of this Section III. All other costs shall be considered as Operating.

6. Major Construction Overhead

For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling

and producing operations, Operator in addition to the Administrative Overhead or Combined Rates provided for in Paragraph 1, 2 or 3 of this Secton III shall either negotiate a rate prior to beginning of construction or shall charge the Joint Account with an additional overhead charge as follows:

A. Total cost less than $25,000, no charge.

B. Total cost more than $25,000, but less than $100,000, ...3..... % of total cost.

C. Total cost of $100,000 or more, ...3..... % of the first $100,000 plus .....2..... % of all over $100,000 of total cost.

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

7. Amendment of Rates

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operators may supply Material or services for the Joint Property.

1. Purchases

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

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

(2) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.

(3) When the Operator has equalized actual hauling costs as provided for in Paragraph 5 of Section II, Operator is permitted to include ten cents (10¢) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.

(4) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f.o.b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is normally available.

(5) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. Used Material (Condition "B" and "C")

(1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.

(2) Material which is not suitable for its original function until after reconditioning shall be furnished to the Joint Account under one of the two methods defined below:

(a) Classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the Operator of the transferring property.

(b) Classified as Condition "C" and priced at fifty per cent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the receiving property, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

(4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

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

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. Rates for laboratory services shall not exceed those currently prevailing if performed by

outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be agreed to by Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from Joint Property.

1. **Material Purchased by the Operator or Non-Operators.**
   Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.
2. **Division in Kind**
   Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator to the Joint Account.
3. **Sales to Outsiders**
   Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless agreed to by Operator and Non-Operators shall be priced on the following basis:

1. **New Price Defined**
   New price as used in this Section VI shall be the price specified for new Material in Section IV.
2. **New Material**
   New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).
3. **Good Used Material**
   Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:
   A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
   B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five per cent (75%) of new price.
4. **Other Used Material**
   Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:
   A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
   B. Is serviceable for original function but not suitable for reconditioning.
5. **Bad-Order Material**
   Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.
6. **Junk Material**
   Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.
7. **Temporarily Used Material**
   When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. **Periodic Inventories, Notice and Representation**
   At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.
2. **Reconciliation and Adjustment of Inventories**
   Reconciliation of inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operators only for shortages due to lack of reasonable diligence.
3. **Special Inventories**
   Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.
4. **Expense of Conducting Periodic Inventories**
   The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.

EXHIBIT "D"
GAS BALANCING AGREEMENT
FOR GAS WELL PRODUCTION

Attached to and made a part of the Operating Agreement between Mobil Oil Corporation, as Operator, and Western Reserves Oil Company, et al, as Non-Operators.

The parties to the Operating Agreement to which this Gas Balancing Agreement is attached own the working interest in the gas rights underlying the Joint Property covered by such agreement and are entitled to share in the percentages as stated in the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto does not market its share of gas or has contracted to sell its share of gas produced from the Joint Property to a purchaser which, at any time while this agreement is in effect fails to take the share of gas attributable to the interest of such party, the terms of this storage agreement shall automatically become effective.

1.

During any period or periods when the market of a party is not sufficient to take that party's full share of the gas produced from the Joint Property, or its purchaser is unable to take its share of gas produced from the Joint Property, the other party or parties shall be entitled to produce from said Joint Property (and take or deliver to a purchaser), each month, all or a part of that portion of the allowable gas production assigned to such Joint Property by the regulatory body having jurisdiction. That party shall be entitled to take and deliver to its or their purchaser all of such gas production, provided; however, that no party shall be entitled to take or deliver to a purchaser gas production in excess of 300% (percent) of its share of the allowable gas production assigned thereto by the regulatory body having jurisdiction, unless that party has gas in storage. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by primary separation equipment in accordance with their respective interests and subject to the terms of the above described Operating Agreement.

2.

Each party unable to market its share of the gas produced, and taking less than its full share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less such party's share of the gas taken, gas used in Joint Property operations, vented, or lost. Each party taking gas shall furnish the Joint Property operator a monthly statement of gas taken. The operator of the Joint Property will maintain a running account of the gas balance between the parties hereto and will furnish each party monthly statements showing the total quantity of gas produced, the amount thereof used in Joint Property operations, vented or lost, and the total quantity of gas delivered to markets. Measurement of gas for over and under production shall be accomplished by use of sales meters, and lease measurement shall be in accordance with AGA requirements.

3.

After written notice to the operator, any party may at any time begin taking or delivering to its purchaser its full share of the gas produced from said Joint Property (less any used in Joint operations, vented, or lost). To allow for the recovery of gas in storage and to balance the gas account of the parties in accordance with their respective interests, a party with gas in storage shall be entitled to take or deliver to a purchaser its full share of gas produced from said Joint property (less any used in Joint operations, vented or lost) plus an amount determined by multiplying twenty-five percent (25%) of the interest of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the Joint Property of such party with gas in storage and the denominator of which is the total percentage interest in the Joint Property of all parties with gas in storage.

4.

Nothing herein shall be construed to deny any party the right, from time to time to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability test required by its purchaser. Each party, shall at all times, use its best efforts to regulate its takes and deliveries from said Joint Property so that said Joint Property will not be shut-in for over producing the allowable assigned thereto by the regulatory body having jurisdiction.

5.

During the term of this agreement, while gas is being produced from the Joint Property, each party shall pay or deliver, or cause to be paid or delivered all royalties, overriding royalties or other payments due on its share of production regardless of whether or not it is taking and selling such share, and shall hold the other parties free from any liability therefor.

6.

Each party producing and taking or delivering gas to its purchaser shall pay, or cause to be paid, all production taxes due on such gas.

7.

When gas sales from a gas well permanently cease, Unit Operator shall make a final determination of the volumes of the last accrued over and underproduction, if any, as of the date of such cessation of sales and the identity of the party or parties who are over or underproduced. A cash balancing adjustment shall be made by the overproduced party, or parties, to the underproduced party, or parties, for the overproduced volumes which have been taken and sold; the price to be paid for such adjustment shall be the actual price received for the last accured overproduction by the overproduced party, or parties, less appropriate deductions for taxes and/or royalties paid on such production by the overproduced party.

8.

This agreement shall remain in force and effect as long as the operating agreement, to which it is attached, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representative and assigns.

9.

Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in Joint operations, as its share thereof is set forth in the above-described Operating Agreement.

10.

The provisions of this agreement shall be applied to each well and/or each formation separately as if each well and/or formation was a separate well and covered by separate but identical agreements.

Mobil Oil Corporation

P.O. BOX 633
MIDLAND, TEXAS 79701

July 8, 1974

Case 5287

New Mexico Oil Conservation Commission (3)
P.O. Box 2088
Santa Fe, New Mexico 87501

Attn: Mr. A. L. Porter, Jr.

Re: Compulsory Pooling Application
Mobil Oil Corporation's
Federal 12 Com, Well #1
Undesignated (Morrow) Pool
Eddy County, New Mexico

Gentlemen:

Mobil Oil Corporation respectfully requests an examiner hearing on the earliest possible date to consider testimony for the purpose of issuing an order pooling all mineral interest in the Pennsylvanian formation underlying the N 1/2 of Sec. 12, T-21-S, R-26-E, Eddy County, New Mexico. It is necessary for Mobil to request this hearing because of disputed mineral ownership of a tract of land that lies in the north half of Sec. 12 and should be included in the acreage to be dedicated to the subject well. This land is described as a tract of land containing from 17.75 to 21.40 acres lying west of the east bank of the Pecos River in the W 1/2 W 1/2 N 1/2 Sec. 12, T-21-S, R-26-E, Eddy County, New Mexico. Well #1 is located in Unit "A", 660' FNL and 660' FEL of said Sec. 12. Administrative Order NSL-671, dated July 2, 1974, authorized the drilling of this well at an unorthodox location.

Mobil will request to be designated operator of the well and unit, and will request authorization to collect certain charges for supervision both during the drilling of this proposed well and after it is completed. Also, Mobil will request a charge for risk involved in drilling this well.

All proceeds from production due this tract and not disbursed will be placed into an escrow account until such time as the ownership question can be resolved.

Should additional information concerning this matter be desired, please advise.

Yours very truly,

L. A. Davis

DOCKET MAILED
Date 7-25-74

ADBond/mrb
cc: James E. Sperling-Albuquerque, N.M.
Pecos Irrigation Company-Carlsbad, N.M. +
Bureau of Land Management-Santa Fe, N.M. X
Bureau of Reclamation-Amarillo, Tx.
Bureau of Land Management-Roswell, N.M.
X United States Geological Survey - Artesia, N.M.
X Carlsbad Irrigation District - Carlsbad, N.M.
New Mexico Oil Conservation Comm. - Artesia, N.M.

Boyd c Bldg Box 1718 Carlsbad

Contacted Mr Bond on 7-10-74. (Send dockets to the ones marked X)

DRAFT

dr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5287

Order No. R-4844

APPLICATION OF MOBIL OIL CORPORATION
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 7, 1974 at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this day of August, 1974, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Mobil Oil Corporation, seeks an order pooling all mineral interests in the Pennsylvanian underlying the N/2 of Section 12, Township 21 South, Range 26 East, NMPM, Eddy County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well for said unit at an unorthodox location 660 feet from the North line and 660 feet from the East line of said Section 12.

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

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

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

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

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs. plus an additional thereof as a reasonable charge for the risk involved in the drilling of the well.

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

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

while drilling and that $1/64 per month should be fixed as a reasonable charge for supervision while producing;

(11) That $1500 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 30, 1974, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Pennsylvanian formation underlying the N/2 of Section 12, Township 21 South Range 26 East, NMPM, , Eddy County, New Mexico, are hereby pooled to form a standard 320- acre gas spacing and proration unit to be dedicated to a well to be drilled for said unit at ~~a~~ an unorthodox location, 660 feet from the North line and 660 feet from the East line of said Section 12.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 30th day of November, 1973, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 30th day of November, 1973, Order (1) of this order shall be null and void and of no effect whatsoever;

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

(2) That Mobil Oil Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and ~~at least~~ within 30 days prior to commencing said well, the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs. ~~but shall not be liable for risk charges~~

(5) That the operator shall furnish the Commission and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Commission will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided

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

(7) That the operator is hereby authorized to withhold from production the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) As a charge for the risk involved in the drilling of the well, _____ of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That $1500 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

While drilling and that $164 per month is hereby fixed as a reasonable charge for supervision while producing;

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

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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