

CASE 3545: Application of JOHN
YURONKA & ROBERT E. CHANDLER for
COMPULSORY POOLING, LEA COUNTY.

CASE No.
3543

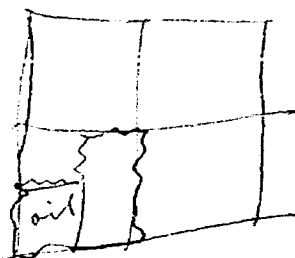
Application,
TRANSCRIPTS,
SMALL Exhibits
ETC.

Memo

From

E. A. UTZ
GAS ENGINEER

To



Gas, Subt + Blin

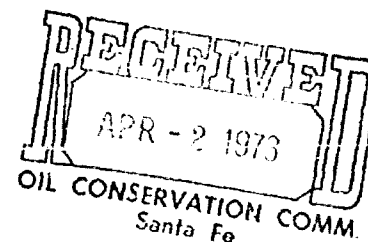
Oil, J. B. Dr. Paul.

Subt + Blin no.

Subt yes

*File Case
3545*

Joint Account Statement



Belcher #1 (NMCCO No. R-3263-A)

Date June, 1972

Balance

Well Costs

\$ 148,781.34

Operating Costs
June, 1972

\$ 25,070.26
794.93

25,865.19

TOTAL
Plus 35%

\$ 174,646.53

61,126.29

\$ 235,772.82

TEXAS PACIFIC - 50% Working Interest

\$ 117,886.41

Value of Oil Runs
(After taxes & trucking)
May (oil & gas)

\$ 165,476.12
1,708.96

\$ 167,185.08

TEXAS PACIFIC - 40.625%

\$ 67,918.94

Net Deficit

49,967.47

Joint Account Statement

Belcher #1 (NYOCCO No. R-3263-A)

Date July, 1972

Balance

Well Costs

\$ 148,781.34

Operating Costs
July, 1972

\$ 25,865.19
365.27

26,230.46

TOTAL
Plus 35%

\$ 175,011.80
61,254.13
236,265.93

TEXAS PACIFIC - 50% Working Interest

\$ 118,132.97

Value of Oil Runs
(After taxes & trucking)
June (oil & gas)

\$ 167,185.08
2,347.39

\$ 169,532.47

TEXAS PACIFIC - 40.625%

\$ 68,872.57

Net Deficit

49,260.40

Joint Account Statement

Belcher #1 (NMCO No. R-3263-A)

Date August, 1972

		<u>Balance</u>
Well Costs		<u>\$ 148,781.34</u>
Operating Costs	\$ 26,230.46	
August, 1972	<u>328.77</u>	
		<u>26,559.23</u>
TOTAL		<u>\$ 175,340.57</u>
Plus 35%		<u>61,369.20</u>
		<u>236,709.77</u>
TEXAS PACIFIC - 50% Working Interest		<u>\$ 118,354.88</u>
Value of Oil Runs		
(After taxes & trucking)	\$ 169,532.47	
July (oil & gas)	<u>1,634.93</u>	
		<u>\$ 171,167.40</u>
TEXAS PACIFIC - 40.625%		<u>\$ 69,536.76</u>
Net Deficit		48,818.12

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date September, 1972

Balance

Well Costs

\$148,781.34

Operating Costs
September, 1972

\$26,559.23
232.75

26,791.98

TOTAL
Plus 35%

\$175,573.32
61,450.66
237,023.98

TEXAS PACIFIC - 50% Working Interest

\$ 118,511.99

Value of Oil Runs
(After taxes & trucking)
August (Oil & Gas)

\$171,167.40
2,109.89

\$173,277.29

TEXAS PACIFIC - 40.625%

\$ 70,393.90

Net Deficit

48,118.09

Joint Account Statement

Balcher #1 (NMOCCO No. R-3263-A)

Date October, 1972

Balance

Well Costs

\$ 148,781.34

Operating Costs
October, 1972

\$ 26,791.98
369.20

27,161.18

TOTAL
Plus 35%

\$ 175,942.52
61,579.88
237,522.40

TEXAS PACIFIC - 50% Working Interest

\$ 118,761.20

Value of Oil Runs
(After taxes & trucking)
September (Oil & Gas)

\$ 173,277.29
2,644.17

\$ 175,921.46

TEXAS PACIFIC - 40.625%

\$ 71,468.09

Net Deficit

47,293.11

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date November, 1972

Balance

Well Costs

\$148,781.34

Operating Costs
November, 1972

\$27,161.18
271.96

27,433.14

TOTAL
Plus 35%

\$176,214.48
61,675.07
237,889.55

TEXAS PACIFIC - 50% Working Interest

\$ 118,944.78

Value of Oil Runs
(After taxes & trucking)
October (Oil & Gas)

\$ 175,921.46
1,783.67

\$ 177,705.13

TEXAS PACIFIC - 40.625%

\$ 72,192.71

Net Deficit

46,752.07

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date December, 1972

Balance

Well Costs

\$ 148,781.34

Operating Costs
Dec. 1972

\$ 27,433.14
475.30

27,908.44

TOTAL
Plus 35%

\$ 176,689.78
61,841.42
238,531.20

TEXAS PACIFIC - 50% Working Interest

\$ 119,265.60

Value of Oil Runs
(After taxes & trucking)
Nov. 1972

\$ 177,705.13
2,107.75

\$ 179,812.88

TEXAS PACIFIC - 40.625%

\$ 73,048.98

Net Deficit

46,216.62

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date Jan. & Feb. 1973

Balance

\$ 148,781.34

Well Costs

Operating Costs

\$ 27,908.44

Jan. 1973

341.72

Feb. 1973

278.05

28,528.21

TOTAL

\$ 177,309.55

Plus 35%

62,058.34

239,367.89

TEXAS PACIFIC - 50% Working Interest

\$ 119,683.94

Value of Oil Runs

(After taxes & trucking)

\$ 179,812.88

Dec. 1972

2,196.50

Jan. 1973

2,065.02

\$ 184,074.40

TEXAS PACIFIC - 40.625%

\$ 74,780.23

Net Deficit

44,903.71

Joint Account Statement

*file in case No.
3545*

Belcher #1 (NMOCCO No. R-3263-A)

Date January & February, 1972

		<u>Balance</u>	
Well Costs		\$ 148,781.34	
Operating Costs	\$ 23,305.98		
January, 1972	230.37		
February	<u>353.89</u>		
		<u>23,890.24</u>	
TOTAL		\$ 172,671.58	
Plus 35%		<u>60,435.05</u>	
		<u>233,106.63</u>	
TEXAS PACIFIC - 50% Working Interest			\$ <u>116,553.32</u>
Value of Oil Runs			
(After taxes & trucking)	\$ 155,953.48		
December, 1971 (oil)	905.87		
Dec. & January, 1972 (gas)	<u>2,399.85</u>		
		\$ <u>159,259.20</u>	
TEXAS PACIFIC - 40.625%			\$ <u>64,699.05</u>
Net Deficit			51,854.27

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date March & April, 1972

Balance

Well Costs

\$ 148,781.34

Operating Costs

\$23,890.24

March, 1972

485.01

April

424.89

24,800.14

TOTAL

\$ 173,581.48

Plus 35%

60,753.52

\$ 234,335.00

TEXAS PACIFIC - 50% Working Interest

\$ 117,167.50

Value of Oil Runs

(After taxes & trucking)

\$159,259.20

February, 1972

1,780.33

March, 1972

2,309.22

\$ 163,348.75

TEXAS PACIFIC - 40.625%

\$ 66,360.43

Net Deficit

\$ 50,807.07

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date May, 1972

Balance

Well Costs

\$ 146,781.54

Operating Costs
May, 1972

\$24,800.14
270.12

25,070.26

TOTAL
Plus 35%

\$ 173,851.60

60,848.06

\$ 234,699.66

TEXAS PACIFIC - 50% Working Interest

\$ 117,349.83

Value of Oil Runs
(After taxes & trucking)
April, 1972

\$163,348.75
2,127.37

\$ 165,476.12

TEXAS PACIFIC - 40.625%

\$ 67,224.67

Net Deficit

\$ 50,125.16

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

December 15, 1969

COPY
Mabee Royalties, Inc.
1916 First National Building
Tulsa, Oklahoma 74103

Attention: Mr. C. D. Forrest

Re: Belcher Well No. 1 - Order
No. R-3263-A, Case No. 3545

Belcher A Well - Order
No. R-3388, Case No. 3726

Gentlemen:

This will acknowledge receipt of your letter of November 25, 1969, together with Joint Account Statements reflecting payout status on the above-captioned orders.

Very truly yours,

GEORGE M. HATCH
Attorney

GME/esr

Memo

From

~~WALDO ALARID~~
CHIEF ACCOUNTANT

To Ethel,

Please write a
note acknowledging
receipt of the joint
account statements
and file the statements
in the case files -

George



MABEE ROYALTIES, INC.
1916 First Natl. Bldg.,
Tulsa Oklahoma 74103

DEC 1 1969

[Handwritten signature]

November 25, 1969

In Re: Belcher #1 (NMOCO #R-3263-A) *Case 3545*
Belcher A (NMOCO #R-3388) *Case 3726*

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

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

Gentlemen:

We are enclosing herewith copies of Joint Account Statements reflecting the payout status on the above captioned orders.

The Belcher #1 is for the period January, 1969 through September, 1969, and the Belcher "A" is from the date of first production through September, 1969. We trust you will find these statements satisfactory.

Yours very truly,

MABEE ROYALTIES, INC.

BY *C. A. Forrest*

MI
Encls.

MABEE ROYALTIES, INC.

Joint Account Statement

Belcher "A" (NMOCCO No. R-3388)

Date November, 1968

Code 3726

Balance

Well Costs

\$ 160,136.59

Operating Costs

\$

Sept. & Oct. 1968

2,566.76

Nov. 1968

699.73

3,266.49

Total

\$ 163,403.08

Plus 40%

65,361.23

\$ 228,764.31

TEXAS PACIFIC - 50% Working Interest

\$ 114,382.15

Value of Oil Runs

(After taxes & Trucking)

\$

Nov. 1968 (Gas only)

281.83

\$ 281.83

TEXAS PACIFIC - 40.625%

\$ 114.49

Net Deficit

\$ 114,267.66

MABEE ROYALTIES, INC.

Joint Account Statement

Belcher "A" (NM0000 No. R-3388)

Date February, 1969

Balance

Well Costs

\$ 160,136.59

Operating Costs

\$ 3,266.49

Dec. 1968

14.81

Jan. 1969

747.22

Feb. 1969

414.33

4,442.85

Total

\$ 164,579.44

Plus 40%

65,831.78

\$ 230,411.22

TEXAS PACIFIC - 50% Working Interest

\$ 115,205.61

Value of Oil Runs

(After taxes & Trucking)

\$ 281.83

Dec. 1968 (Gas only)

144.89

Jan. 1969 "

132.32

Feb. 1969 "

116.78

\$ 675.82

TEXAS PACIFIC - 40.625%

\$ 274.55

Net Deficit

\$ 114,931.06

MABEE ROYALTIES, INC.

Joint Account Statement

Belcher "A" (NM0000 No. R-3388)

Date May, 1969

Balance

Well Costs

\$ 160,136.59

Operating Costs

\$ 4,442.85

Mar. 1969

513.99

Apr. 1969

367.44

May, 1969

361.52

5,685.80

Total

\$ 165,822.39

Plus 40%

66,328.96

\$ 232,151.35

TEXAS PACIFIC - 50% Working Interest

\$ 116,075.67

Value of Oil Runs

(After taxes & Trucking)

\$ 675.82

Mar. 1969 (oil & gas)

17,743.94

Apr. 1969 " "

2,028.58

\$ 20,448.34

TEXAS PACIFIC - 40.625%

\$ 8,307.14

Net Deficit

\$ 107,768.53

MABEE ROYALTIES, INC.

Joint Account Statement

Belcher "A" (NMOCCO No. R-3388)

Date June, 1969

Balance

Well Costs

\$ 160,136.59

Operating Costs
June, 1969

\$ 5,685.80
642.73

6,328.53

Total
Plus 40%

\$ 166,465.12

66,586.05

\$ 233,051.17

TEXAS PACIFIC - 50% Working Interest

\$ 116,525.58

Value of Oil Runs
(After taxes & Trucking)
May, 1969

\$ 20,448.34
1,685.40

\$ 22,133.74

TEXAS PACIFIC - 40.625%

\$ 8,991.83

Net Deficit

\$ 107,533.75

MABEE ROYALTIES, INC.

Joint Account Statement

Belcher "A" (NMOCCO No. R-3388)

Date September, 1969

Balance

Well Costs

\$ 160,136.59

Operating Costs

\$ 6,328.53

July, 1969

619.27

Aug., 1969

214.50

Sept. 1969

471.09

7,633.39

Total

\$ 167,769.98

Plus 40%

67,107.99

\$ 234,877.97

TEXAS PACIFIC - 50% Working Interest

\$ 117,438.99

Value of Oil Runs

(After taxes & Trucking)

\$ 22,133.74

June, 1969

2,201.54

July, 1969

1,663.78

Aug., 1969

1,795.57

\$ 27,794.63

TEXAS PACIFIC - 40.625%

\$ 11,291.57

Net Deficit

\$106,147.42



MABEE ROYALTIES, INC.
1916 First Natl. Bldg.,
Tulsa Oklahoma 74103

RECEIVED
MAR 6 AM 8 12

*file:
one copy in Case 3773
one copy in Case 3545*

March 4, 1969

In Re: Belcher #1
(NMOCCO No. R-3263-A)

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico - 87501

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

Gentlemen:

We are enclosing herewith copies of Joint Account Statements reflecting the payout status on the above captioned order from the time we took over the operation of this property on July 1, 1968 through December, 1968. We trust that the form in which these statements are presented is satisfactory to you. It is our intention to continue furnishing you copies of these statements in order that you may be fully advised as to the status of this account as provided under your above order number.

Yours very truly,

C. D. Forrest
C. D. Forrest

CDF/je
Encl.

MABEE ROYALTIES, INC.

Joint Account Statement

MAIN OFFICE 000

'69 MAR 6 AM 8 12

Belcher #1 (MOCCO No. R-3263-A)

Date January, 1969

Balance

Well Costs

\$148,781.34

Operating Costs
January, 1969

\$ 7,167.26
381.65

7,548.91

TOTAL
Plus 35%

\$156,330.25

54,715.59

\$211,045.84

TEXAS PACIFIC - 50% Working Interest

\$ 105,522.92

Value of Oil Runs
(After taxes & trucking)
December, 1968

\$ 42,834.94
3,905.50

\$ 46,740.44

TEXAS PACIFIC - 40.625%

\$ 18,988.30

Net Deficit

\$ 86,534.62

MABEE ROYALTIES, INC.

Joint Account Statement

Belcher #1 (NM0000 No. R-3263-A)

Date December, 1968

Balance

Well Costs

\$148,781.34

Operating Costs

\$ 9,159.99

Oct. 1968

(2,223.37)

Nov. 1968

677.92

Dec. 1968

552.72

7,167.26

TOTAL

\$155,948.60

Plus 35%

54,582.01

\$210,530.61

TEXAS PACIFIC - 50% Working Interest

\$ 105,265.30

Value of Oil Runs

(After taxes & trucking)

\$ 31,392.00

Sept. 1968

1,985.63

Oct. 1968

2,751.72

Nov. 1968

6,705.59

\$ 42,834.94

TEXAS PACIFIC - 40.625%

\$ 17,401.69

Net Deficit

\$ 87,863.61

MABEE ROYALTIES, INC.

Joint Account Statement

Belcher #1 (NYOCCO No. R-3263-A)

Date September, 1968

Balance

Well Costs

\$ 148,781.34

Operating Costs
Sept. 1968

\$ 4,247.14
4,912.85

9,159.99

TOTAL
Plus 35%

\$ 157,941.33

55,279.47

\$ 213,220.80

TEXAS PACIFIC - 50% Working Interest

\$ 106,610.40

Value of Oil Runs
(After taxes & trucking)
August, 1968

\$ 28,998.34
2,393.66

\$ 31,392.00

TEXAS PACIFIC - 40.625%

\$ 12,753.00

Net Deficit

\$ 93,857.40

MAH OFFICE
769 MAR 6 AM 8.12

7. New Convention

MABEE ROYALTIES, INC.

Joint Account Statement

Belcher #1 (NM0000 No. R-3263-A)

Date August, 1968

*PAID BY BANK
63 MAR 6 AM 8 12*

Well Costs

Balance

\$ 148,781.34

Operating Costs
to July 1, 1968
July, 1968
August, 1968

\$ 3,276.84
650.71
319.59

4,247.14

TOTAL
Plus 35%

\$ 153,028.48
53,559.97
206,588.45

TEXAS PACIFIC - 50% Working Interest

\$ 103,294.23

Value of Oil Runs to June, 1968
(After taxes & trucking)
June, 1968
July, 1968

\$23,496.64
3,491.27
2,010.44

\$ 28,998.34

TEXAS PACIFIC - 40.625%

\$ 11,780.58

Net Deficit

\$ 91,513.65

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. 3545
Order No. R-3263

APPLICATION OF JOHN YURONKA AND
ROBERT E. CHANDLER FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 5, 1967,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 27th day of June, 1967, 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 applicants, John Yuronka and Robert E. Chandler,
seek an order pooling all mineral interests in the Blinebry, Tubb,
Drinkard, and Paddock Pools in the SW/4 SW/4 of Section 7, Town-
ship 22 South, Range 38 East, NMPM, Lea County, New Mexico, for
the production of oil.

(3) That the applicants also seek the pooling of all mineral
interests in the Blinebry and Tubb Gas Pools in the S/2 SW/4 and
NE/4 SW/4 of said Section 7 for the production of gas.

(4) That the applicants have the right to drill and propose
to drill a well in the SW/4 SW/4 of said Section 7 to test any
and all formations between the surface of the ground and the base
of the Drinkard formation or to 7400 feet, whichever is lesser,
but excluding in any event, the Granite Wash formation.

(5) That there are interest owners in the proposed spacing units who have not agreed to pool their interests.

(6) That Rule 5(A) of Order No. R-1670, adopting Special Rules and Regulations for the Blinebry Gas Pool, Lea County, New Mexico, provides that a standard gas proration unit in the Blinebry Gas Pool shall be 160 acres.

(7) That in the absence of evidence to the contrary, the entire SW/4 of said Section 7 is presumed to be productive of gas in the Blinebry formation.

(8) That the evidence does not establish that the NW/4 SW/4 of said Section 7 is not productive of gas in the Blinebry formation.

(9) That the pooling of all mineral interests in the Blinebry Gas Pool underlying the S/2 SW/4 and the NE/4 SW/4 of said Section 7 to form a non-standard 120-acre gas proration unit when the entire SW/4 of said Section 7 is presumed productive of gas from said pool would not avoid the drilling of unnecessary wells, or protect correlative rights, or prevent waste and should, therefore, be denied without prejudice to the right of the applicants or other owner of an interest in the above-mentioned quarter section to request the Commission to pool all mineral interests in the Blinebry Gas Pool in the entire SW/4 of said Section 7.

(10) That the evidence indicates that the NW/4 SW/4 of said Section 7 is not productive of gas in the Tubb formation.

(11) That the evidence indicates that the S/2 SW/4 and the NE/4 SW/4 of said Section 7 may be productive of gas from the Tubb formation.

(12) That the evidence indicates that the SW/4 SW/4 of said Section 7 may be productive of oil from any or all of the Blinebry, Tubb, Drinkard, and Paddock formations.

(13) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in the SW/4 SW/4 of said Section 7 the opportunity to recover or receive without unnecessary expense his just and fair share of the oil in the Blinebry, Tubb, Drinkard, and Paddock formations, all mineral interests, whatever they may be in said formations, within the SW/4 SW/4 of said Section 7 should be pooled.

-3-

CASE No. 3545

Order No. R-3263

(14) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in the S/2 SW/4 and the NE/4 SW/4 of said Section 7 the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in the Tubb Gas Pool, all mineral interests, whatever they may be in the Tubb Gas Pool, within the S/2 SW/4 and NE/4 SW/4 of said Section 7 should be pooled.

(15) That the applicants should be designated the operators of the subject well and units.

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

(17) 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 35% thereof as a reasonable charge for the risk involved in the drilling of the well.

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

(19) 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 operators any amount that reasonable well costs exceed estimated well costs and should receive from the operators any amount that paid estimated well costs exceed reasonable well costs.

(20) That \$50.00 per month for each completed productive zone should be fixed as the reasonable cost of operating the subject well and each non-consenting working interest owner should be assessed with his share of such cost, to be paid out of production.

(21) 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.

IT IS THEREFORE ORDERED:

(1) That the applicants' request to pool all mineral interests in the Blinebry Gas Pool in the S/2 SW/4 and NE/4 SW/4 of Section 7, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, is hereby denied without prejudice to the right of the applicants or other owner of an interest in the SW/4 of said Section 7 to request the Commission to pool all mineral interests in the Blinebry Gas Pool in the entire SW/4 of said Section 7.

(2) That all mineral interests, whatever they may be, in the Drinkard, Paddock, Blinebry, and Tubb Pools underlying the SW/4 SW/4 of Section 7, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled to form a 40-acre oil spacing unit for each pool to be dedicated to a well to be drilled in said quarter-quarter section.

(3) That all mineral interests, whatever they may be, in the Tubb Gas Pool underlying the S/2 SW/4 and the NE/4 SW/4 of Section 7, Township 22 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled to form a 120-acre non-standard gas proration unit for said pool to be dedicated to the above-described well; provided however, that the SW/4 SW/4 of said Section 7 shall not be simultaneously dedicated to an oil well and a gas well in the Tubb formation.

(4) That John Yuronka and Robert E. Chandler are hereby designated the operators of the subject well and units.

(5) That the operators shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs within 30 days following the date of this order.

(6) 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 operators 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.

(7) That the operators shall furnish the Commission and each known working interest owner in the subject units an itemized schedule of actual well costs within 30 days following completion

-5-

CASE No. 3545

Order No. R-3263

of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 60 days following completion of the well, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 60-day period, the Commission will determine reasonable well costs after public notice and hearing.

(8) That within 30 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 operators his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operators his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(9) That the operators are hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 35% 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.

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

(11) That \$50.00 per month for each completed productive zone is hereby fixed as the reasonable cost of operating the subject well, and the operators are hereby authorized to withhold from production the proportionate share of such cost attributable to each non-consenting working interest.

(12) That any unsevered mineral interest shall be considered a seven-eighths ($7/8$) working interest and a one-eighth ($1/8$)

-6-

CASE No. 3545

Order No. R-3263

royalty interest for the purpose of allocating costs and charges under the terms of this order.

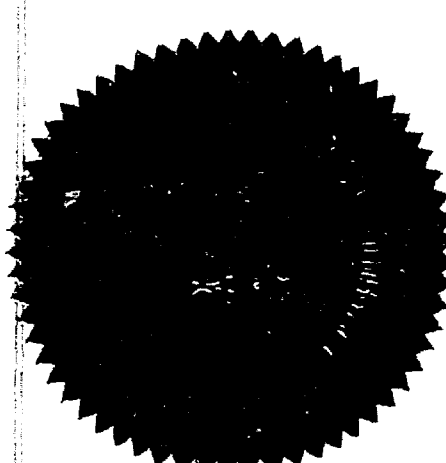
(13) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

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

(15) 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



David F. Cargo

DAVID F. CARGO, Chairman

Guyton B. Hays
GUYTON B. HAYS, Member

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

esr/

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. 3773
Order No. R-3263-A
and R-3388-A

APPLICATION OF MABEE ROYALTIES, INC.,
AND YURONKA AND CHANDLER, FOR AN
AMENDMENT TO ORDERS NOS. R-3263 AND
R-3388, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 8 a.m. on May 22, 1968,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 29th day of May, 1968, 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 by Order No. R-3263, dated June 27, 1967, certain
mineral interests were pooled to form a number of proration units
to be dedicated to a certain well, all as set forth in said order.

(3) That Order (4) of said Order No. R-3263 designated
John Yuronka and Robert E. Chandler as the operators of the
subject well and units.

(4) That by Order No. R-3388, dated March 13, 1968, certain
mineral interests were pooled to form a number of proration units
to be dedicated to certain wells, all as set forth in said order.

(5) That Order (4) of said Order No. R-3388 designated
John Yuronka and Robert Chandler as the operators of the subject
wells and units.

-2-

CASE No. 3773
Order No. R-3263-A
and R-3388-A

(6) That the applicants, Mabee Royalties, Inc., and Yuronka and Chandler, seek the amendment of said Orders Nos. R-3263 and R-3388 to designate Mabee Royalties, Inc., as operator of the subject wells and units.

(7) That all owners of working interests in the aforementioned wells and units have agreed to the designation of Mabee Royalties, Inc., as the operator of said wells and units.

(8) That Orders Nos. R-3263 and R-3388 should be amended to designate Mabee Royalties, Inc., as operator of the aforesaid compulsorily pooled units.

IT IS THEREFORE ORDERED:

(1) That Order (4) of Order No. R-3263 is hereby amended to read in its entirety as follows:

"(4) That Mabee Royalties, Inc., is hereby designated the operator of the subject well and units."

(2) That Order (4) of Order No. R-3388 is hereby amended to read in its entirety as follows:

"(4) That Mabee Royalties, Inc., is hereby designated the operator of the subject well and units."

(3) 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

DAVID F. CARGO, Chairman

GUYTON B. HAYS, Member

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

S E A L

esr/

TEXAS PACIFIC OIL COMPANY

BOX 747

DALLAS, TEXAS 75221

February 26, 1968

L. B. JEFFERS

MANAGER OF PRODUCTION SERVICES

2700 FIDELITY UNION TOWER

Yuronka & Chandler
120-C Central Building
Midland, Texas 79701

Re: Belcher #1
Section 7, T22S, R38E
Lea County, New Mexico

Gentlemen:

We have received a copy of your letter of February 23, 1968 addressed to Mr. A. L. Porter, Jr. with the New Mexico Oil Conservation Commission, in which you present information concerning the above referenced well.

It is noted that you have submitted a schedule of costs incurred in the drilling of this well and referred to the fact in your letter that all invoices have not yet been received. To assist us in a detailed review of these well costs it is requested that you forward a copy of each invoice which supports the charges shown on your schedule.

Your early attention to this request will be appreciated.

Yours very truly,

TEXAS PACIFIC OIL COMPANY

L. B. Jeffers
L. B. Jeffers

Manager of Production Services

MAIN OFFICE

FEB 28 AM 8 36

LBJ:la

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

JOHN YURONKA
CONSULTING PETROLEUM ENGINEER
120-C CENTRAL BUILDING
MIDLAND, TEXAS 79701

February 23, 1968

OFFICE MU 4-6223
RESIDENCE MU 3-4579
AREA CODE 915

68 FEB 26 AM 8 25

7-10 3545

Mr. A. L. Porter, Jr.
New Mexico Oil Conservation Commission
P. O. Box 2038
Santa Fe, New Mexico 87501

Re: Yuronka & Chandler
Belcher #1 in Unit M,
Sec. 7, T-22-S, R-38-E,
Lea County, New Mexico

Dear Mr. Porter:

Attached are the Actual Well Costs on the captioned well as of February 22, 1968, as required by NMOC Order No. R-3263 and it should be noted that these costs are not complete as all of the invoices have not yet been received. When all costs are available, a supplement will be forwarded and the entire sum noted.

Also attached are the monthly operational costs from November, 1967, through January, 1968. As yet, a tabulation has not been made of completion and operational costs to show the amount attributable to the forced-pooled interests. When all of this has been determined, the above-mentioned supplement will denote this figure. Shown below is the oil run on the lease to February 1, 1968, and its value:

	Net Oil Runs, Bbls.	Gross Value	Net Value (After Taxes & Trucking)
November, 1967	324.01	\$ 988.23	\$ 873.97
December	705.38	2,158.48	1,909.29
January, 1968	<u>1,032.17</u>	<u>3,203.01</u>	<u>2,835.40</u>
	2,061.56	\$ 6,349.72	\$ 5,618.66

A casinghead gas contract is now being negotiated and it is felt that agreement will be reached in the very near future.

Very truly yours,

John Yuronka

John Yuronka

CC w/Attachments - Texas Pacific Oil Company

ACTUAL WELL COSTS

as of
February 22, 1968

YURONKA AND CHANDLER
Belcher #1
660' FS & WL of Section 7,
T-22-S, R-38-E,
Lea County, New Mexico

INTANGIBLE COSTS

Drilling Costs:

7300' @ \$4.65 per foot (includes mud)	\$	33,884.55
Rotary Rig Day Work		912.51
Sample Sacks		32.13
	\$	34,829.19

Other Intangibles:

Location and Surface Damages	\$	367.30
Prepare Location and Roads		2,083.80
Insurance		216.25
Drilling Title Opinion		352.32
Logging		5,317.20
Supervision and Overhead		500.00
Cement, Services and Equipment		4,512.72
Perforating and Treating		12,944.38
Pulling Unit Services		6,802.12
Rental Equipment		1,859.66
Dual Completion Equipment		1,706.60
Miscellaneous Services		3,253.25
Miscellaneous Equipment		549.53
	\$	40,465.13

TOTAL INTANGIBLES \$ 75,294.32

TANGIBLE COSTS

Casing, Tubing and Line Pipe

1288' of 9-5/8" Surface Casing	\$	4,770.14
7410' of 7" Casing		21,113.52
13500' of 2" Tubing		9,330.04
495' of 2" Line Pipe		117.12
	\$	35,330.82

Dual Completion Wellhead	\$	2,621.41
--------------------------	----	----------

Commingled Tank Battery

2 Hi-500 Welded Tanks, Separator, Treater etc.	\$	12,948.95
--	----	-----------

TOTAL TANGIBLES \$ 50,901.18

TOTAL WELL COSTS \$ 126,195.50

PUMPING UNIT INSTALLATIONS

Drinkard - Lufkin 228 Pumping Unit w/base, electric motor, electrify lease, sucker rods and subsurface pump	\$	12,473.66
---	----	-----------

Tubb - Sucker rods and subsurface pump only (all statements not yet received)	\$	3,170.94
--	----	----------

John Yuronka
John Yuronka

Robert E. Chandler
Robert E. Chandler

JOHN YURONKA
CONSULTING PETROLEUM ENGINEER
120-C CENTRAL BUILDING
MIDLAND, TEXAS 79701

OFFICE MU 4-6223
RESIDENCE MU 3-4579
AREA CODE 915

December 1, 1967

YURONKA AND CHANDLER
Belcher #1

OPERATIONS STATEMENT
November, 1967

<u>Invoice No.</u>	<u>Description</u>	<u>Amount</u>
	Robert H. Shields - Contract Pumper for 11/20 to 11/30	\$ 25.00
	Yuronka & Chandler - Overhead Charge	16.67
	John Yuronka - Mileage & Meals for Drilling & Completion Supervision	104.72
	Robert E. Chandler - Mileage & Meals for Contract Negotiations	25.10
		<hr/>
		\$ 171.49

Copies of above invoices furnished upon request.

John Yuronka
John Yuronka

Robert E. Chandler
Robert E. Chandler

JOHN YURONKA
CONSULTING PETROLEUM ENGINEER
120-C CENTRAL BUILDING
MIDLAND, TEXAS 79701

OFFICE MU 4-6223
RESIDENCE MU 3-4579
AREA CODE 915

January 1, 1968

YURONKA AND CHANDLER
Belcher #1

OPERATIONS STATEMENT
December, 1967

<u>Invoice No.</u>	<u>Description</u>	<u>Amount</u>
	Robert H. Shields - Contract Pumper & Gasoline for Circulating Pump	\$ 80.10
	Yuronka & Chandler - Overhead Charge	50.00
	John Yuronka - Mileage & Meals for Unit Installation	42.84
	Robert E. Chandler - Mileage & Meals for Observation of Pressure Build-up	37.50
	New Mexico Electric Service Company - Electric Power for Unit	11.45
		<hr/>
		\$ 221.49

John Yuronka
John Yuronka

Robert E. Chandler
Robert E. Chandler

JOHN YURONKA
CONSULTING PETROLEUM ENGINEER
120-C CENTRAL BUILDING
MIDLAND, TEXAS 79701

OFFICE MU 4-6223
RESIDENCE MU 3-4579
AREA CODE 915

February 1, 1968

YURONKA AND CHANDLER
Bolcher #1

OPERATIONS STATEMENT
January, 1968

<u>Invoice No.</u>	<u>Description</u>	<u>Amount</u>
	Robert H. Shields - Contract Pumping	\$ 75.00
	Yuronka & Chandler - Overhead Charge - Full Month on Drinkard and Tubb from 1/10	83.33
	John Yuronka - Mileage, Meals and Motel for Tubb Completion	51.59
	Robert E. Chandler - Mileage, Meals and Motel for Dual Completion Super- vision & Inspection of Commingled Tank Battery with MEOCC	62.43
	New Mexico Electric Service Company - Electric Power for Unit	<u>51.69</u>
		\$ 324.04

John Yuronka
John Yuronka

Robert E. Chandler
Robert E. Chandler

JOHN YURONKA
CONSULTING PETROLEUM ENGINEER
120-C CENTRAL BUILDING
MIDLAND, TEXAS 79701

OFFICE MU 4-6223
RESIDENCE MU 3-4579
AREA CODE 915

December 13, 1967

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

Re: New Mexico Oil
Conservation
Commission Order
No. R - 3263

Dear Mr. Porter:

Pursuant to the captioned order, Mr. Robert E. Chandler and myself have proceeded to drill a well in the SW/4 SW/4 of Section 7, T-22-S, R-38-E, Lea County, New Mexico. A Form C-104 was submitted and approved on the Belcher #1 for an allowable in the Drinkard, effective November 20, 1967.

The above-mentioned order requires that actual well costs be submitted within 30 days after the completion of the well. If the above date is to be considered the completion date by the New Mexico Oil Conservation Commission, actual well costs will have to be submitted by December 20, 1967. However, if this is done, this cost figure would be incomplete as all invoices have not been received as yet and the tank battery is now in the process of being built. In addition, it is planned to at least dual complete the well in the Tubb and perforations have been submitted to the OCC Hobbs District Office for approval before filing an application for dual completion. This anticipated dual completion will involve costs that could not be included if a figure is to be submitted by December 20, 1967. Therefore, a 30 day extension is requested to submit actual well costs as required by Order No. R - 3263. OFFICE OCC
1967 Dec 15 AM 8 45

Please advise as soon as possible on this matter.

Very truly yours,

John Yuronka
John Yuronka

CC: Texas Pacific Oil Company

TEXAS PACIFIC OIL COMPANY

BOX 747

DALLAS, TEXAS 75221

March 18, 1968

RIVERSIDE 1-5033

2700 FIDELITY UNION TOWER BLDG.

Yuronka & Chandler
120-C Central Building
Midland, Texas 79701

*File Case
3545*

Re: Belcher #1
Section 7, T22S, R38E
Lea County, New Mexico

Gentlemen:

On February 26, 1968 we wrote a letter to you requesting information on the above referenced well.

You will recall that this request resulted from your schedule of well costs submitted to the New Mexico Oil Conservation Commission and we requested copies of the invoices which supported this tabulation of well costs. We have not received the information requested and again ask that you forward the necessary information to permit our company to be properly informed on the cost of drilling and completing this well.

Your immediate attention to this request will be appreciated.

Yours very truly,

TEXAS PACIFIC OIL COMPANY

ORIGINAL SIGNED BY
L. B. JEFFERS

MAIN OFFICE COPY

L. B. Jeffers

'68 MAR 19 AM 9 36

LBJ:la

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

*file in
Case R32 67
3549*

March 18, 1968

MAIL ROOM

68 MAR 21 PM 1 20

Mr. Robert Brackbill
Texas Pacific Oil Company
P. O. Box 747
Dallas, Texas 75221

Dear Mr. Brackbill:

Attached are the Actual Well Costs on the Yuronka & Chandler Belcher Well #1 located in Unit M, Section 7, T-22-S, R-38-E, Lea County, New Mexico, as per the request of Mr. L. B. Jeffers in a letter dated February 26, 1968. These Actual Well Costs are in the order shown on the tabulation as of February 22, 1968. As you know, we have no control over the preparation of these invoices by the suppliers and consequently, we are forwarding copies of additional invoices received since February 22, 1968, in order that you might have the total completion costs of the Belcher Well #1. In addition, we are forwarding the Operational Statements from November, 1967, to February, 1968, and shall also furnish you a copy of the Operational Statement for March, 1968, when it has been prepared.

Also attached is a Division Order by Admiral Crude Oil Company for execution by Texas Pacific Oil Company. Even though Texas Pacific does not have an interest in the well at this time, the purchaser is requiring that it be signed by TP before any funds can be disbursed. The purchaser has further informed us that these funds can be disbursed next week if Texas Pacific and a majority of the interests execute these Division Orders for Admiral to receive them by the early part of next week. Therefore, it would be greatly appreciated if you would give this matter your prompt attention, returning the executed copy to us and retaining the other for your files.

During the recent force-pooling hearing, it was indicated that TP might be contemplating the possibility of farming out their 50% Leasehold Interests to 7400' to us on the 120 acres that have been covered by the recent hearings on the Belcher Lease. I have been informed that such a recommendation has been forwarded from your Midland Office. Should TP wish to discuss this matter with us prior to arriving at a decision, please contact us. In the meantime, an AFS and Operating Agreement will be submitted within a week per New Mexico Oil Conservation Commission Order No. R-3388.

Very truly yours,

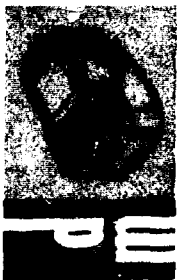
John Yuronka
John Yuronka

cc: Oil Conservation Commission

dearnley-meier reporting service inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMAS BLDG. • P. O. BOX 1092 • PHONE 243-6891 • ALBUQUERQUE, NEW MEXICO



BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Sante Fe, New Mexico
April 5, 1967

EXAMINER HEARING

IN THE MATTER OF:

Application of John Yuronka and
Robert E. Chandler for compulsory
pooling, Lea County, New Mexico.

CASE NUMBER
3545

BEFORE:

DANIEL S. NUTTER, Examiner

TRANSCRIPT OF HEARING

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

REGISTER

HEARING DATE APRIL 5, 1967 TIME: 9 A.M.

NAME:	REPRESENTING:	LOCATION:
Ronald Hunt	Shelly Oil Co	Tulsa Okla
John Russell	Texas Pacific	Rosemead
Jimmy Maitz	Texas Pacific	Midland
Ron Freels	Texas Pacific Oil Co.	Dallas, Texas
Frank Bop	Texas Pacific	Midland, Tex
W. M. Anderson	Sinclair	Midland, Tex
J. L. Padon	Shell Oil Co.	Los Angeles
Ray V. Cor	Shelly Oil Co.	Hobbs, N.M.
Jason Kellach	Kellach & Son	Santa Fe
Jack D. Simon	Perry R. Simon	Monahans, Texas
L. B. Burlison	Yunco & Chandler	Midland, Texas
F. E. Chandler	Yunco & Chandler	Midland, Texas
V. L. Fletcher	Shelly Oil Co.	Hobbs N.M.
L. R. Hall	Shelly Oil Co.	Hobbs
John Yunco	Yunco & Chandler	Midland
D. H. Carter	OCC	Santa Fe, N.M.
Bill Dwyer	OCC	Midland, Texas

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOREGISTERHEARING DATE APRIL 5, 1967 TIME: 9 A.M.

NAME:	REPRESENTING:	LOCATION:
Greg Buell	PAN American	Fort Worth
Billy Bathrop	Pan American	Fort Worth
C. Lopez	Lopez & Stewart	Artesia
M. L. Armstrong	Yates Pet	Artesia
Frank B. Kennedy	Kennedy Oil Co	"

DAN NUTTER: The Hearing will come to order, please.
The first case this morning will be Case 3545.

MR. HATCH: Application of John Yuronka and Robert E. Chandler for compulsory pooling, Lea County, New Mexico.

MR. KELLAHIN: Jason Kellahin, Kellahin and Fox, Santa Fe, appearing for the applicant. We have two witnesses. I probably will only use one of them, but we'll have them both sworn.

DAN NUTTER: If all the witnesses that will testify will be sworn, please.

MR. RUSSELL: John F. Russell, Roswell, New Mexico, appearing on behalf of Texas Pacific Oil Company. I have three possible witnesses and I will have them all sworn, at this time.

(Witnesses sworn.)

(Whereupon, Texas Pacific's Exhibit Numbers 1 through 9 were marked for identification.)

JOHN YURONKA

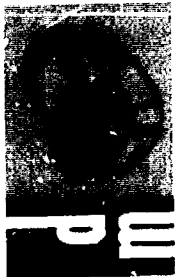
called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Would you state your name, please?

A My name is John Yuronka, Y-u-r-o-n-k-a.



Q What business are you engaged in?

A I am in the consulting business and also oil operator.

Q What is your profession?

A Petroleum engineer.

Q Have you worked as a petroleum engineer in the State of New Mexico?

A Yes, sir.

Q Have you testified before the Oil Conservation Commission and made your qualifications a matter of record?

A Yes, sir.

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

MR. NUTTER: Yes, they are.

Q (By Mr. Kellahin) Mr. Yuronka, are you one of the applicants in Case Number 3545?

A Yes, sir, I am.

Q Would you state briefly what is proposed in this application?

A We propose to force-pool down to 7400 feet on the southwest quarter of the southwest quarter covering the Paddock, the Blinbry, the Tubb and the Drinkard formations.

Q Referring to what has been marked as Exhibit Number 1, would you identify that exhibit, please?



A Exhibit 1 is merely a land plat of the area involved with 120 acres colored on it showing the farm-out we have received on a fifty per cent working interest. The forced-pooling that is occurring would be on the southwest quarter of the southwest quarter of that section, which is Section 7, Township 22 South, Range 38 East, Lea County, New Mexico.

MR. NUTTER: You mentioned that you are seeking an order force-pooling the southwest southwest of this section. The application was for the southwest southwest or in the alternative a particular 120 acres. Does this mean that you are seeking the southwest southwest, only?

MR. KELLAHIN: No. Let me bring that out, Mr. Nutter.

MR. NUTTER: Okay.

Q (By Mr. Kellahin) Mr. Yuronka, are you familiar with the producing formations in the vicinity of this well location?

A Yes, sir, I am.

Q Is the Paddock productive in this area?

A Yes, sir.

Q What is it productive of?

A Oil.

Q Are you familiar with the spacing pattern?

A Yes, sir, 40 acres.

Q With the Blinebry, what is it productive of in this area?

A It is productive of oil and gas.

Q As to oil, what is the spacing?

A 40 acre.

Q As to gas, what is the spacing?

A 160.

Q You mentioned in your previous testimony only 40 acres and the application asked for the pooling of 120 acres for gas, is that correct?

A Yes, sir.

Q Now, was it your intention, then, to seek a force-pooling order insofar as the Blinebry for gas for 120 acres?

A Yes, sir.

Q What is the situation as to the other 40 acres in the tract?

A The other 40 acres contains a producing well from the Tubb formation which is owned jointly by Texas Pacific Oil Company, the Bauerdorf Estate and W. P. Prentiss.

Q Do you own any interest in the other 40 acres?

A No, sir, I did not.

Q You don't?

A No, sir.

Q Is it productive in the Blinebry?

A When the well was originally drilled, it was originally completed in the Blinebry. It made, oh, I don't know the exact amount of oil. I would say it would be in the neighborhood of 15,000 barrels of oil and then they deepened it to the Drinkard and treated it and obtained a potential test. At the time -- may I clarify this a little further, please -- at the time this was done, this was done by Mr. Olsen. Mr. Olsen owned this property at the time. Texas Pacific came into possession of this property when they purchased Olsen Oil Company. They went down to the Drinkard and obtained a potential test.

I have been unable to find any production record from the Drinkard formation, itself. Then they plugged back and completed in the Tubb formation from which the well is now producing.

Q Is it producing gas from the Tubb?

A No, sir. It is an oil well. It is classified as an oil well.

Q What is the spacing on the Tubb as to gas and as to oil?

A The spacing as to oil in the Tubb is 40 acres, and the gas is 160.

Q So your request insofar as gas is concerned, would

be the same as for the Tubb as for the Blinebry, is that right?

A Yes, sir.

Q As to the Drinkard, is it productive of oil or gas or both?

A It is productive of oil and the spacing is 40 acres.

Q And has there been a long production history in this particular area?

A Yes, sir, there has been.

Q In all four of these zones?

A Yes, sir.

Q Is it a practice to complete in more than one zone?

A Yes, sir.

Q Is that the reason you have applied for a forced-pooling order affecting each of the individual zones?

A Yes, sir.

Q Which zones do you anticipate you would complete in, were this order granted?

A That is hard to say until you actually drill the well and see which well is the best. We will anticipate possibly a triple completion.

Q That is what you would be hoping for, is this correct?



A Yes, sir.

Q Now, have you made any study of the economics of drilling in this area?

A I have.

Q Referring to Exhibit Number 2, would you identify that exhibit, please? It's a multiple page Exhibit on economics, is it not?

A Yes, sir, it is.

Q Would you discuss that exhibit?

A This exhibit is a brief summary of the prospects of the 120 acres involved here with the first well being drilled in the southwest quarter of the southwest quarter. The acreage, the 120 acres is colored in red and consists of the south half of the southwest quarter and the northeast quarter of the southwest quarter of Section 7, Township 22 South, Range 38 East. This contour map is on top of the Blinebry formation. If you will note on these wells, for instance, the location south of the proposed initial location in the southwest quarter of the southwest, there is a "B.T." This is a Blinebry-Tubb completion. It is a dual completion. The west location of this well is "B.G." This is a Blinebry gas well and the well previously mentioned the other 40 acre, the other well on this 160, I have a "B.T.D." This denotes attempted completion in the

Blinebry, the Tubb and the Drinkard, all three formations being tested. As you can see further on down the line, if you will notice Unit C in Section 18-22-38, that's a Tubb-Drinkard completion, "TD"; the location east of that is a Drinkard completion. The one south of it is a Drinkard-Tubb completion, and so forth on down the line.

Q That does show all the multiple completions in the area, does it not?

A Yes, sir.

Q Turning to the second page of the exhibit, what information is contained on that?

A What we have done, is obtained the four nearest producing wells in each formation and obtained some production history on them. The first one is the Paddock Oil Pool. For instance, the Fina-Butler Number 1 we have cumulative production to 1-11-66 of 43,723 barrels of oil. We show the production for the first seven months of '66, we show the total and cumulative as of 8-1-66. We have done, as I mentioned, we did this with all four wells, the four closest wells to our proposed initial location.

On the bottom, we have made it an estimated per well recovery of the four wells, only the four wells involved in this particular situation, by running decline curves on them, and we came up with an estimated primary recovery of

95,000 barrels per well. The API, as of -- they publish a map every so often showing recovery on a per well basis in the pool in the Permian Basin as of 1-1-63 -- I believe this was 3,000 barrels per acre, which makes it 120,000 barrels for the field, is the figure used, or the figure the API uses.

Q Would you go on to the next page now and discuss it?

A Well, the next page, may I say the next two pages concerning each individual well here, we went to the Commission files and obtained a completion record on each individual well. Then anything that was in the Commission files in regard to workover was recorded, and as you can see, the Fina-Butler Number 1 is there and the other four wells covered on the previous page. Or the three wells, excuse me.

Q Now, as to your next page of the exhibit, Mr. Yuronka, what does it show?

A Well, perhaps I can summarize this briefly rather than going through each formation. We followed the same procedure in the other three formations involved, the Blinbry, the Tubb and the Drinkard, in getting the cumulative production history, estimated per well recovery that we did and the API figure. We made no, if you will note, we made no estimate in regard to possible gas reserves in the well either in the Blinbry or the Tubb. And, of course, we have

the individual well history for the wells in the Blinebry, the Tubb and the Drinkard.

Q Now, on the basis of this information, did you reach any conclusions?

A Yes, sir. If I may just explain the entire exhibit here and perhaps this will answer the question. We made up AFE's dual tubing list at the time we were first thinking about this project. The dual tubing list was based on the dual tubing list in the Tubb and the Drinkard since they were the two lower formations, and the Paddock and Blinebry for the other well.

In other words, we estimated that perhaps we might want to drill two wells on each 40 acre tract to try to take advantage of the productivity of each formation. Now, as I say, we have an AFE for the Paddock and Blinebry on the dual tubing list. We have one on the Tubb and Drinkard.

Then the last page is an economics page in regard to reserves and probable payout. Now, if you will recall, we made an estimate in regard to what reserves were for each of the four wells, the nearest offsets, plus the figures that the API had for these particular formations. We came up with the figure shown. We estimated reserves rather as being what we show here for each individual formation. These are less than the ultimate recovery that we predicted in the

four wells and what was shown by the API.

We have also gone ahead and tried to estimate some sort of a payout on these wells. If you will check the production on these wells, very few of them -- well, let me say it this way, rather, -- the average daily production on these wells are approximately ten or twelve barrels a day. We used fifteen barrels of oil per day for each formation to estimate a payout. On this basis, the Paddock and Blinebry dual tubing less completion, as you can see, would have a payout of 47.6 months. We estimate a ratio of income to investment of 2.63 to one. We followed the same procedure on the Tubb and Drinkard, came out with the payout of 54.8 months, ratio of income to investment of 2.5 to one.

Then at the bottom of the page, I make a ratio of income investment on all four zones if the 40 acre tract were developed in the manner we considered here, and this turned out to be a ratio of income to investment of 2.39 to one.

Q Does that indicate, then, that there are adequate reserves to justify drilling in this area?

A Yes, sir.

Q As to the payout, have you changed your estimate as to the payout time subsequent to previous conversations with other companies?

A We had discussed this with several companies and

dearnley-meier recording services, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-5691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1794 • ALBUQUERQUE, NEW MEXICO 87108



our original estimate was somewhat higher. None of them agreed with us; consequently, we revised this downward to what it is at present.

Q By higher, you mean a shorter payout period?

A Yes, sir.

Q On the basis of the information you obtained from these adjacent wells, was that the basis for the revision of your figures?

A Yes, sir.

Q What interest do you own in this area, Mr. Yuronka, you and Mr. Chandler?

A We have obtained a farm-out from the Bauerdorf Estate who own forty-five per cent working interest, and W. P. Prentiss who owns a five per cent working interest; totaling fifty per cent.

Q Who owns the other fifty per cent working interest?

A Texas Pacific Oil Company.

Q Did you give an estimate on your well costs there?

A Yes, sir.

Q Does it appear on the exhibit?

A Yes, sir.

Q On the basis of the economics, as you have discussed it, can you afford to drill on a fifty per cent interest?

A Not on a fifty per cent interest alone.

Q Is that the reason you are asking for a forced-pooling order?

A Yes, sir.

Q In the event a forced-pooling order is entered, are you requesting that any risk factor be included?

A Yes, sir.

Q What would be the basis of the risk factor in this area?

A Although the oil is there, I think the history of the four pools involved is known, however, we also know that the pools are in a stage of depletion. The Paddock, a unit has been formed in the Paddock by Humble. The Drinkard, Gulf has a unit in the Drinkard. The Blinbry and the Tubb are essentially gas pools, although there is oil produced in them.

Consequently, although you have four possible pays here, the payout, because of the depletion stage of the reservoir, is long.

Q Does this, in your mind, constitute some risk on the part of any operator who drills a well in this area?

A Yes, sir.

Q What would you consider to be an adequate risk factor to be included in the order?

A Well, the statute only provides for 150 per cent.

We would like to have more, but unfortunately that is the only thing we can request at this time.

Q But your risk factor, as I understand you, is based on the economics of the situation--

A That's right.

Q -- as to whether you will get a payout or not, is this correct?

A Yes, sir.

Q Are there any particular risks in drilling in this area?

A No, sir.

Q Just the normal risk of drilling a well and hoping for production in a proven area?

A No, sir, none that I know of.

Q Mr. Yuronka, you own fifty per cent working interest, as I understand it, under a farm-out agreement?

A Yes, sir.

Q Have you made any attempt to negotiate with Texas Pacific Oil Company for drilling of a well on this tract?

A Yes, sir.

Q Have you had any success in your negotiations?

A No, sir.

Q Would you then, for the benefit of the Examiner, outline just what has occurred in the past in connection with



your efforts to form a drilling unit for this prospect?

A In July of 1965, Mr. Bolen -- I met Mr. Bolen one day on the street in Midland, Mr. Frank Bolen, who is land man for Texas Pacific in their Midland office.

Q Is he present here at the Hearing today?

A Yes, sir. I asked him if Texas Pacific had any acreage to farm out and he mentioned this particular tract. It rang a bell with me because when I was with Texas Pacific, I remember this particular lease because it was the first time I had ever filled out a triple completion AFE with Texas Pacific. The reason I was told at the time that it was never drilled is that no operating agreement could ever be reached between Texas Pacific and the other fifty per cent working interest. Consequently, the well was never drilled.

Texas Pacific actually stacked the location to drill a well here in this particular location in April of 1961, and I believe there's a form on file in the Commission on it. So consequently, when Mr. Bolen mentioned this lease, it rang a bell and I went ahead and did some checking in regard to production and the possibilities of obtaining a farm-out and the various circumstances involved in obtaining one.

I then talked to Mr. Bolen over the telephone and we verbally agreed to a farm-out which I submitted to Texas

Pacific. He felt that the farm-out would be accepted by the company. A few days later, I was informed that the engineering department was somewhat opposed to farming out this acreage and a report would be submitted by the engineering department with my farm-out request to the Dallas office in regard to this prospect.

I inquired of Mr. Bolen whether I could go ahead and show the prospect and he gave me verbal authorization to do so. The prospect was sold on the basis of what the farm-out agreement was between myself and Texas Pacific.

Q This was just a verbal agreement, though?

A Yes, sir. Consequently, oh, I tried to keep in touch with Mr. Bolen on the progress of the processing of my farm-out agreement and also inform him that the prospect had been sold. Finally, he notified me that Texas Pacific decided not to farm the thing out. There had been a change in management and they were going to make a study of the area and determine what to do themselves before they would make any further decision on farming out in the area.

Now, the client of mine who took the prospect, asked me to approach the Bauerdorf's and Mr. Prentiss in regard to selling their fifty per cent interest in the well that is presently producing. We contacted them and tried to work something out with them, but they would not. We were

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, D.U.I. CASES, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

so far apart on price that it was just unreasonable to even try to pursue it.

MR. NUTTER: That's the Tubb well?

A Yes, sir. That is the presently producing well.

Q (By Mr. Kellahin) That's not involved in this Hearing?

A Right. Mr. McCain informed me at the time -- Mr. McCain is the representative that I have been in contact with for the Bauerdorfs and the Prentiss -- he informed me that rather than selling, they would consider a farm-out on the other 120 acres.

Q Did you submit a farm-out to Mr. McCain?

A After I was turned down by Texas Pacific, or after I was informed by Texas Pacific that they would not farm this acreage out, I then submitted a farm-out request to Mr. McCain.

Q Has that been marked as an exhibit?

A That is Exhibit 3, I believe.

Q What was the result of this submission of the farm-out agreement?

A As you can see, this is dated August the 21st, 1965. I did not hear again from Mr. McCain until a telephone conversation on January the 26th, 1966. At that time he called me and asked me if I were still interested in the

farm-out and I told him yes. He said he would talk to Mr. Prentiss and the Bauerdorf Estate and attempt to obtain a farm-out. I did not hear again from Mr. McCain until May of 1966, when he called me and informed me that they would consider a farm-out. However, the terms originally proposed in this letter of August 21st were not quite acceptable to them. The part in question was Bauerdorf and Prentiss to retain -- they felt that they should have a little more than a one sixteenth proposed.

Consequently, we discussed this over the phone. I discussed it further with Mr. Chandler and we finally agreed on a farm-out.

Q Referring now to what has been marked as Exhibit 4, is that a farm-out agreement?

A Yes, sir. This is the farm-out agreement that was originally agreed to and signed by the participating parties.

Q That's dated June 23, 1966?

A Yes, sir.

Q By its terms it terminated on October the 1st of 1966?

A Yes, sir, that's right.

Q Has that farm-out agreement been extended?

A It was extended one time to November the 1st, with an extension of depth rights to 7400 feet at this time. Then

this is jumping a little bit ahead but because of circumstances involved, we did not have the thing ready to go. We could not come to agreement with Texas Pacific.

Consequently, Mr. McCain, by gentleman's agreement, stated that we had this farm-out and we went ahead and pursued this and finally got the amendment to the operating agreement, which is exhibit, what is dated February 24th.

MR. NUTTER: That's Exhibit 5?

Q (By Mr. Kellahin) Exhibit Number 5 did extend the farm-out agreement, is that correct?

A Yes, sir.

Q Have you had a further extension?

A The agreement as it stands right now is, we have the rights to 7400 feet, but excluding the Granite Wash. It is based on two conditions, (a) acceptance of title, this is contained in the last full complete paragraph on page 1, on one of two things, either the date on which we accept title or (b) the date on which we receive a favorable order on our forced-pooling hearing whichever is the later date.

Now, we have, as mentioned, we have 120 days to do this. If the title has been accepted, although there is some question about it, some work will have to be done on it to complete it for proper use as a title for drilling.

The other prospect, the other condition involved, is this force-pooling hearing. As mentioned, we have 120 days. If we receive our favorable order on this hearing, if we accept the order as provided by the Commission, we have 120 days to drill a well. If we do not drill this well in that time, we pay Mr. Prentiss a figure of \$500 and the Bauerdorfs figure a sum of \$4500 is forfeit money.

MR. NUTTER: Well, Mr. Yuronka, I am not clear here. Who are you forced-pooling?

A Texas Pacific.

MR. NUTTER: You have the consent of the Bauerdorfs and the Prentisses?

A Yes, sir.

MR. KELLAHIN: By way of explanation, Mr. Nutter, this is the basis on which he has then attempted to negotiate with Texas Pacific. We're laying the foundation to show what he had and what he's proposing to them.

MR. NUTTER: Don't you have a farm-out from Texas Pacific?

A No, sir.

MR. KELLAHIN: No, sir. I am going into that next.

MR. NUTTER: Oh.

Q (By Mr. Kellahin) Now, let's go back to the original farm-out agreement which you obtained in June of 1966,

Mr. Yuronka. Did you again approach Texas Pacific at that point?

A When we received final approval of the farm-out agreement from Bauerdorf and Prentiss, we submitted this farm-out to Texas Pacific on July the 27th of 1966. We kept fairly close contact on the progress of it. We understand it was shuffled back and forth between Midland and Dallas for several revisions of figures and possible approaches to the situation. We were also informed by Mr. Bolen that it would be recommended out of the Midland office that the farm-out be accepted.

On September the 12th, we were informed that Texas Pacific had declined our farm-out, our farm-out submittal, as proposed to them and as contained in the agreement with the Bauerdorf Estate and W. P. Prentiss.

Q Did you ask Texas Pacific for a farm-out?

A On that day it was turned out, which is Exhibit 6, is a farm-out request to Texas Pacific, dated September 12, 1966, requesting their fifty per cent working interest on the same basis on which we obtained the other fifty per cent from the Bauerdorf Estate and W. P. Prentiss.

Q You say that is Exhibit Number 6?

A I believe that's what it is, yes, sir.

Q Did you obtain a farm-out from Texas Pacific at

dearnley-meier reporting service inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

that point?

A No, sir. They said they would not farm out their fifty per cent working interest.

Q Now, Mr. Yuronka, did anyone else attempt to make an agreement with Texas Pacific on the basis of your farm-out?

A Well, with this, in turning down this farm-out, the two farm-outs, one was the submittal, and the other the request, Texas Pacific indicated the desire to participate in drilling a well on this location. Consequently, we went ahead and -- well, let me back up -- even before Texas Pacific had turned down the farm-out request on their fifty per cent working interest, we had shown this to just one or two people in regards to the possibility of them drilling the well. When Texas Pacific turned it down, that gave us, of course, the clear picture of what was involved and we finally got Fundamental Oil Company to accept our fifty per cent working interest, pending negotiations with Texas Pacific on an operating agreement.

Q Now, was Fundamental, to your knowledge, able to make an agreement with Texas Pacific?

A I believe Exhibit 7 is a letter written by Mr. Sidney E. Glenn, representing Fundamental Oil Company. This letter covers a conversation between Mr. Glenn, Mr. Woolfolk and Mr. Bolen in regard to negotiating the operating agreement

and Mr. Chandler and myself sat in on this conversation, and if I may, I would like to read this letter.

Q Before you do that, were you and Mr. Chandler both present at the time this conference was held?

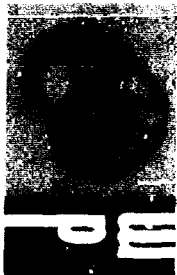
A Yes, sir.

Q Does the letter as it is written fairly state what did occur at the conference?

A Yes, sir. If I may read the letter.

"I am outling below the events as they occurred regarding negotiations with Texas Pacific Oil Company commencing on or about October 6, 1966, for an operating agreement on the Belcher Lease covering the S/2 SW/4 and the NE/4 SW/4 of Section 7, Township 22 South, Range 38 East, Lea County, New Mexico.

"I, Sidney E. Glenn, representing the Fundamental Oil Company, indicated tentative acceptance of the drilling prospect pending negotiations with Texas Pacific on the above-mentioned operating agreement and requested that you arrange a meeting for myself and Mr. Charles Woolfolk with Mr. Frank A. Bolen, the Texas Pacific Landman in their Midland Office. Mr. Bolen indicated TP's desire to operate the lease and quoted a price of \$500.00 for the supervision of drilling operations and \$100.00 per month per well bore for administrative overhead plus direct expenses for operations.



I countered with the same proposal except that the administrative overhead would be \$65.00 per month per well bore. Mr. Bolen said that TP would insist on operations and a compromise figure of \$82.50 per month per well bore was reached pending the approval of my management. A day or two later, Mr. Bolen called to inform me that the \$82.50 per month administrative overhead was per producing zone in a well and each company could operate for a two year period if so desired. I felt that we could not proceed on this basis and so declined the prospect.

"During the conversation with Mr. Bolen, he indicated Texas Pacific's desire to go to 7300 feet to look at the possible productivity of the Granite Wash formation. Further, if this were so, they would want to run casing to that depth and attempt to negotiate some type of agreement with W. P. Prentiss and the Bauerdorf Estate on these rights but not to attempt a completion at that time. TP agreed to pay all costs for this additional drilling below the rights allotted in the farm-out agreement and present Fundamental with a satisfactory well bore for completion in any of the desired zones above. This was deemed acceptable since no completion would be attempted in the Granite Wash in the intial well."

Q Fundamental did not make a deal with Texas Pacific?

A No, sir, they did not.

Q Subsequent to that, did you attempt to get the rights to the Granite Wash from the Bauerdorf Estate and from Prentiss?

A Well, this Mr. Glenn indicated tentative acceptance of this farm-out shortly before October 1st of 1966. We informed Mr. McCain of this possible acceptance pending negotiations for an operating agreement. We waited until we got -- until this conversation between Fundamental and Texas Pacific in regard to the operating agreement before we called Mr. McCain back again. We requested at this time for Mr. McCain, which I have previously testified to, that we would like the rights to the Granite Wash and a time extension to November 1st. Mr. McCain was quite insistent that the estate would not, under any circumstances, farm out the Granite Wash until there was an additional production history and further development in the area to indicate the productivity of the Granite Wash pay.

Q Referring to what has been marked, I believe that is Exhibit Number 8, is it not, would you identify that, please?

A Exhibit 8 is a memo to Mr. Bob Brackbill with Texas Pacific Oil Company from Mr. Bob Chandler. During the course of these negotiations while this was going on between Texas Pacific and Fundamental, we were in contact with Mr. Brackbill in an attempt to try to secure agreement on this operating

agreement. As testified to, this was not reached.

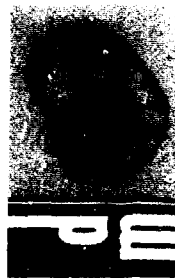
This memo by Mr. Chandler sums up the facts of the situation involved. If I may read them, I would like to do so, or read the memo.

"More developments on the above," which is the Belcher prospect, "We have lost Fundamental for the deal. As near as we can determine from Mr. Sidney Glenn, Fundamental's representative in Midland, in the meeting in Mr. Frank Bolen's office with Mr. Glenn, TP stated and operating overhead of 100 dollars per well bore for administrative overhead. Mr. Glenn offered to operate for \$65 per well bore per month or agreed to a figure of \$65 per month if TP wanted to operate. In a couple of days, Frank Bolen called Mr. Glenn and offered a compromise figure of \$82.50 per well bore. Mr. Glenn said O.K. we have a deal, and then called his boss in California to advise him of the deal made. Later the same day or next day Frank Bolen called Mr. Glenn and said sorry, the 82.50 figure was per completion zone, or for a dual, double the figure previously quoted and accepted. That is when I called you. I went back to Mr. Glenn and said sorry, that is TP's only deal. He then called his boss who said to hell with it they have changed their minds three times already and this is just a forerunner of what would happen if we operate with them. I think this deal is so out of hand now that all we can do is start immediately

dearnley-meier reporting services, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMAS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108



to try to find you folks another partner.

"I am convinced nobody in your land department is consciously trying to sabotage this deal, but I think to avoid misunderstandings if we find someone who will go on the deal we have discussed and agreed to for Fundamental, we will immediately put their head man in touch with you and try to get a deal between your two company's settled before going to the paper work. Besides, I feel that you are very persuasive regards explaining why the 82.50 is a good deal. I don't anticipate too much trouble with it provided we are talking about it from the start. We have a number of company's who are qualified operators who we believe will be interested in being your partners, particularly since you though reluctantly are willing to provide for exchange of operators if desired every two year period. Maybe we can get someone on the dotted line with you yet."

Q Now, Mr. Yuronka, in the event the Commission grants you a forced-pooling order, are you prepared to have a well drilled on this acreage?

A Yes, sir.

Q Have you had any further conversation with Texas Pacific Oil Company? When was your last meeting with them?

A Our last meeting was with them yesterday afternoon in trying to work something out.

Q Now, Texas Pacific, as I understand it, has indicated that they are willing to and want to participate in the drilling of a well on this acreage, is that correct?

A Yes, sir.

Q Why have you not been able to agree with them, then?

A Mr. Kellahin, I believe we skipped part of my testimony here.

Q That's what I want to get back to right now.

A Would you mind repeating your question, then, please?

Q Why have you not been able to agree with Texas Pacific Oil Company on the drilling of a well?

A Because of their insistence to go down and test the Granite Wash and complete in it if necessary and the administrative overhead as set forth in their operating agreement.

Q Now, do you own the rights in the Granite Wash?

A No, sir, we do not.

Q What is your objection to participating in a well which would be completed in one or more of those zones which you do own and the Granite Wash?

A If production were obtained in the Granite Wash and if seven inch casing were run on a well, the maximum number of strings of tubing that you could run in this well is three.

If the completion is obtained in the Granite Wash, then whoever participates in the well down to 7400 feet with four possible pays up above will be losing at least one of these pays.

Q That is your objection to participating in the Granite Wash?

A Yes, sir.

Q Now, as to the administrative overhead, you indicated in your opinion it was too high. What is the figure that they have given you on this?

A The figure they have given us is 82.50 per zone per producing well.

Q Now, in the event an order is granted force-pooling this acreage, you understand you would probably, you are asking to be designated as operator, are you not?

A Yes.

Q What administrative costs are you asking?

A \$50 per zone per producing well.

Q As I understand, you want to force-pool as to the Paddock, the Blinbry, the Tubb and the Drinkard?

A Yes, sir.

Q And you want to force-pool as to oil production a 40 acre tract at the well site and as to gas the 120 acre you have available today for your well?

A Yes, sir.



Q Then what risk factor are you asking?

A May I repeat, since the statute only allows 150 per cent, that is all we can ask. We would prefer to have more.

Q Now, Exhibits 1 through 9 consist of material that was prepared by you or under your supervision or letters pertinent to this application which are contained in your regular business files, is that correct?

A Yes, sir.

MR. KELLAHIN: At this time we will offer in evidence Exhibits 1 through 9.

MR. RUSSELL: There's one exhibit I don't know the number. It's the letter from Mr. Glenn, I think, to Mr. Yuronka.

A Yes.

MR. RUSSELL: What number is that?

MR. NUTTER: Mr. Glenn to Mr. Yuronka, dated April 1, 1967?

A Yes.

MR. NUTTER: That's Exhibit Number 7.

MR. RUSSELL: That, of course, is not correspondence between either of the parties here, and as Mr. Yuronka stated that he was reading it. I gathered to refresh his recollection because he said he was present and we feel that

dearnley-meier reporting services, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COURT, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

PAGE 32

that is not in all respects a correct statement of what transpired and I would like to hold up, like to object to that item until I can put some other testimony on.

MR. KELLAHIN: If the Examiner please, the testimony in regard to that exhibit was that Mr. Yuronka and Mr. Chandler were present at the conference that was held and that the letter correctly summarized what actually occurred there. Whether the letter be admitted or Mr. Yuronka's testimony as his recollection of what occurred be admitted would be immaterial one way or the other, but if someone has a different recollection, why, certainly I think they would be at liberty to present it at this Hearing.

MR. RUSSELL: What I am referring to, in holding it up is to bring out by Mr. Yuronka whether a certain statement in there is actually his recollection or whether it should be something else.

MR. NUTTER: Mr. Russell, actually this letter is being offered now as an exhibit. However, this is one of the items that he read in its entirety into the record, so we could withhold any admission of the thing as an exhibit at this time.

MR. RUSSELL: That's fine.

MR. KELLAHIN: Pending cross examination we have no objection to that.

MR. NUTTER: Pending cross examination. You mentioned Exhibits 1 through 9, Mr. Kellahin. I believe we only have eight. It is eight?

MR. KELLAHIN: Eight, one through eight.

MR. NUTTER: Applicant's Exhibit 1 through 6 and Exhibit 8 will be admitted in evidence. We will withhold any ruling on Exhibit 7 for the time being.

(Whereupon, Applicant's Exhibit Numbers 1 through 6 and 8 were marked for identification.)

Q (By Mr. Kellahin) Mr. Yuronka, you have mentioned some company you dealt with. Was there another company which attempted to make a deal with Texas Pacific Oil Company?

A After Fundamental declined the prospect Cornell Oil Company from Dallas indicated possible acceptance of this situation regarding participating and drilling this well with Texas Pacific Oil Company.

Q To your knowledge, do you know whether they attempted to negotiate a deal with Texas Pacific?

A If I may, before this was presented to Cornell, we obtained in a telephone conversation from Mr. Bolén and from Mr. Bob Brackbill the exact terms under which the Texas Pacific would operate. And these are the terms proposed under which we presented the prospect to Cornell Oil Company. Operating agreement to provide charge to joint account for

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

PAGE 34

combined fixed rate administrative overhead of \$82.50 per completion zone per month and to provide for exchanging operators each two years, if desired. Cobers standard form of 1962 to be used. Texas and Pacific to supervise drilling for \$500 per well. Operating agreement to provide that consenting party may drill to earn second and third tracts and recover 150 per cent out of oil from nonconsenting party.

However, nonconsenting party may have thirty-day option after completion to observe well and to gain his one-half interest by paying 110 per cent of the cost of his one-half in cash. As to a second well drilled on a tract already earned, consenting party may recover 200 per cent out of oil from nonconsenting partner's share.

On this basis it was presented to Cornell Oil Company and they indicated tentative acceptance of the prospect, pending negotiations with Texas Pacific in regard to the operating agreement and whatever else would be involved.

Mr. Bolen and Mr. Dale Holloway of the Midland office later informed me that Texas Pacific would insist on the right to go down to the Granite Wash and if necessary, complete in it, regardless of what the depth was.

With this, on my Christmas vacation I went to Shreveport, Louisiana and talked to Mr. M.F. McCain, pardon me, Mr. N. McCain, Noel McCain. Mr. M.F. McCain at that time

was in the hospital. Pardon me, Mr. Noel McCain. I presented some geological data to Mr. McCain, showing the possibility of the Granite Wash in the area. I gave him some electric logs on some of the wells in the area and also stated some of the production history of the Granite Wash wells in the area and urgently recommended that he farm-out the rights to the Granite Wash under the same terms we have the other rights.

The south offset to this proposed location was drilled by Texaco. This well went down to 7595 in the Granite Wash and it was barren in the Granite Wash. This is the well that is presently a dual completion in the Blinebry-Tubb.

MR. NUTTER: Where is the nearest Granite Wash production?

A The nearest Granite Wash production is Ernest Hanson well exactly two miles south of this proposed location. There is a Granite Wash well on that Humble Lease in Section 2/22/37. Then there is one further south, Mr. Nutter. I believe it would be in Section 31. It is not shown on my -- wait a minute -- I can find it right here. It's in Section 31, Gulf's Scarbro Number 3, which is even further south than the Hanson well. Those are three Granite Wash wells that I know of.



MR. NUTTER: Where is the Humble well?

A The Humble well is, I believe in Section 2 and 22/37.

MR. NUTTER: That would be northwest of this acreage?

A Yes, sir.

MR. NUTTER: Do you know which one of those wells there it is that is the Granite Wash well?

A Number 24 and 25. Number 24 is in the northwest of the southeast. Number 25 is in the southeast of the southwest.

MR. NUTTER: And the well immediately south of your proposed location, the Texaco Number 2, tested the Granite Wash?

A Yes, sir. They went to 7595, they cored in the Granite Wash and it was barren.

Q (By Mr. Kellahin) You were testifying that you attempted to get a farm-out on the Granite Wash. Did you get it?

A No, sir, I did not. They informed me by telephone that their opinion on farming out the Granite Wash was still the same, they would not do so until there was additional development and further production history closer to the tract involved.

Q Did Cornell make any deal with Texas Pacific?

A They declined to prospect.

Q On account of the Granite Wash?

A Yes, sir.

Q At this point, Mr. Yuronka, do you feel that you can reach any agreement with Texas Pacific?

A No, sir, I do not.

MR. KELLAHIN: That's all the questions I have.

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

MR. RUSSELL: Yes, I have a few questions.

MR. NUTTER: Mr. Russell.

CROSS EXAMINATION

BY MR. RUSSELL:

Q I want to get clear in my own mind exactly what it is you are asking here. Am I correct that you are asking for forced-pooling of all of the zones with the exception of the Blinobry as to the southwest quarter of the southwest quarter and as to the Blinebry 120 if it is gas?

A I think this also applies to the Tubb, Mr. Russell.

Q Both Tubb and Blinebry?

A Since there is a possibility of obtaining gas wells in both formations.

Q But you are asking for the 120 if you get a gas

well, is that right?

A Right.

Q What is your understanding of the status if you did not initially complete as a gas well in the southwest southwest?

A Well, in all --

Q Would it be pooled or not, the other 80?

A No, sir. If it were an oil well, I assume that's all that could be pooled.

Q That's all that could be pooled would be the southwest quarter of the southwest quarter. Now, in the particular area in which we're involved, are there any triple completions at this time that you know of?

A Not offhand, sir, no, I don't. No, sir.

Q You indicated the risk factor in the drilling of this well was based upon time of payout --

A Yes, sir.

Q -- rather than the probability of success, is that correct?

A Yes, sir.

Q That in your opinion, there's not much question but what you are going to get at least three zones of production?

A Well, now, getting three zones again would be questionable as to when you drill a well, you just don't

know what you are going to get. It would depend on your log that would determine, actually, which zones you would complete in. It would appear that the Drinkard and the Blinebry and the Tubb would probably be productive on this 40 acre tract.

Q And it is your position here -- well, first you don't own to the Granite Wash?

A That's right.

Q But that if it was forced-pool, we'll say to the Granite Wash, that that was going to, since you could only get three strings in the casing, that it was going to block off one of your upper ones?

A Yes, sir.

Q That wouldn't be permanent, would it?

A No. Well, I don't think it would be, no.

Q Well, when one --

A I don't think the Granite Wash production would last for a lifetime.

Q Right, or any of the others?

A No, sir.

Q And at any time when any one of them failed to produce, was depleted, you could then recomplete in the upper zone?

A Yes, sir.

Q So what we're really talking about is delay in

time in recovery from all zones?

A Yes.

Q Now, in referring to that Exhibit 7, which was the letter to you and Mr. Chandler from Mr. Glenn, as I understand it, this letter is your recollection of what took place at this meeting?

A It is not mine. It's Mr. Glenn's.

Q Oh. I thought you said that you were there.

A Yes, sir.

Q And you were reading this because it did express your understanding?

A Yes sir.

Q Well, then, it does, then, does it not?

A Yes, sir. All right.

Q Now, then, in this letter, they refer to administrative overhead at \$65, apparently is what Mr. Glenn suggested and Texas Pacific said 82.50?

A Yes, sir.

Q Now, is there any difference between a combined fixed rate and administrative overhead, as you understand the two terms?

A Would you mind defining "combined fixed rate" so I can get it in my mind?

Q I want your definition. In other words, let me ask

dearnley-meier reporting services, inc.
SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6591 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

you this: When you are talking about administrative overhead, what are you talking about, you?

A In my operations what I talk about is handling the necessary paper work and supervision of the lease and conferring with people in regard to anything that may have to be done on the lease.

Q There may be a difference in opinion as to administrative overhead and perhaps the terminology of combined fixed rate?

A Yes, sir.

Q It's possible?

A Yes, sir.

Q Now, do you have any correspondence from Mr. McCain in connection with your various proposals to him that you have made? I believe you do have a farm-out agreement here?

A Yes, sir.

Q Do you have any correspondence on any other conversations you had with them in connection with, for example, the Granite Wash?

A Well, sir, I know I have a letter in here somewhere. As you can see, my file is quite thick on it. I would have to go through it and try to find it.

Q If you have one you would let us take a look at it?

A Yes.

Q Now, you indicated, I recall, or testified that when you contacted Mr. McCain in connection with the Granite Wash, he said that they weren't interested until such time as additional information was furnished in connection with probable productivity of it?

A Yes, sir.

Q Does that sound like a logical thing to you if you were in his position and you had a chance to test the Granite Wash?

A Mr. Russell, I can't make Mr. McCain's decision for him.

Q No.

A And his people, so anything I would say would be pure personal opinion which I don't think is of value.

Q You don't want to put yourself in his shoes and give us your opinion?

A I don't think that's my position to do.

Q Your reason for not wanting to go to the Granite Wash is, one, you anticipate that you will be cut out of one stream of production zone?

A Possibly, yes, sir.

Q And the second, you have no interest in the Granite Wash?

dearnley-meier reporting services

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXHIBIT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 253-1294 • ALBUQUERQUE, NEW MEXICO 87108

A That's right.

Q But Texas Pacific did agree to bear the entire cost of going from your formation to the Granite Wash, did they not, in your negotiations?

A Well, if you will recall my testimony, Mr. Russell, they first said they wanted to go to 7300 feet to test the Granite Wash. I believe Mr. Hanson's well is perforated approximately 7300 feet. I can't give you the exact perforations, but it's in that area, right around 7300 feet. If you will remember, when this came up I contacted Mr. McCain to get the rights to 7400 feet but excluding the Granite Wash. I knew at the time that this south offset had gone to 7595. It hit the Granite Wash below 7500 feet and it was barren. Mr. McCain, as I testified, would not give a farm-out to include the Granite Wash. He would extend it to 7400 feet if it included the Drinkard.

Q As long as the 7400 was within the Drinkard?

A Right.

Q But Texas Pacific did agree to bear the entire cost of taking the well from the base of the Drinkard to the Granite Wash?

A They did with Fundamental. Then in subsequent conversations with Mr. Bolen and Mr. Dale Holloway, I was informed that they would want their right to complete in the

dearnley-meier reporting services, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4671 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

Granite Wash, regardless of what depth it was obtained.

Q And didn't they also with Fundamental, whom you were working on a farm-out to, that if the hole was lost between the base of the Drinkard and the Granite Wash, that they would drill a new hole at their sole expense?

A I believe I testified to that.

Q Well, I didn't recall that you did.

Q I think I mentioned the fact that Texas Pacific said that they would satisfy Fundamental with a well bore to Fundamental's satisfaction.

Q Well, that may mean the same thing. You are objecting to the \$2.50 which Texas Pacific has set up as the administrative overhead?

A Yes.

Q Do you think that is too high for this area?

A Yes, sir.

Q Have you any operating agreements with any other companies at this time?

A No, sir. I do not, not with companies. I have with individuals.

Q You worked for Texas Pacific for some time?

A Yes, sir.

Q And you are familiar with farm-out, various operating agreements they have where they are nonoperators

dearnley-meier reporting services, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6891 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 253-1294 • ALBUQUERQUE, NEW MEXICO 87108



with other major companies?

A Yes, sir.

Q Are there -- I am just testing your recollection -- are the administrative overheads charged to Texas Pacific in excess of 82.50 under those?

A I really couldn't tell you. I have been gone from Texas Pacific for three years, Mr. Russell, and I couldn't testify.

Q There was also an attempt to turn this deal to Cornell?

A Yes, sir.

Q Did anybody from Cornell advise you that they were turning it down because of the title question?

A Yes, sir, that was one of the things involved.

Q That was one of the reasons they turned it down?

A Yes, sir.

Q And there is a title question, apparently?

A Yes, sir. I think if you again will recall in my testimony the amendment to the farm-out agreement is based on either a, acceptance of title by our attorney, or b, a favorable ruling on this forced-pooling here.

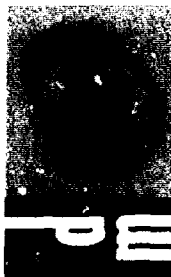
Q You have not at this time done anything to try and correct the title?

A No, sir, not at this time.

dearnley-meier reporting service inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108



Q Do you plan doing that if this is granted?

A Yes.

Q How long do you anticipate that will take?

A I'm not an attorney, Mr. Russell.

Q No, but I mean has any attorney advised you as to about how long it would take?

A It would take a minimum of thirty days.

Q What if you do not get this title defect cleared? Then what's your position, what are you going to do?

A Well, we have to get it cleared.

Q But what if you don't?

A Mr. Russell, we have to get it cleared.

Q No. There are some that can't be cleared.

A Well, --

Q But make an assumption that it is something that can't be cleared within six months. Then what are you going to do? You are going to go ahead and clear them and then drill a well?

A We will institute proceedings to have this title corrected as soon as we possibly can after we receive our favorable ruling and proceed on that basis.

Q And at this time, you can't give any --

A The normal procedure involved on these things I think with pipe lines if this is not cleared up, why, then

dearnley-meier recording service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

what they will do, I believe, is just hold that money in escrow until the title is cleared up so this will not delay in the drilling of the well.

Q You would go ahead and drill the well whether it was cleared or not?

A Yes, sir.

Q Whether it is cleared or not, you are going to drill a well?

A We would certainly like to get it cleared up, if it would be an undue period of time, we have a contract with McCain and Mr. Prentiss and the Bauerdorfs on which we have to start a well within 120 days after acceptance of title, which we have already done, but we will have to probate the will or the favorable forced-pooling ruling.

Q Well, ignoring what the specific legal objections may be, you can't say at this time, assuming the Examiner or the Commission approved your application, when you could start a well?

A We have obligated ourselves to start one within 120 days if a favorable forced-pooling order is issued.

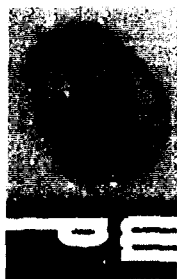
Q I may have misunderstood, because I thought you said within 120 days after the clearing of the title or the granting of this application, whichever was the later.

A Yes, sir.

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108



Q And title has not been cleared.

A We have a --

MR. NUTTER: I believe Exhibit 5 speaks for itself there, doesn't it?

Q (By Mr. Russell) Have you accepted the title?

A Yes, sir.

Q Well, all right. Now, Texas Pacific owns a fifty per cent interest in this acreage down to and including the Granite Wash, and if this is approved, they would be your partners, right, in the well, Texas Pacific?

A Not to begin with.

Q No. I say if this application is approved.

A Yes, we would be the operators.

Q Now, I want to know while you have made this application, will you tell the Commission definitely at this point that you will be the operator or are you turning it to someone else?

A We intend to go ahead with it ourselves.

Q You are going to be the operator?

A Yes, sir. We will certainly strive to be.

Q What would prevent you?

A We have certain clients who invest with us and we, as I mentioned, I am, and as you know, I am the operator of one lease. I am today filling a plugging bond with the

Commission to drill a well in my name and I have every intention of being operator on this well.

Q What I am getting at, is being equally interested in this as you from an ownership percentage.

A Yes, sir.

Q We are naturally interested in who we're going to be doing business with and if it isn't with you, that's what I want to find out now.

A It would be with me.

Q You have no agreements with anybody else at this time?

A No, sir.

Q And you intend to drill it and operate it?

A Yes.

Q Are you familiar with the operating agreement which was sent to Cornell Oil Company?

A I saw it yesterday afternoon, Mr. Russell, during our conversation.

Q Did you notice in there that if accepted by Cornell, that Texas Pacific had committed themselves to commence a well on February 1st, 1967?

A No, sir.

Q You didn't see that?

A No, sir.



Q Of course, I haven't had an opportunity of looking at your operating agreement or any of the other instruments other than what correspondence may have been with Texas Pacific, so I want to ask you a couple of questions on it. For example, if you drill this well and it is oil, no gas, so that your only force-pooling the 40 acre tracts, have you earned the others?

A No, sir. They'll have to -- there's a continuous development clause. The agreement is such that there is a continuous development clause. If we obtain a gas well in either the Blinebry or the Tubb on the first well, then the remainder of the acreage involved in this farm-out will be allocated to us in order that we might be able to establish a proration unit.

Q Right.

A But if oil is obtained in any of the formations, then we will have to continue. There is ninety days from the completion of the first well to the commencement of the second well.

Q Then assume that you do get oil, no gas, so that you get the forty, you have got to drill again on another 40 acre tract to earn that acreage?

A Yes, sir.

Q And then we're right where we are now, right?



A Right.

MR. RUSSELL: That's all.

MR. NUTTER: Are you through with Mr. Yuronka, Mr. Russell?

MR. RUSSELL: Yes.

CROSS EXAMINATION

BY MR. NUTTER:

Q I wonder if you would identify the locations of the various wells that you have in your Exhibit 2, the Fina-Butler Number 1, where is that well?

A The Fina-Butler Number 1 is in the southwest of the southwest of 18.

Q How about the Penrose-Rogers Number 1?

A Penrose-Rogers Number 1 is -- that's in the southwest of the northeast of 12. It's northwest of the proposed initial location.

Q Where is the Sinclair-Rogers Number 1?

A That's one location north.

Q What would the 40 tract be?

A Oh, the northwest of the northeast of 12.

Q Texaco-Lockhart Number 3?

A That's in the southwest of the southeast of 18.

Q Penrose-Hinton Number 4?

A Penrose-Hinton Number 4 is the northeast of the

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87103



southeast of 12.

Q Sohio-McCallister 1?

A That is in the northwest of the northwest of 7.

Q The Fina-Butler 5?

A Fina-Butler 5 is in the southwest of the southwest of 18.

Q Texaco-Lockhart Number 2?

A The northwest of the northwest of 18.

Q Texas Pacific-Belcher Number 1?

A That's in the northwest of the southwest of 7.

Q And the Texaco-Lockhart Number 5?

A That's in the northeast of the northwest of 18.

Q And Gulf-Saunders 1?

A That's in the southwest of the southeast of 7.

Q Penrose-Hinton 5?

A I believe it's 9, Mr. Nutter.

Q Oh, 9, correct.

A It's in the northeast of the southeast of 12.

Q Northeast, southeast 12. Lockhart 7?

A Lockhart 7 is in the northwest of the northeast of 18.

Q Now, Mr. Yuronka, your economics, the last page of that Exhibit Number 2.

A Yes, sir.

dearnley-meier reporting services
SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6191 • ALBUQUERQUE, NEW MEXICO 87101
1263 FIRST NATIONAL BANK EAST • PHONE 256-1291 • ALBUQUERQUE, NEW MEXICO 87108

Q In figuring your value there for, let's take the Paddock and Blinbry, you figure the Paddock would produce fifteen barrels of oil and seventeen m.c.f. of gas per day. What is this figure that's in the formula, the 0.345?

A This is the net revenue interest with a fifty per cent working interest. In other words, you have a fifty per cent working interest, but the net working interest which would be another way of terming it would be thirty-four and a half per cent.

Q Now, this is to --

A To whoever was considering this fifty per cent working interest on this prospect.

Q This isn't the total, then, that the well would earn?

A No. This economics here pertains to only this fifty per cent working interest.

Q I see.

A This is not concerned with the total working interest in the well. Would that need further clarification, Mr. Nutter?

Q Well, I am kind of lost here, Mr. Yuronka. You take the cost of the well in the line down below would be forty-one thousand three fifty, that's half of the cost of the dual completion?

A Right.

Q That would be for the zone, that would be the fifty per cent interest cost?

A Yes, sir. This is the fifty per cent working interest cost in the well, but this is the revenue that they would receive for this fifty per cent working interest after royalty and overrides and what-have-you have been paid. In other words, this is the estimated income that they would receive from this well on a fifty per cent working interest per month.

Q And you have combined the revenue from the two zones, the 867, but you have already divided the working interest into fifty per cent share back in the formula?

A Right. This is, what I'm showing here is after, as I mentioned, you have a royalty to pay, you have overrides to pay. Well, after all this is deducted, the fifty per cent working interest is a net working interest of thirty-four and a half per cent. It is on this basis that our economics are figured.

Q In other words, there's sixty-nine per cent working interest here total?

A If this fifty per cent were one hundred per cent, then there would be a sixty-nine per cent working interest.

Q Now, I understood that you were asking one hundred

dearnley-meier reporting services, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108



fifty per cent risk factor.

A Yes, sir.

Q Now, the operating costs that you stated you were seeking were \$50 per zone per well?

A Yes, sir.

Q And you would seek to be designated as to operator of the unit?

A Yes, sir.

Q You mentioned you had filed a plugging bond with the Commission --

A Not on this well. It's on another well.

Q The bond that you would file for this well, would that be in your name or would it be in the name of Yuronka and Chandler?

A Well, in all probability, I would be, the operator would just be in my name.

Q And you, yourself, as an individual would be designated as the operator of the well, then --

A Yes, sir.

Q -- in the order?

A No.

Q The statute requires that the Commission in entering an order designate the operator of the well, and I presume --



A Oh, I see, to designate the operator. Oh, okay.

Q This is the application of Yuronka and Chandler.

A Yes.

Q Would Yuronka and Chandler be designated as operators of the well and file the bond and file the subsequent forms and carry the well in their name in that way?

A Why don't you do it in the name of Yuronka and Chandler?

MR. NUTTER: I see. I believe that's all the questions I have. Are there further questions of Mr. Yuronka?

MR. RUSSELL: I have one.

CROSS EXAMINATION

BY MR. RUSSELL:

Q Mr. Yuronka, what was your estimated cost of drilling this well? I don't believe I have heard that.

A As I stated in the Exhibit 2 that I submitted, we have a dual tubing list to the Paddock and the Blinbry which a producer would be \$87,200 just for these two formations. If we had a dual tubing list for the Tubb and Drinkard, we estimated the cost of this well to be \$90,050.

Q Well, you are not asking at this time to dual or triple or anything else?

A No, sir.

Q You don't know at this point what you might ask for

when you complete?

A No, sir.

MR. RUSSELL: That's all.

MR. NUTTER: I gather from your testimony, you might end up with a conventional triple completion?

THE WITNESS: Yes.

MR. NUTTER: Rather than tubingless duals?

THE WITNESS: Yes.

MR. NUTTER: Any further questions?

MR. KELLAHIN: At this time I would like to offer again Exhibit Number 7.

MR. RUSSELL: I will just renew my objection.

MR. NUTTER: Exhibit 7 will be admitted in the record.

(Whereupon, Applicant's Exhibit Number 7 was marked for identification.)

MR. KELLAHIN: If the Examiner please, that completes our presentation unless we offer something on rebuttal, but at this time, I think there is an error in the application on Page 2, Paragraph 5, and I think that should be corrected to conform to the advertising and to the testimony that has been presented. If there is no objection, I would like to change that to the south half of the southwest quarter and the northeast quarter of the southwest

quarter rather than the northwest quarter. It's just a typographical error and the case was correctly advertised.

MR. NUTTER: The applications have been corrected, Mr. Kellahin.

MR. KELLAHIN: Thank you.

MR. NUTTER: Do you have anything further?

MR. KELLAHIN: Not at this time.

MR. NUTTER: Mr. Russell, did you have a witness?

MR. RUSSELL: Yes.

* * * * *

RON FREELS

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

DIRECT EXAMINATION

BY MR. RUSSELL:

Q Will you please state your name, address and name of your employer?

A Ron Freels with Texas Pacific Oil Company in Dallas.

Q What is your official designation and capacity?

A I am entitled a staff proration engineer.

Q You have previously qualified to testify before the Commission and the Examiners?

A Yes, sir.

MR. NUTTER: How do you spell your name?

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMPLAS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 236-1294 • ALBUQUERQUE, NEW MEXICO 87108

A F-r-e-e-l-s.

MR. NUTTER: And your first name is Ron?

A Ron.

MR. NUTTER: Ron Freels.

Q (By Mr. Russell) Now, Mr. Freels, you have heard Mr. Yuronka's testimony concerning these various attempts to negotiate where it bogged down and so forth. I think it would be simplest if you will just give a reply to or show or state where you do not concur with him or the statements he made.

A If I could go through rather chronologically the T.P.'s side of this picture as we see it. T.P. is Texas Pacific Oil Company. The first records that I have in my files from Dallas are an offer from Mr. Yuronka to sell his farm-out of the Bauerdorf-Prentiss Estates to Texas Pacific Oil Company. This was, I believe in August or September of 1966. We reviewed his offer and it was too heavy burdened that we could not afford to accept. We advised him so and have also let him know that we wished to drill a well.

Subsequently, Mr. Yuronka did approach us and offer to farm-out our interest. Again we let him know that we were not interested in farming out our interest, that we wanted to drill a well and be the operator. I believe Mr. Yuronka can probably correct me if he wishes to, but then Mr.

Yuronka tried to turn his deal to Fundamental Oil Company, and Fundamental and T.P., as stated, could not agree on a combined fixed rate as the charge we were planning on using, it includes administrative overhead and other indirect charges. We could not agree on this figure.

At the time we were dealing or talking to Fundamental, we had compromised to a certain degree and had come up off of a figure that was real realistic down to one which we felt was the bare minimum that we could afford to go to on this well.

I do believe that we provided, I am not sure whether it was Mr. Glenn, it was a representative of Fundamental, a copy of the Kopus 1962 accounting procedure which does outline very definitely the different charges and what goes into them. After the deal with Fundamental fell through, Mr. Yuronka turned his fifty per cent farm-out deal to Cornell Oil Company and in December of 1966 Texas Pacific Oil Company sent AFE's and an operating agreement to Cornell Oil Company and in this operating agreement we proposed to initiate a well by February the 1st at the location that we are wishing to drill a well now.

This agreement provided for, again, the combined fixed rate of \$82.50 per completion, very distinct, and Cornell was aware of this at the time.



We were later advised by Cornell that they could not go and that they inferred that they were worried about a title position. There was no other comments. We assumed also, that possibly the economics of their deal was not too strong.

The next thing we were aware of is that we received a notice that we were being forced-pooled. We have continually throughout this negotiation made it very definite that we wished to drill a well at this point. We wish to drill it now. We have patiently waited several months while Mr. Yuronka has been trying to turn his fifty per cent interest to other people. We do wish to drill to the Granite Wash. We would love to have partners in this, but we're willing to accept the entire risk below the total depth of his interest .

If there is commercial production, we will want to complete in it and recoup our cost. Generally this is the picture as we see it now. We want to drill a well now. We don't really care to wait 120 days or six months or however long it's going to have to be. We would like to initiate one immediately. We have the authority, we have the money aside, we're ready to go.

Q Will you please go into a little more details and explain why you have been insistent that in this well that

dearnley-meier reporting services, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. * P.O. BOX 1092 * PHONE 243-6691 * ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST * PHONE 256-1294 * ALBUQUERQUE, NEW MEXICO 87108



you be permitted to go to and test the Granite Wash?

A All right. The Granite Wash, we have reviewed the performance of the Humble wells which Mr. Yuronka pointed out and also a well to the south. Each of these are approximately two miles from our lease and we are aware that Texaco penetrated the Granite Wash at an offsetting location. We do not have any information as to production tests or whatever. We know they cored the interval; we do not have this data, however, we feel that the risk involved in going the additional two to three hundred feet, whatever it has to be to fully test the Granite Wash section, is worthwhile and we're again willing to forego having any partners in this, if it is necessary, and pay the full expense. But the reason we are so insistent at this location is that without a doubt the Granite Wash could not support a primary well of its own to be drilled from the surface down and that unless we are permitted to test it at this location we very likely will never ever be able to afford to go to it again.

Q In effect, are you saying that the granting of this will effectively deprive you of drilling to and testing the Granite Wash from an economic point of view.

A That is right. We could never economically afford to drill from the surface to the Granite Wash under the best conditions as we see them in the current producing wells at

this time.

Q One of the stumbling blocks, apparently, has been the administrative overhead?

A Yes.

Q Now, then, Mr. Yuronka has indicated that 82.50 is not a realistic or proper figure. Have you any background information as to other operating agreements where you may be either the operator or nonoperator as to the overhead?

A We are involved in a number of operating agreements even in Lea County, New Mexico, both as operator and as a nonoperator in which the combined fixed rate is considerably higher than what we have here.

We have examples of it running from \$105 per completion. It's very definitely spelled out in the Kopus forms which our partners use and we use. It runs from \$105, I believe is the most expensive one we have down to \$75 I believe is the cheapest I can recall anywhere. We, without an agreement, at this specific time we do not have an agreement with the Bauerdorf Estate, but on the well that we are operating at this time we are charging \$100 per completion in that well. This is on the same lease.

Q The shoe is on the other foot when you are the nonoperator on the same basis?

A That's right. We still pay it. We recognize

that this is an industry figure that has been arrived at through a lot of experience. A lot of people have no idea, I'm certain, exactly what their charges are, what their costs are and I know during the past two years, three years easily, a number of companies have been surprised and found out that their costs were higher than they thought they were and we have, ourselves, agreed to amend several of these charges to bring them in line as to what they should be. In Lea County, New Mexico, we have done this.

Q I think you covered both areas of disagreement going to the Granite Wash and the difference, as it says here, the administrative overhead. I asked Mr. Yuronka whether the term "administrative overhead" as used in accounting procedure and combined fixed rate are the same. Are they the same to you?

A No, they are not. We have -- I refer to us specifically, Texas Pacific Oil Company, however this Kopus 1962 accounting procedure is used quite extensively in the industry and it very distinctly sets out what these charges are. The primary differences of agreement fall under paragraph 3 of this procedure which is entitled "Indirect Charges." There are several ways of doing this, but it's primarily broken into three basic ways of charging. One is district expense, the other is administrative overhead, the

third charge, which is becoming industry standard because it's far easier to account, is a combined fixed rate which includes both direct expense and administrative overheads.

Q Now, then, the combined fixed rate does include within the Kopus form items which are not included in administrative overhead?

A It certainly does.

Q Were you present at this meeting that is referred to in this letter, their Exhibit Number 7?

A No, sir, I was not.

Q Is there anything further that you would like to state in connection with the position of Texas Pacific in this case or statements made by Mr. Yuronka?

A The only thing that I want to emphasize is that Texas Pacific Oil Company, in our own opinion, we have waited a long time to drill this well during the past few months and we have been wanting to drill it. We have given Mr. Yuronka every opportunity he can to turn his deal. We are not going to give up a part of our fifty per cent share if we can avoid it just to help him sell his interest. We would like to drill a well now and again if we are given the opportunity we will get after it very quickly.

Q How soon could you drill one?

A It will take ten days to get us our forms in. If

we could get someone to sign our agreement and evidence that they will pay their share of the well, we would agree to begin a well within thirty days after receiving their signature, they're signed on our agreements. In fact, we would include an initiating date in the agreement.

Q The same as you did in the one to Cornell?

A The same as we did to Cornell.

Q In any event, you insist on going to the Granite Wash?

A We want to go to the Granite Wash. We feel it's a worthwhile venture.

MR. RUSSELL: I have no further questions.

CROSS EXAMINATION

BY MR. NUTTER:

Q This Kopus accounting procedure, does it just say what you are to include to determine the costs or does it tell you what the costs are going to be?

A No. It tells you what goes into these costs and this cost figure that we agree upon is a negotiable item.

Q This would vary from company to company depending on what their operating costs are?

A It can vary between companies very definitely and from experience, we have found that not always a low administrative overhead cost as a favorable thing. Frequently

you end up with additional high operating expenses from lack of supervision. This is something that we are willing to pay for, ourselves, because we know it's to our advantage to have a company that is prepared, that has the staff to handle these properties properly.

Q Now, when you are talking about the combined fixed rate, including the direct expense and the administrative overhead, now that direct expense, is this the cost of the pumper out there operating the well?

A The administrative or the combined fixed rate falls under what is called indirect charges. There are direct charges that go to the operation of the lease, itself. These are pumpers' salaries and production foremen's salaries. People are actually operating on the property, itself.

It is spelled out in this agreement exactly whose salaries are charged and where, and, of course, equipment expenses are direct charges. The administrative overhead is an indirect expense to the well.

That's the reason it's very simple, especially accounting-wise, to have a fixed and set figure. We also provide in this agreement in the event these costs are either proved to be either excessive or inadequate, that they can be renegotiated. This is something that comes down the line. They are renegotiated. We have done some during the past

year and they have invariably gone up where companies have always underestimated what their expenses were.

Q This Exhibit Number 7 which we have discussed before, there's the statement that "Mr. Bolen indicated Texas Pacific's desire to operate the lease and quoted a price of \$500 for the supervision of drilling operations and \$100 per month per well bore for administrative overhead plus direct expenses for operations."

A Direct expenses, excuse me.

Q Direct expenses; that would mean the pumpers' wages?

A That would be the pumpers, the production foremen's salaries, the people who are actually involved on the lease, the equipment that is bought for the lease, replacing valves, any direct expense like that is something that is accountable, and we provide for an accounting procedure that itemizes these things to the people. They have a very direct control on that. There's a procedure for outlining this to our nonoperators on a monthly basis.

MR. NUTTER: Mr. Yuronka, when you are talking about \$50 per zone per well for operating cost, you are including the cost of pumping the well, aren't you?

MR. YURONKA: No, sir. The pumpers' charges would be added onto it. This is the administrative overhead. If my interpretation of this is correct, now, then, what we're

talking about here is when they talk about combined fixed rate I think they're talking about a staff that they have and, of course, I am the only one in the staff. I don't have any secretary or anybody else, so I mean my overhead is going to be a lot lower than Texas Pacific's. I know darn well it will be.

MR. NUTTER: Are there any other questions of Preels? Mr. Kellahin.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q How long has Texas Pacific Oil Company owned this lease?

A Texas Pacific Oil Company acquired the interest of Texas Pacific Coal and Oil Company in November of 1964 and since that time there has very definitely been a change in the management and change in approach on any of these properties.

Q How long did Texas Pacific Coal and Oil Company own it?

A I do not have that figure. I am sure Mr. Yuronka can come nearer answering that.

Q But Texas Pacific Oil Company has had it since when?

A Texas Pacific Oil Company acquired the interest of Texas Pacific Coal and Oil Company in November, 1964.

Q So you have had the lease since then in this present company?

A Yes, very definitely.

Q And the present company was actually just a reorganization of the old company, Texas Pacific Coal and Oil Company, was it not?

A I would say that it is a very definite *not* a reorganization in that very few of the managerial, in fact, right offhand I can't think of any of the managerial people with the prior Texas Pacific Coal and Oil Company that are involved in our operation at the present time.

Q Does your lease cover the entire southwest quarter?

A Our lease covers 460 acres.

Q 460 acres, fifty per cent interest?

A Yes.

Q Is that as to all zones?

A Yes, that is to all zones.

Q You do have a well in the northwest quarter and the southwest auarter?

A Yes.

Q Was that drilled by the present company or the old company?

A It was drilled by Olsen prior to it being acquired

dearnley-meier recording services, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
1120 SIMAS BLDG. • P.O. BOX 1092 • PHONE 243-6591 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 216-1294 • ALBUQUERQUE, NEW MEXICO 87108

by Texas Pacific Coal and Oil Company.

Q And you inherited it from Texas Pacific Coal and Oil?

A Yes, sir.

Q How many zones is it completed in?

A Presently one zone.

Q Have you ever considered completion of a well or the drilling of a well on that tract to the other horizons including the Granite Wash?

A On this tract, no.

Q On the northwest quarter of the southwest quarter?

A No, not on that 40 acre tract. We needed the additional zones to justify drilling to the Granite Wash.

Q At the present time you only own a fifty per cent interest in the other 120 acres?

A Exactly as is in this well.

Q And you can't afford to drill a well on fifty per cent interest, can you?

A We can pay our fifty per cent share and drill it, yes, sir, we can.

Q Can you drill the well and carry the fifty per cent without some agreement with the other operators?

A Carry the outside operators, the other interests, no, especially as heavily burdened as the other fifty per cent

interest is on this lease.

Q Then you say you would be prepared to start a well in ten days in the event this order is not granted. You couldn't start a well in ten days, could you?

A I believe you possibly misunderstood me. I said that my intentions were that we would start a well provided we had a partner who had signed our agreements and agreed to carry, bear his share of the costs.

Q Have you ever or your company ever approached Bauerdorf Estate or Prentiss to obtain a farm-out from them?

A I don't recall that we have.

Q Have you ever attempted to get any kind of a pooling agreement with them?

A I feel certain there has been efforts in the past but they have been fruitless.

Q I am talking about Bauerdorf and Prentiss, the owners of this interest.

A As far as I know they have owned this interest for way back.

Q Do you know whether any effort has been made to get a pooling agreement?

A I am not aware of any.

Q You are not aware of any. Has Texas Pacific Oil Company considered forced-pooling in this tract?

A Yes, very definitely.

Q You have rejected that approach, too?

A We have put it off at the present time giving Mr. Yuronka an opportunity to get rid of his deal. If he does not or is unable to turn his deal, we are going to approach the Bauerdorf Estate et al, and offer them or send them AFE's and request that they sign their agreements and join in the drilling of this well and then in the event they do not we will consider force-pooling this and drilling it.

Q That is on the assumption that Mr. Yuronka has lost his rights to drill?

A If he refuses to drill.

Q I say that is assuming that he has lost his rights to drill.

A That is assuming, yes. Other wise, we would like to have him as a partner.

Q You have no objection to him as a partner, it's just a matter of not reaching an agreement, is this correct?

A Love to have him as a partner if he will pay his share and sign our agreements.

MR. KELLAHIN: That's all the questions we have of Mr. Freels.

MR. NUTTER: Any other questions of Mr. Freels?
He may be excused.



* * * * *

JERRY MORITZ

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

DIRECT EXAMINATION

BY MR. RUSSELL:

Q Will you please state your name and address and the name of your employer?

A Jerry Moritz, M-o-r-i-t-z, with Texas Pacific Oil Company in Midland, Texas.

Q What is your designation or capacity with the company?

A I am a special projects engineer.

Q You have previously qualified to testify before the New Mexico Commission and its Examiners?

A Yes, sir, I have.

Q Mr. Moritz, you heard Mr. Yuronka's testimony as to the completion of the well, of T.P.'s well in the northwest of the southwest quarter of this section?

A Right.

Q Were his statements correct?

A No, he had -- he mentioned that the, which I am referring to the Belcher 1.

Q Yes.

Q That the Drinkard, as far as his records showed or he could find out, was not productive. We do have records of production from the Drinkard zone and it made 13,686 barrels from the Drinkard zone.

Q Now, when Mr. Yuronka was testifying, questions were asked as to the location of the various Granite Wash wells. Did you prepare a plat showing them?

A Yes.

Q Will you have that identified?

(Whereupon, T.P.'s Exhibit Number 1 was marked for identification.)

Q That does well identify that T.P.'s Exhibit Number 1?

A Right.

Q What is it?

A This exhibit is a plat, land plat of the area and it shows the acreage involved here, the 120 acres and the four Granite Wash wells in the area.

Q Have you prepared a cross section on any of these wells?

A Yes, we have prepared a cross section. It runs from the Humble State S Number 24 through the proposed location here in the southwest of the southwest through Texaco's Lockhart Number 2, down to Mr. Hansen's Guteman Number 1 and then over to Marathon's Munzy Number 1, which



I believe they are designated on these plats.

Q Do you have a contour map on the Granite Wash?

A No, we do not. We have attempted to come up with something that would represent, that we feel would represent the Granite Wash and due to the lack of wells in this area, we haven't been able to come up with anything.

Q Will you have your cross section marked for identification?

(Whereupon, T.P.'s Exhibit Number 2 was marked for identification.)

Q All right. Now, referring to your cross section, will you please explain that to the Examiner?

A This cross section is a reproduction of the available logs on these Granite Wash wells that I previously mentioned. Actually, it is through the Drinkard Abo and then the Granite Wash. The newest well in the area, being Mr. Hansen's well, the Max Guteman shown as Log Number 4 here, which has been completed, I believe in '66, right? And it is running through the well that was drilled to the south of us, the Texaco Lockhart Number 2 showing the interval that they call Granite Wash in their well over to the Humble well which also is productive in the Granite Wash, having made about 31,000 barrels of oil to date.

Also shown on the cross section as Log Number 5, is

the Marathon Munzy Well which also, from the data obtained from them, had Granite Wash pay in it and we think that, or our interpretation of this is that we have no evidence -- that the Granite Wash is a blanket development in this area. It would probably be more of a spotty development in localized areas and we think that possibly the evidence that the Marathon Well, the Number 5 Log, that it had pay in it and did not make a well and then Mr. Guteman, or Mr. Hansen came along and drilled a well offsetting it and made a well in the Granite Wash, can be somewhat correlated to our position with the Texaco Lockhart Number 2 south of us. It appears from the data we can get from them and from the logs that they had a Granite Wash section and we feel that this would give us a good opportunity to have a Granite Wash in our pay or in our well and would possibly indicate that there is a localized area of Granite Wash in the vicinity of our well and this Lockhart Two.

Q Do you have any further statements you would like to make in connection with any of the prior testimony?

A I don't believe so.

Q Were Texas Pacific's Exhibits 1 and 2 prepared by you or under your supervision and direction?

A Yes, sir.

MR. RUSSELL: I move the introduction of T.P.'s

Exhibits 1 and 2.

MR. NUTTER: T.P.'s Exhibits 1 and 2 will be admitted in evidence.

(Whereupon, T.P.'s Exhibit numbers 1 and 2 were marked for identification.)

MR. RUSSELL: I have no further questions of this witness.

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Moritz, on what basis did you fix your top on the Granite Wash in the Hansen well?

A We talked to Mr. Hansen and got them from him.

Q That is his opinion then and not yours?

A Right.

Q It could have been higher, couldn't it?

A I guess so or it could have been less. No, his log -- we checked with him prior to this Hearing and he is still keeping his logs tight and we have no more information than that on it.

MR. KELLAHIN: That's all.

MR. NUTTER: The witness may be excused.

(Witness excused.)

MR. RUSSELL: I have no further testimony.

MR. NUTTER: Does anyone have anything further

they wish to include? Closing statements?

MR. RUSSELL: If the Commission please, it is the position of Texas Pacific Oil Company that they are ready, willing and able to drill a well and will do so. That the granting of the application of Mr. Yuronka would create economic waste in that the only way in which we could test the Granite Wash in this location would be to drill a well solely for that purpose and the economics just do not justify it, which result in this particular area or tract being undeveloped within the Granite Wash to the detriment of both the working interest owners and the royalty owners. That as it has been testified, there have been numerous negotiations between the parties, both Mr. Yuronka and Texas Pacific as well as between Texas Pacific and other people, whom Mr. Yuronka was trying to turn his farm-out and that they bogged down primarily on two points. One of which is not wanting to go to the Granite Wash and the second, apparently on the expense, overhead expense or administrative expense that we feel the administrative expense as set out in T.P.'s operating agreement which was furnished to Cornell, was reasonable and in it T.P. did commit themselves to drill, commence the drilling of a well by February 1st, 1967 and that T.P. should be permitted to drill and test this formation to determine whether or not it is productive of oil and gas.

dearnley-meier reporting service, inc.

SPECIALIZING IN DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6671 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108

PAGE 80

There is probably conflicting testimony as to exact negotiations, but I don't think any one remembers everything that was said or exact terms or words in which they were said, but I think that T.P. from their attempts to negotiate with both Fundamental and with Cornell, indicates their willingness to do this, but they were insistent upon being able to test the Granite Wash which is what we want to do. We, of course as you know, are protesting the granting of this application for those reasons.

MR. KELLAHIN: If the Commission please, I think basically as to the negotiations we are in agreement, there have been numerous attempts to negotiate and there has been no agreement reached and that basically is the basis for the application of forced-pooling as provided by the statute which reads, "Where, however, such owner or owners have not agreed to pool their interests and where one such owner or owners who had the right to drill, has drilled or proposes to drill a well on said unit to a common source of supply, the Commission, to avoid the drilling of unnecessary wells, where to protect the correlative rights or to prevent waste, shall pool all or any part of the lands or interests both in the spacing or proration units as a unit."

Now, the situation really boils down to the fact that if we assume that all the costs are reasonable the

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATE MENUS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-0691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1274 • ALBUQUERQUE, NEW MEXICO 87108

applicant can't pool with them for a well to the Granite Wash and would lose economically and his correlative rights would be damaged were he forced into the drilling of a well to the Granite Wash in which he could not participate, even though the cost as proposed by T.P. would be covered from the lowest zone in which the applicant has rights to the Granite Wash, simply for the reason he would lose the operator's opportunity to complete in other zones in that well bore.

Basically, there is an economic situation in existence here. Neither one of these companies can afford to drill this well unless somebody can pool this thing together as a unit, not just the applicant here, but according to his testimony three other companies have attempted to negotiate a deal with T.P. Oil Company and have been unable to do so. Now, every reasonable effort has been made and as to why they can't agree, I don't think that is too material.

I think, actually, good faith efforts to agree have been made on both sides, but they haven't been able to agree. If a well is going to be drilled, forced-pooling is going to be necessary just as one of T.P.'s witnesses testified, if they can't get this worked out now, then they can't get a farm-out from the Bauerdorf's Estate, they are going to have to force-pool it, so if you grant their forced-pooling, you

dearnley-meier reporting services, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATE WENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 756-1294 • A. BUQUERQUE, NEW MEXICO 87108

PAGE 82

grant our forced-pooling.

It is one or the other, really. It boils down to this. Texas Pacific has owned this since the new company was organized in 1964. Texas Pacific Coal and Oil Company owned the lease for some many years prior to that, presumably. There was no testimony as to how long that they did own it when the company was organized. Since 1964 nothing has been done by T.P. Coal and Oil Company -- pardon me, T.P. Oil Company, to get a unit together and drill a well on this area. They considered forced-pooling so they say, but they didn't do it. They don't know whether anybody ever approached the owners in order to get a farm-out. Mr. Yuronka has approached the owners, he has got a farm-out and he is asking that it be forced-pooled.

MR. RUSSELL: If the Examiner please, I would like to make one short statement in reply there. That is, the basic difference between T.P. forced-pooling and Mr. Yuronka's forced-pooling is that T.P. forced pools all horizons whereas this is trying to exclude one and that basically it appears as between Texas Pacific and Mr. Yuronka, there have been differences in agreeing on a contract. I don't think it is the Commission's responsibility to determine the terms of the contract. If T.P. can't agree with the Bauerdorf people, they just commence forced-pooling and that

is it, but what the difference is here is in the negotiations. As T.P. said, they will drill the well. That's all.

MR. KELLAHIN: Do I still get to close?

MR. NUTTER: Do you have one more short sentence?

MR. KELLAHIN: As Mr. Russell states, T.P., I would assume, is bringing a forced-pooling action to force-pool all horizons, but that isn't necessarily what is contemplated by the statute. Mr. Yuronka has a right to bring this action under the statute and he has brought it.

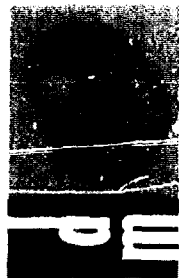
MR. NUTTER: Mr. Russell, do you want to say "yea" or "nay"? If there is nothing further in Case 3545, we will take the case under advisement and call a ten-minute recess.

(Whereupon, a short recess was taken.)

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

1120 SIMAS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87101
1205 FIRST NATIONAL BANK EAST • PHONE 256-1294 • ALBUQUERQUE, NEW MEXICO 87108




STATE OF NEW MEXICO)
COUNTY OF BERNALILLO) ss

I, ADA DEARNLEY, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that Pages 2 through 73 of the foregoing and attached transcript of hearing was reported by me in stenotype; and that JERRY POTTS recorded his testimony by machine shorthand from Pages 74 through 83; and that the same was reduced to typewritten transcript under my personal supervision and contains a true and correct record of said proceedings, to the best of my knowledge, skill and ability.


NOTARY PUBLIC

My Commission Expires:


June 19, 1967


NOTARY PUBLIC

My Commission Expires:

July 10, 1970

I do hereby certify that the foregoing is a complete record of the hearing of the Kerner hearing of 1967 heard by me on April 5, 1967


New Mexico Oil Conservation Commission

Handwritten:
file in Case file
Case - 3545

November 8, 1967

67 NOV 9 1967

Mr. Robert Brackbill
Texas Pacific Oil Company
P. O. Box 747
Dallas, Texas 75221

Re: Operating Agreement,
Belcher #1, SW/4 SW/4
of Sec. 7, T-22-S,
R-38-E, Lea County,
New Mexico

Dear Mr. Brackbill:

In a letter dated July 31, 1967, and signed by Mr. L. B. Jeffers, Texas Pacific Oil Company elected not to participate in the drilling of the captioned well and complied with New Mexico Oil Conservation Commission Order No. R-3263 authorizing Yurenka & Chandler to regain their total cost plus 35% attributable to Texas Pacific's share of the working interest.

Since it has been almost four months since this action was taken and an executed Operating Agreement has not been returned, Yurenka & Chandler hereby notify you that the proposed Operating Agreement dated July 19, 1967, is cancelled and considered null and void.

Kindly return both copies of the said Operating Agreement to us by return mail.

Very truly yours,

John Yurenka
John Yurenka

Robert E. Chandler
Robert E. Chandler

cc: New Mexico Oil Conservation Commission

Case 11-5505

September 28, 1967

Case File

Mr. Melvin M. Slagle, Jr.
Texas Pacific Oil Company
P. O. Box 747
Dallas, Texas 75221

Dear Mr. Slagle:

The Operating Agreement for the Belcher Well #1, Lea County, New Mexico, was returned to you with a letter dated August 30, 1967, stating our position on suggested revisions. Mr. Chandler and myself are assuming that since we have not heard from you, Texas Pacific Oil Company has decided not to sign said Operating Agreement. Consequently, we are requesting that you return one copy of everything we have submitted to Texas Pacific.

Very truly yours,

John Yuronka
John Yuronka

CC: New Mexico Oil Conservation Commission

Case 3545

JOHN YURONKA
CONSULTING PETROLEUM ENGINEER
120-C CENTRAL BUILDING
MIDLAND, TEXAS 79701

OFFICE MU 4-6223
RESIDENCE MU 3-4579
AREA CODE 915

August 30, 1967

Mr. Melvin M. Slagle, Jr.
Texas Pacific Oil Company
P. O. Box 747
Dallas, Texas 75221

Dear Mr. Slagle:

Following your recent visit with Mr. John Yuronka, we have discussed the attached Operating Agreements dated July 19, 1967, with our attorney. He advises us that the Agreements we submitted are reasonable and in accordance with the New Mexico Oil Conservation Commission Order No. R-3263. Therefore, we feel there is no need for any further revision on our part and we return these instruments for your further consideration.

207 AUG 31 AM 8 00

Very truly yours,

John Yuronka
John Yuronka

Robert E. Chandler
Robert E. Chandler

CC: New Mexico Oil Conservation Commission

August 8, 1967

RECEIVED

'67 AUG 31 AM 8 00

Mr. L. B. Jeffers
Texas Pacific Oil Company
P.O. Box 747
Dallas, Texas 75221

Re: Belcher Lease
SW 1/4 SW 1/4 Section 7,
T-22-S, R-38-E
Lea County, New Mexico

Dear Mr. Jeffers:

As requested in your letter of July 1, 1967, I enclose
a revised "Exhibit A" for the operating agreement of the above
lease. I also enclose the accounting procedure "Exhibit C"
with the changes to which we can agree initialed by Mr.
Yuronka and myself.

Yours truly,

Robert E. Chandler

REC:r
Enclosures

TEXAS PACIFIC OIL COMPANY
BOX 747

DALLAS, TEXAS 75221
July 31, 1967

L. B. JEFFERS
MANAGER OF PRODUCTION SERVICES

2700 FIDELITY UNION TOWER BLDG.

Chandler Engineering Company
Suite 120-B, Central Building
Midland, Texas

Attention: Mr. Robert E. Chandler

Re: Belcher Lease
SW 1/4 SW 1/4, Sec. 7-
22S-38E
Lea County, New Mexico

Gentlemen:

Your letter of July 19, 1967 addressed to Mr. Brackbill, transmitting your proposed Operating Agreement and Authorization for Expenditure to cover the drilling of a well on the above referenced lease, has been referred to this office for reply.

This is to advise that Texas Pacific Oil Company has elected not to participate in the drilling of this well by you and Mr. John Yuronka; however, we will comply with the State of New Mexico Oil Conservation Commission Order No. R-3263 which authorizes you to drill and complete this well, recovering your total cost plus 35% of the cost attributable to our share of the working interest as provided in the Commission Order.

We have reviewed your Operating Agreement and find no major objections to the provisions included. We have made minor changes in Exhibit "C" covering the Accounting Procedure, which we have initialed, and if these changes are satisfactory please forward a revised copy of Exhibit "C" which will include these changes. It is also noted that Exhibit "A" does not limit the Agreement to any specific depth and it is our opinion that this should be clarified since it is our understanding that some of the rights under this tract were not secured by you and Mr. Yuronka. It is

Page Two

suggested that this be clarified and a new Exhibit "A" be forwarded for our consideration. Upon making these changes we will execute and return your Operating Agreement as requested.

It is assumed that you will proceed with the drilling of the test well as authorized in the Conservation Commission Order and that you will keep us advised of your progress and ultimate well cost as provided in the Order.

Yours very truly,

TEXAS PACIFIC OIL COMPANY

L. B. Jeffers

LBJ:bjm

GOVERNOR
DAVID F. CARGO
CHAIRMAN

State of New Mexico
Oil Conservation Commission



LAND COMMISSIONER
GUYTON B. HAYS
MEMBER

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

P. O. BOX 2088
SANTA FE

June 27, 1967


Mr. Jason Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: Case No. 3545
Order No. R-3263
Applicant:
John Yuronka & Robert Chandler

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.
Secretary-Director

ALP/ir

Carbon copy of order also sent to:

Hobbs OCC x

Artesia OCC _____

Aztec OCC _____

Other Mr. John Russell

JOHN YURONKA
CONSULTING PETROLEUM ENGINEER
120-C CENTRAL BUILDING
MIDLAND, TEXAS 79701

OFFICE MU 4-6223
RESIDENCE MU 3-4879
AREA CODE 915

July 19, 1967

File
Case 3545

Mr. A. L. Porter, Jr.
New Mexico Oil Conservation Commission
P. O. Box 2033
Santa Fe, New Mexico 87501

Dear Mr. Porter:

Attached you will find a copy of an Authority For Expenditure and an Operating Agreement with the necessary exhibits that have been submitted to Texas Pacific Oil Company this date in compliance with MOCOC Order No. R-3263.

I saw an AFE prepared by Texas Pacific for Cornell Oil Company for the same type of completion which totalled \$146,200.00. The attached estimates were made independently and confirm TP's previous estimate.

Very truly yours,

John Yuronka

John Yuronka

1000000000

67 JUL 20 AM 8 09

July 19, 1967

Mr. Bob Brackbill
Texas Pacific Oil Company
2700 Fidelity Union Tower
Dallas, Texas

Case 3545

Re: Belcher Lease
SW 1/4 of SW 1/4 of Section 7,
Township 22 South, Range 38
East, NMRM, Lea County,
New Mexico

Dear Mr. Brackbill:

In compliance with order No. R-3263 issued by the Oil Conservation Commission of the State of New Mexico, we enclose for your consideration (a) Operating Agreement and (b) Authorization For Expenditure to cover the drilling of a well by us on the above captioned land.

We wish to assure you that we applied for the hearing only as a last resort to avoid losing our lease. This appeared necessary to us when we learned that the negotiations with Cornell were failing because of Texas Pacific's insistence on our securing the rights to the "granite wash". We had repeatedly tried to get the rights to this zone at Texas Pacific's insistence and had been unable to do so. While negotiations with Cornell were failing, we were put on notice by our lessors that no more time extensions would be granted us on our lease unless we put up a cash forfeit if a well were not started by a certain date. We also learned from a certain representative of our lessors that Texas Pacific was at the same time making overtures to our lessors for a lease should we be squeezed out. I trust that those people in Texas Pacific who wanted to see an agreeable deal consummated with one of our companies will understand the position we were put into and will accept our apology for any embarrassment or inconvenience which may have resulted to them.

We have again attempted to secure the "granite wash" rights to be included and have again been refused even though all our data shows that the "granite wash" would be dry anyway. We feel we have done all possible about this zone and are sorry we cannot get these rights for Texas Pacific's benefit. However, Texas Pacific still has the opportunity as has existed throughout the attempted negotiations, to test this zone through the well bore of the Texas Pacific Belcher No. 1 which is just one location north of the subject location.

Yours truly,

REC:b
Enclosures

Robert E. Chandler

1000000

51 JUL 20 AM 8 10

YURONKA & CHANDLER
120 Central Building
Midland, Texas

Belcher #1
660' FS&WL Section 7,
T-22-S, R-38-E,
Lea County, New Mexico

AUTHORITY FOR EXPENDITURE

	<u>Completed</u>	<u>Dry Hole</u>
7400' @ \$4.45/ft.	\$ 32,930.00	\$ 32,930.00
2 days @ \$1,050 per day WDP	2,100.00	2,100.00
2 days @ \$950 per day WODP	1,900.00	950.00
Location and Surface Damages	800.00	800.00
Prepare Location and Roads	2,600.00	2,600.00
Trucking	1,000.00	250.00
Mud and Chemicals	5,000.00	5,000.00
Special Services: DST, Elec. Logs & Logging	5,500.00	5,500.00
Cement and Cement Services	3,000.00	1,500.00
Float Equipment	300.00	150.00
Perf. and Treat	16,000.00	
Miscellaneous *	16,500.00	3,000.00
Supervision and Overhead	500.00	500.00
	<u>\$ 88,130.00</u>	<u>\$ 55,230.00</u>

* Rental equipment, completion unit, wire-line services, packers for multiple completion, scratchers and centralizers, labor, etc.

Casing, Tubing and other Equipment:

1,300' 9-5/8" @ \$4.00/ft.	\$ 5,200.00	\$ 5,200.00
7,400' 7" @ \$2.82/ft.	20,860.00	
18,900' 2" @ \$0.72/ft.	13,620.00	
Well Head Xmas Tree	3,500.00	
	<u>\$ 43,180.00</u>	<u>\$ 5,200.00</u>

Tank Battery

2 - Hi-500 bbl. welded tanks w/stairs
and walkway, 2 high-pressure separators
and labor and connections to install
battery

14,000.00

Total

\$145,310.00

\$ 60,480.00

APPROVED this _____ day of
_____, 1967.

TEXAS PACIFIC OIL COMPANY

By _____

John Yuronka
John Yuronka

Robert E. Chandler
Robert E. Chandler

Texas Pacific Oil Company: \$72,655.00
Yuronka & Chandler: \$72,655.00

67 JUL 20 AM 10

MODEL FORM OPERATING AGREEMENT—1956
Non-Federal Lands

OPERATING AGREEMENT

DATED

July 19, 1967,

FOR UNIT AREA IN TOWNSHIP 22-S, RANGE 38-E,

Lea COUNTY, STATE OF New Mexico.

Published and for Sale by
ROSS-MARTIN CO.

Box 800
Tulsa, Oklahoma

Form 610

OFFICE 00
67 JUL 20 AM 8 1

TABLE OF CONTENTS

Paragraph Number	Title	Page
1.	Definitions	1
2.	Title Examination, Loss of Leases and Oil and Gas Interests	1
3.	Unleased Oil and Gas Interests	2
4.	Interests of Parties	2
5.	Operator of Unit	3
6.	Employees	3
7.	Test Well	3
8.	Costs and Expenses	3
9.	Operator's Lien	4
10.	Term of Agreement	4
11.	Limitation on Expenditures	4
12.	Operations by Less Than All Parties	5
13.	Right to Take Production in Kind	6
14.	Access to Unit Area	7
15.	Drilling Contracts	7
16.	Abandonment of Wells	7
17.	Delay Rentals and Shut-in Well Payments	8
18.	Preferential Right to Purchase	8
19.	Maintenance of Unit Ownership	9
20.	Resignation of Operator	9
21.	Liability of Parties	9
22.	Renewal or Extension of Leases	9
23.	Surrender of Leases	10
24.	Acreage or Cash Contributions	10
25.	Provision Concerning Taxation	10
26.	Insurance	11
27.	Claims and Lawsuits	11
28.	Force Majeure	11
29.	Notices	11
30.	Other Conditions	12

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 19th day of July, 1967, between
JOHN YURONKA & ROBERT E. CHANDLER
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 INTERESTSA. Title Examination:

~~Each party other than Operator shall promptly submit to Operator abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this contract. All of these abstracts and title records shall be examined for the benefit of all parties by Operator's attorneys.~~

~~Operator shall promptly submit abstracts certified from beginning to recent date, together with all title papers in its possession covering leases and oil and gas interests which it is subjecting to this agreement, to _____ for examination by the latter's attorney for the benefit of all parties.~~

~~All title examinations shall be made without charge. Each examining attorney shall prepare a complete title report on each separate tract based upon the abstract record and title papers submitted to him. Each title report shall contain a list of fee owners and their interests, shall state the attorney's opinion concerning validity of their interests, and shall contain an enumeration and description of title defects, if any, a report upon mortgages, taxes, pending suits, and judgments, and unleased oil and gas leases, and a list of requirements, if any, upon which the examiner's approval of title to the lease or oil and gas interest is contingent. The title report shall also contain a specific description of the oil and gas lease being subjected to this contract, with a statement of its form, term (which will be satisfactory if it has a primary term expiring not sooner than _____), amount of royalty, status of delay rental payments, and unusual drilling~~

obligations and of excess royalty, oil payments, and other special burdens. A copy of each title opinion, and of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.

All title examinations shall be made, and title reports submitted, within a period of _____ days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of _____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative immediately, and the parties shall proceed to their performance as they are hereinafter stated.

B. Failure of Title:

After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

C. Loss of Leases For 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, 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 remaining portion of 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 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-eighth ($\frac{1}{8}$) royalty, the party contributing that lease 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

Yuronka and Chandler 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 25th day of October, 19 67, Operator shall commence the drilling of a well for oil and gas in the following location:

660' FSL & 660' FWL of Section 7, T-22-S,

R-38-E, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Drinkard formation but not to exceed a depth of 7400'.

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 six percent (6%) 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.

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.

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 Five Thousand and No. 00 Dollars (\$ 5,000.00) 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 \$ 5,000.00.

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) ^{135%} ~~100%~~ 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 24, and ~~100%~~ ^{135%} 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. (See Section 30 for further clarification).

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 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, 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.

DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Each party shall pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 100% of any such shut-in well payment. The amount of such reimbursement shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Paragraph 22 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

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.~~

~~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.~~

19. 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.

20. 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.

21. 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.

22. 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.

23. 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.

24. 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.

25. 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 returned 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".

26. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. 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 where the operations are being conducted and to maintain such other insurance as Operator may require.

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

27. 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.

28. 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.

29. 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.

30. OTHER CONDITIONS, IF ANY, ARE:

NMOCC Order No. R-3263 is hereby incorporated herein and made a part of this agreement, and to the extent that there is any conflict between the terms of this said operating agreement and said NMOCC Order No. R-3263, the terms of said order shall prevail and be effective and binding on the parties hereto.

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

ATTEST:

OPERATOR

ATTEST:

Dana G. Roper

John Yuronka

ATTEST:

Dana G. Roper

Robert E. Chandler

EXHIBIT "A"

- (1) (a) Lands subject to Contract: SW/4 SW/4 of Section 7,
Township 22 South, Range 38 East, Lea County, New Mexico.
- (b) Restrictions, If Any, as to Formations or Depths:
As specified in NMOCC Order No. R-3263.
- (c) Drilling Unit for First Well: As specified in (1)(a) above.

(2) Percentage or Fractional Interests of Parties Under Agreement:

Texas Pacific Oil Company:	50.00% W.I.
Yuronka & Chandler :	50.00% W.I.

(3) Addresses of Parties to which Notices Should be Sent:

Texas Pacific Oil Company	Yuronka and Chandler
P.O. Box 747	120 Central Building
Dallas, Texas	Midland, Texas 79701

EXHIBIT "C"

Attached to and made a part of an Operating Agreement between
John Yuronka and Robert E. Chandler and Texas Pacific Oil
Company, a Division of Joseph E. Seagram & Sons, Inc.,
dated July 14, 1967

ACCOUNTING PROCEDURE

(JOINT OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

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

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

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"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.

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

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

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

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

5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of ~~one~~ per cent (8%) per annum until paid. eight (8%)

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators 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.

7. 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 adjustment of accounts as provided for in Paragraph 6 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.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

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 1 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 1 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 1 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 1 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; provided however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

4. Material

Material purchased or furnished by Operator for use on the Joint Property. 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 or railway receiving point where like material is available, except by agreement with 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 or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with 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 2 of Section III.
- 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 any 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, attorneys' 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), except by agreement with 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 Premiums

Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.

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 a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

- ☐ Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- ☒ Paragraph 4. (Combined fixed rate)

1. 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 changed), 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.

2. 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 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten

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 this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. **Operator's Fully Owned Warehouse Operating and Maintenance Expense**
(Describe fully the agreed procedure to be followed by the Operator.)

4. **Combined Fixed Rates**

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
7400'	500	\$50 as per 5-B (6) below		

Said fixed rate (shall) (shall not) include salaries and expenses of production foremen.

5. **Application of Administrative Overhead or Combined Fixed Rates**

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 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 water flooding operations and salt water disposal wells shall be considered the same as producing 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. When such a well is plugged a charge shall be made at the producing well rates.
 - (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 or workover rig 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, all wells capable of producing will be counted in determining the charge.
 - (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 in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
- C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
- D. The well rates shall be adjusted on the first day of April of 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. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.
6. For the construction of compressor plants, water stations, secondary recovery systems, 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 Fixed Rates provided for in Paragraph 2 and 4 of this Section III, 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. 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-Operator 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, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) 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 available.
- (3) 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 cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (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. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against Joint Property operations. 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 subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the 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 in the monthly statement of operations.

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 otherwise agreed to between 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 percent (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 3 B 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 Material generally considered controllable by the Industry.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. 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, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and 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-Operator 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.

TEXAS PACIFIC OIL COMPANY

EXHIBIT "D"

CERTIFICATE OF INSURANCE

TO: TEXAS PACIFIC OIL COMPANY
P. O. BOX 747
DALLAS, TEXAS 75221

July 18, 1967
DATE

This is to certify that the following described policy or policies (as indicated by specific entry herein) have been issued to:

NAME OF INSURED

JAMES TURNER

ADDRESS

120-C CENTRAL BUILDING, MIDLAND, TEXAS

DESCRIPTION OF INSURED OPERATIONS

Code 1320 Oil or Gas Lease Operators

OPERATIONS INSURED IN STATES OF

Texas and New Mexico

FORM OF COVERAGE	POLICY DATA			BODILY INJURY		PROPERTY DAMAGE	
	NUMBER	EFFECTIVE DATE	EXPIRATION DATE	EACH PERSON	EACH ACCIDENT	EACH ACCIDENT	AGGREGATE
WORKMEN'S COMPENSATION	WC 517100	1-30-67	1-30-68	Statutory		Statutory	
EMPLOYER'S LIABILITY	WC 517100	1-30-67	1-30-68	\$10,000.	\$25,000.		
CONTRACTOR'S PUBLIC LIABILITY	CAG 286041	9-1-66	9-1-67	\$100,000.	\$300,000.	\$100,000.	\$100,000.
Hired & Non-Owned AUTOMOBILE LIABILITY	CAG 286041	9-1-66	9-1-67	\$100,000.	\$300,000.	\$100,000.	
CONTRACTOR'S CONTINGENT LIABILITY (IF SUB-CONTRACTORS ARE USED)							

In event of cancellation or material change of the above-listed policies, written notice will be given to Texas Pacific Oil Company, P. O. Box 747, Dallas, Texas 75221, at least ten (10) days prior to effective date thereof.

One Well Plugging Bond to be issued prior to commencement of well.

UNITED STATES FIRE INSURANCE COMPANY

(NAME OF INSURANCE COMPANY)

DILLARD ANDERSON & COMPANY

By

Dillard Anderson
AUTHORIZED REPRESENTATIVE

Agent- 7/18/67

DATE

file - con 3545

November 13, 1967

VIA AIRMAIL

Mr. John Yuronka
Mr. Robert E. Chandler
120-C Central Building
Midland, Texas 79701

Re: Operating Agreement - Belcher No. 1
SW/4 SW/4 Section 7, 22 South, 38 East,
Lea County, New Mexico

Gentlemen:

Your letter of November 8th, regarding the above Operating Agreement is acknowledged.

If you will recall, the writer made a trip to Midland to discuss with you personally Texas Pacific's request for various changes in the Operating Agreement to make it more in conformity with existing agreements in the general area. Following my trip to Midland, you advised by letter that the Operating Agreement was in accordance with New Mexico Conservation Order No. R-3263, and that there was no need for any further revision on your part and requested we reconsider.

We wish to advise that this Company under no circumstances would execute this Agreement in its present form, since we have elected to proceed under the 135% penalty, as provided in New Mexico Conservation Order No. R-3263. The Agreement as presently drawn specifically sets out that we will pay 100% of our proportionate part of any costs attributable to the initial test well. Nothing in the Agreement says that such well will be drilled under the 135% penalty provision. There are a few other minor changes we think are reasonable and fair, nevertheless, the one mentioned above is most critical.

Therefore, we are returning to you herewith these unexecuted copies, as requested in your letter of November 8th.

Yours very truly,

[Handwritten signature]

67 Nov 15 1967

MSBJr:rc
enclosures

CC: New Mexico Oil Conservation Commission
Mr. R. M. Brackbill
Mr. Frank Bolen - Midland

67 MAR 16 AM 1 43

BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF
JOHN YURONKA and ROBERT E. CHANDLER
FOR AN ORDER FORCE-POOLING LAND IN
SECTION 7, TOWNSHIP 22 SOUTH, RANGE
38 EAST, LEA COUNTY, NEW MEXICO

Case 3545

A P P L I C A T I O N

Comes now JOHN YURONKA and ROBERT E. CHANDLER and apply to the Oil Conservation Commission for an order force-pooling all interests in and under the $S\frac{1}{2}SW\frac{1}{4}$, and the $NE\frac{1}{4}SW\frac{1}{4}$ of Section 7, Township 22 South, Range 38 East, N.M.P.M., Lea County, New Mexico, from the surface to the base of the Drinkard Formation or to 7400 feet, whichever is the lesser depth, but excluding the Granite Wash, or in the alternative, for an order force-pooling all interests in the $SW\frac{1}{4}SW\frac{1}{4}$ of said Section 7, for the production of oil, as hereinafter shown, and in support thereof would show the Commission:

1. Applicants are the owners of a right to drill and produce oil or gas, or both, from the $S\frac{1}{2}SW\frac{1}{4}$ and the $NE\frac{1}{4}SW\frac{1}{4}$ of said Section 7, Township 22 South, Range 38 East.
2. That there are separately owned interests in the oil and gas minerals embraced within such tract, and the owner or owners thereof have not agreed to pool their interests for the drilling of a well to any common source of supply underlying said tract; to the best of applicants' information and belief, Texas Pacific Oil Company is a working interest owner in said lands.
3. That said tract is underlaid by multiple producing horizons, to the best of applicants' information and belief,

DOCKET MAILED

Date 3-23-67

such horizons including the Paddock, Blinebry, Tubb and Drinkard formations.

4. That applicants propose to drill a well, to be located in the SW $\frac{1}{4}$ SW $\frac{1}{4}$ of said Section 7, to adequately test any and all formations between the surface and the base of the Drinkard formation or to a depth of 7400 feet, whichever is a lesser depth, excluding, however, the Granite Wash.

5. That an owner drilling in this area may reasonably expect to encounter gas production from the Blinebry and Tubb formations, and would therefore need to force pool the S $\frac{1}{2}$ SW $\frac{1}{4}$ and ^{NE SW}(NE $\frac{1}{4}$ NW $\frac{1}{4}$) of Section 7 to dedicate said acreage to such gas well.

6. That there is a reasonable possibility that oil production will be encountered in the Paddock, the Drinkard and possibly in the Blinebry formations, and therefore forced pooling of the interests in the SW $\frac{1}{4}$ SW $\frac{1}{4}$ of said Section 7 would be required in order to dedicate such acreage to an oil well located in that quarter-quarter section.

7. That there is a possibility of completing a well for production from more than one horizon, and the Commission should therefore consider force-pooling all of the horizons underlying the above-described tract, as requested, in order to avoid multiple hearings on this location.

8. There is attached hereto, and made a part of this application, a plat showing the acreage involved, together with offsetting ownership to the best of applicant's knowledge and belief.

9. Applicants pray that suitable provision be made for charges for supervision, and that any order entered include

a charge for the risk involved in the drilling of a well on said unit, to be recovered from any non-consenting working interest owner's prorata share of the cost of drilling and completing said well, to be recovered out of production, as provided by law.

10. The approval of this application is in the interests of conservation, and will result in the protection of the correlative rights of applicants, and other owners, including working interest owners and royalty owners, affected by this application.

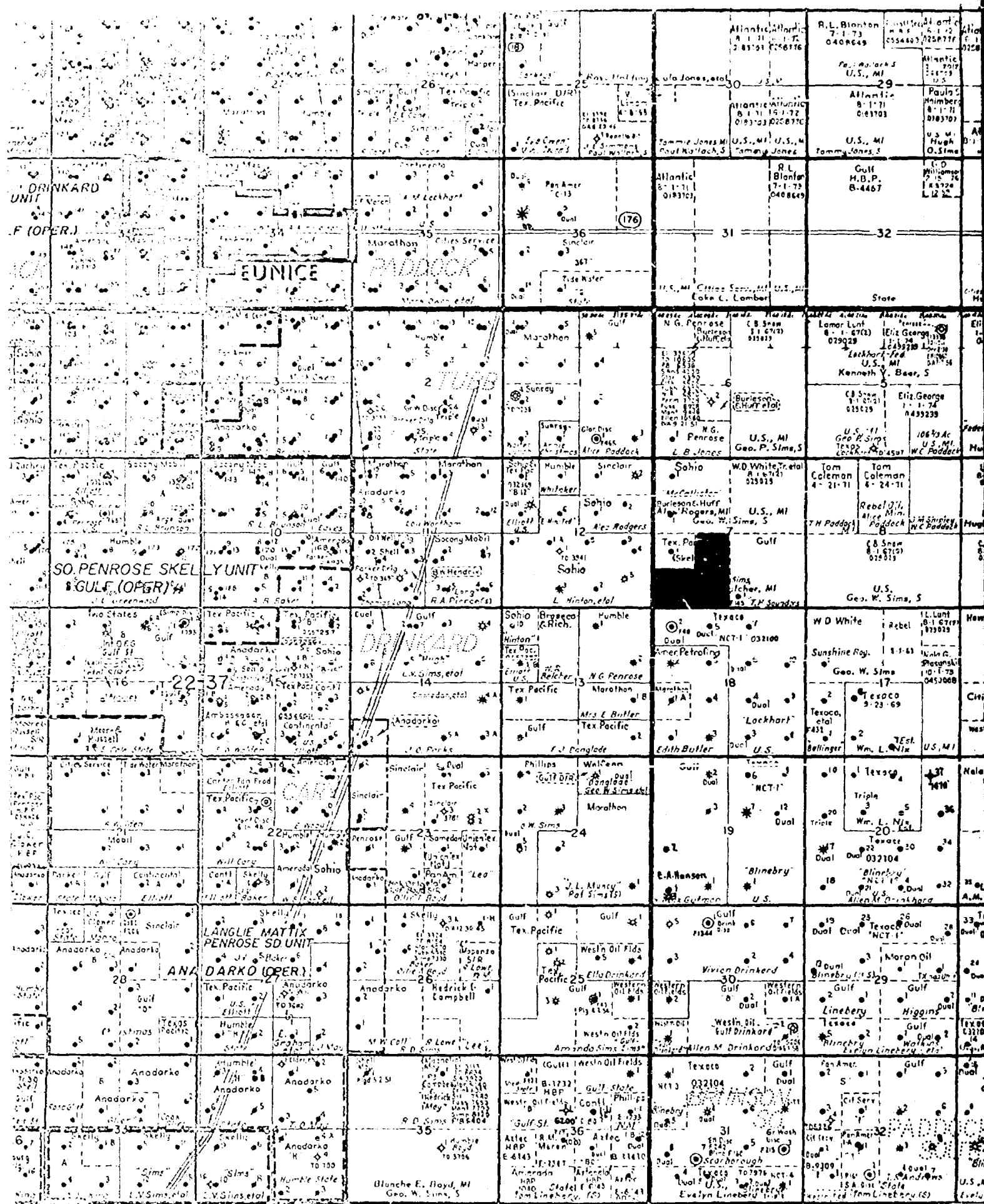
WHEREFORE, applicants pray that this application be set for hearing before the Commission, or the Commission's duly appointed examiner, and that after notice and hearing as provided by law, the Commission enter its order force-pooling the above-described tract as prayed for.

Respectfully submitted,

JOHN YURONKA and ROBERT E. CHANDLER

BY: James W. Kellahin
Kellahin & Fox
Post Office Box 1769
Santa Fe, New Mexico

Attorneys for Applicants



Docket No. 10-67

DOCKET: EXAMINER HEARING- WEDNESDAY- APRIL 5, 1967

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 Elvis A. Utz, Alternate Examiner:

- CASE 3545: Application of John Yuronka and Robert E. Chandler for compulsory pooling, Lea County, New Mexico. Applicants, in the above-styled cause, seek an order force-pooling all mineral interests underlying the S/2 SW/4 and NE/4 SW/4 of Section 7, Township 22 South, Range 38 East, Lea County, New Mexico, from the surface to the base of the Drinkard formation or to 7400 feet, whichever is the lesser, but excluding the Granite Wash; in the alternative applicants seek the force-pooling in the above-described vertical interval underlying the SW/4 SW/4 only of said Section 7.
- CASE 3546: Application of Stoltz & Company for an unorthodox location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of the unorthodox location in an undesignated Pennsylvanian gas pool of its Hudson-Federal Well No. 1 at a point 838 feet from the North line and 1650 feet from the West line of Section 4, Township 21 South, Range 29 East, Eddy County, New Mexico.
- CASE 3547: Application of Skelly Oil Company for a waterflood expansion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order amending Order No. R-2900 to expand the waterflood interval authorized by said order to include the entire Grayburg-Jackson producing interval, to permit the conversion to water injection of 18 additional wells in Sections 14, 15, 22, 23, 26, and 27, Township 17 South, Range 31 East, and further to provide for administrative expansion of said project.
- CASE 3548: Application of Sinclair Oil & Gas Company for an unorthodox location, Eddy County, New Mexico. Applicant, in the above-styled-cause, seeks approval of the unorthodox location in an undesignated Pennsylvanian gas pool of its Trigg-Federal Well No. 1 at a point 1980 feet from the North line and 660 feet from the West line of Section 27, Township 18 South, Range 27 East, Eddy County, New Mexico.
- CASE 3549: Application of Tesoro Petroleum Corporation for an unorthodox location, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox location for a well to be drilled 1330 feet from the South line and 2310 feet from the West line of Section 1, Township 17 North, Range 9 West, South Hospah Field, McKinley County, New Mexico.
- CASE 3400 (Reopened)

In the matter of Case No. 3400 being reopened pursuant to the provisions of Order No. R-3064, which order established 160-acre

-2-

Examiner Hearing - April 5, 1967

(Case 3400 continued)

spacing units and a gas-oil ratio of 4000 to 1 for the Big Eddy-Strawn Pool, Eddy County, New Mexico, for a period of one year. All interested parties may appear and show cause why said pool should not be developed on 40-acre or 80-acre spacing units and why the limiting gas-oil ratio should not revert to the Statewide limit of 2000 to one.

CASE 3550: Application of Kennedy Oil Company for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Grayburg-San Andres formations through three wells located in Sections 27 and 28, Township 16 South, Range 31 East, Square Lake Pool, Eddy County, New Mexico.

JOHN YURONKA
CONSULTING PETROLEUM ENGINEER
120-C CENTRAL BUILDING
MIDLAND, TEXAS 79701

OFFICE MU 4-6223
RESIDENCE MU 3-4870
AREA CODE 915

December 27, 1967

Mr. M. M. Slagle, Jr.
Texas Pacific Oil Company
P. O. Box 747
Dallas, Texas 75221

File 3545

MAIN OFFICE 000

'67 DEC 28 PM 1 20

Dear Mr. Slagle:

Please consider this letter as a formal request from Robert E. Chandler and the undersigned for a farm-out of the oil, gas and casinghead gas rights under the following described leasehold, to-wit:

AREA: Paddock, Blinebry, Tubb and Brinkard

ACREAGE: E/2 SW/4 of Section 7, T-22-S,
R-38-E, Lea County, New Mexico,
totalling approximately 80 acres.

TEXAS PACIFIC OIL COMPANY TO RETAIN:

1/64 for 50%

1. A $1/32$ of $8/8$ overriding royalty for a single completion and a $1/16$ of $8/8$ overriding royalty for a dual completion, reduced proportionally according to their 50% leasehold interest.

2. All rights below 7400' or 100' below total depth drilled, whichever is the lesser depth.

I AGREE AS FOLLOWS:

1. To drill or cause to be drilled, a well to thoroughly test the formations mentioned above to an approximate depth of 7300'.
2. Location of Initial Well: SE/4 SW/4 of Section 7.

Page 2
Mr. M. M. Slagle, Jr.

3. Commencement Date: Within 40 days after final execution of the farmout agreement but in no event later than February 20, 1968, as per farmout agreement with other parties.
4. Assignment of Acreage: Within 30 days after commercial production has been established.
5. Continuous Development: Yes, 90 days between wells.
6. Well Density: Per Field Rules.
7. Depth to Be Assigned: 100' below total depth drilled or to 7400', whichever is the lesser depth.
8. Penalty for Non-Performance: Re-assignment of all undrilled acreage.

Should Texas Pacific Oil Company be unable to farm-out on the above basis, it is requested that they join as a non-operator with their one-half (1/2) leasehold interest.

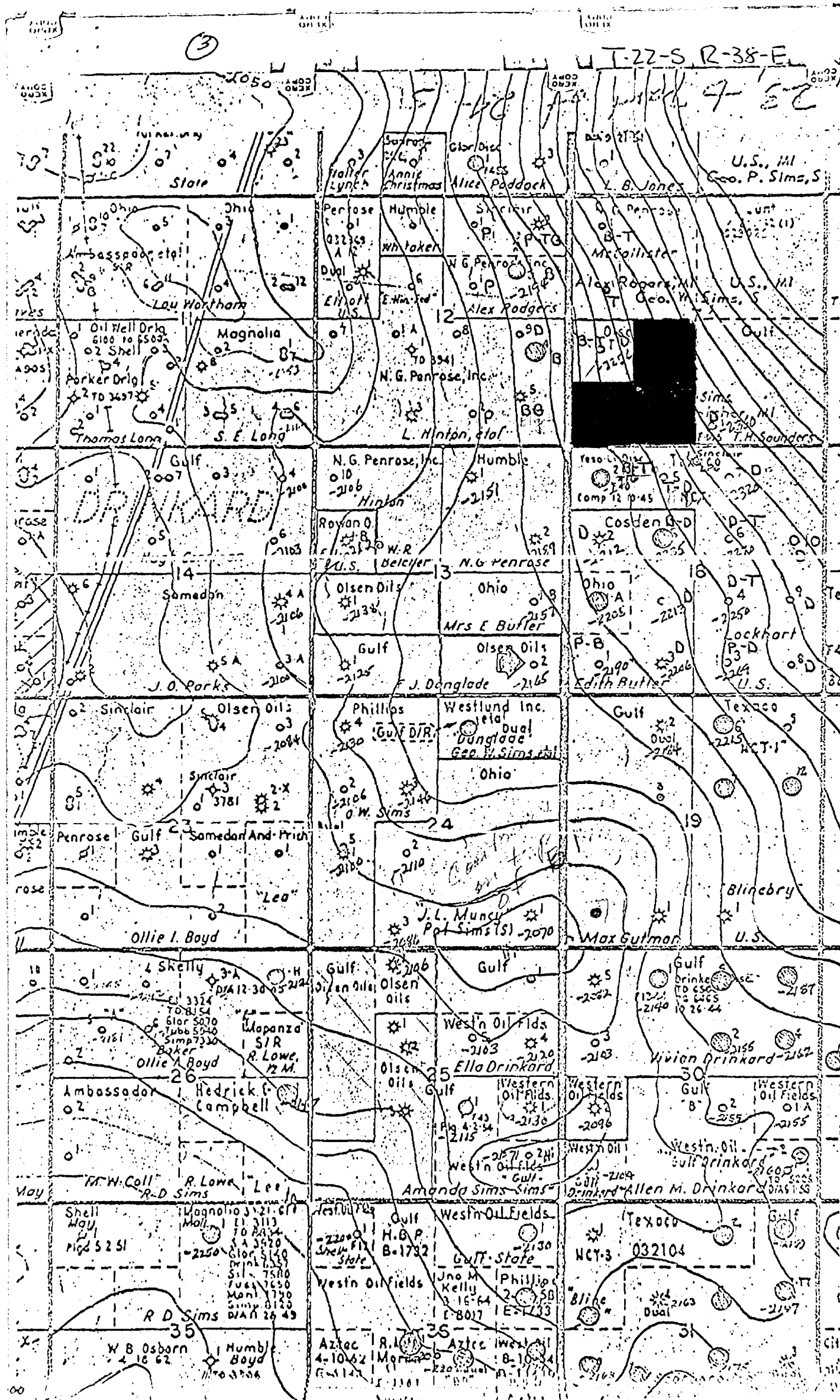
If no response is received by January 15, 1968, it will be assumed that Texas Pacific Oil Company does not wish to farm-out or join in operations.

Very truly yours,



John Yuronka

CC: New Mexico Oil Conservation Commission
Bauerdorf Estate
W. P. Prentiss



Paddock Oil

Fma. Butler #1

Cum. 1-1-GG: 43,723

Pemrose-Rodgers #1

Cum. 1-1-GG: 111,348

	Allow.	Oil	Gas	Water	Allow.	Oil	Gas	Water
Jan. GG	155	109	377	-	217	158	382	62
Feb	148	98	472	-	196	166	378	56
Mar	155	89	605	-	217	133	498	60
Apr.	150	107	262	-	210	121	488	60
May	155	81	284	-	217	108	508	60
June	150	89	721	-	210	88	486	60
July	155	96	549	-	217	80	517	60
		669	3270	-		854	3257	
Aug.		96	467			122	465	
Cum 8-1-GG		44,392				112,202		

Sindain-Rodgers #1

Cum. 1-1-GG: 149,617

Texaco-Hochst NCT-1 #3

Cum. 1-1-GG: 21,026

	Allow.	Oil	Gas	Water	Allow.	Oil	Gas	Water
Jan. GG	279	295	1,079	130	372	329	82	-
Feb	280	222	599	-	336	315	127	24
Mar	310	206	1078	-	372	290	141	-
Apr.	300	213	876	-	360	320	91	-
May	310	213	909	-	372	292	99	-
June	300	249	752	-	360	268	208	-
July	310	225	883	-	310	334	297	-
Total		1623	6176			2148	1045	
Aug.		232	882			307	149	
Cum. 8-1-GG		151,540				23,174		

Est. Per Well Recovery of Wells Above: 95,000 Bbls.

API = 3,000 Bbls / Acre or 120,000 Bbls. (Per. to Date)

Fish - Buell #1				Pencil - Rodgers #1			
Comp. 11-20-52. Elev. 3345' DF. 13-3/8 @ 303'	Comp. 10-13-48. Elev. 3353' DF. 7 @ 5109'						
9-5/8 @ 2795' 2" @ 6610' TD 2072' DST 5075'	TD 2225' Subd. 2800' natural. Treat w/						
5107' Opd 2 1/2 hrs. Rec. 50' oil + 250' 40' GCM.	1000 gals. Subd. - fluid. 10 BOPH. Retreat						
Ref. 6105'-80'. Treat w/500 gals. mud. mud -	w/4000 gals. Fluid. 50 BOPH. Pot.: Fluid.						
2000 gals. Fluid. 5000 MC FPD. Ref. 5103'-6030'	120 BOPD, 2" @ 5220'. Omit 5120' (-1767')						
Treat w/500 gals. mud. 6000 gals. Pot. Fluid							
120 BOPD, 1/2" chh. GCM. 2200. Op. 326'							
2-19-54. P 35200'. Ref. 5049-5125. Treated	Ref. 52. Comp. 1-23-49. Elev. 3354' DF.						
500 gals. - fluid w/4,000 gals. Dele. se and	7" @ 5020'. TD 5705'. Treat w/2,000 gals.						
4000' Fluid. 5 BOPH. 1/2" 4". TP: 1507'-2007'	Subd. - fluid. used water + load oil. Fluid						
SA 3911'	3080/3 hrs. Fluid 74 SC/14 hrs. on 1/4" chh.						
Clouette 5092'	Pot. Fluid. 103 BOPD on 1/4" chh. w/2" @						
Sub. 6062'	5640'. Blending. G.L.						
Dunham 6065'	Comp. Apprx. 50,000 Bbls.						

Sunbeam Rodgers #1				Texas - Lockhart NCT-1 #3			
Comp. 5-10-45. Elev. 3355' DF. 13-3/8 @ 2900'	Comp. 7-9-53. Elev. 3371' DF. 13-3/8 @ 301' 9 5/8 @						
300 9-5/8 @ 2996' w/1000. 2" @ TD 5293' w/	2920' 5 1/2" @ 7125' TD. Ref. 6847'-6940' 6945'-						
300 DST 5115'-90'. Opd. 2 hrs. GTS in 11"	6944'-7057'-93' Treated zones individually						
oil in 120'. Rec. 352' GCM. Ref. 5200'-35'	w/total of 30,000 gals. Pot. Fluid 6800/12 hrs.						
Subd. ext. 1 BOPH natural. Treat w/1,500 gals.	DST 5135'-5245'. Opd. 2 hrs. GTS 20". Rec.						
Pot. Fluid 202 BOPD on 2".	20' PM + 1000' GCM. 1500' free oil. SOT						
Queen 3300' (-5') Ref. 5100' (-1745')	Dunham w/30,000 gals. 30,000' Rec.						
	from 11 BOPD to 55 BOPD.						
Ref. 52. Comp. 10-19-45. Elev. 3356' DF.	Ref. 51. Comp. 1-19-45. Elev. 3359' DF.						
13-3/8 @ 294' w/300. 9 5/8 @ 2989' w/100 7" @ TD	5637', 5655', 5665', 5675', 5677'. Treat w/1500						
5300'. DST 5015'-95'. Opd. 2 hrs. GTS 40". Rec.	gals SOT w/20,000 gals. 20,000' Pot.						
900' oil, 90' PM, 30' DM. Ref. 5200'-30'	Fluid 62 BOPD, 502' 1700						
Subd. 2 BOPH. 5000'. Ref. 5130'-70' treat w/							
2000 gals. Subd. - 50% water. Ref. 5145'-60' treat							
w/1000 gals. Ref. 5190'-5210'. Treat w/2000 gals.							
eggd. Ref. 5179'-99'. Treat w/2000 gals. Pot.:							
Fluid. 192 BOPD on 2" + 50% water							
SA 3970' (-614') Omit 5100' (-1804')							
Comp. 85,159 Bbls. New Table (see)							

Blueberry Oil

NW 1/4

Penrose-Hinton #4

Cum. 1-1-GG: 115,871

Soho-McCallister #1

Cum. 1-1-GG: 5,329

	Allow	Oil	Gas	Water	Allow	Oil	Gas	Water
Jan. GG	186	90	6802	-	-	-	-	-
Feb	168	77	11078	-	-	-	-	-
Mar	186	91	8172	-	-	-	-	-
Apr	180	100	8236	-	-	-	-	-
May	186	142	12234	-	-	-	-	-
June	180	105	10930	-	-	-	-	-
July	217	92	5993	-	-	-	-	-
Total		697	63445					
Aug.		100	9,064					
Cum. 8-1-GG		116,568						

Fina-Butler #5

Cum. 1-1-GG: 12,744

Texaco-Hockhart NCT-1 #2

Cum. 1-1-GG: 63,693

	Allow	Oil	Gas	Water	Allow	Oil	Gas	Water
Jan. GG	248	242	768	29	248	234	1025	26
Feb	224	243	655	28	224	209	950	23
Mar	248	260	724	30	248	176	875	20
Apr.	240	264	731	28	240	179	857	20
May	248	246	574	30	248	187	824	21
June	240	240	431	28	240	194	1253	22
July	310	240	494	28	186	159	820	18
Total		1735	4377			1338	6604	
Aug.		238	625			191	943	
Cum. 8-1-GG		14,479				65,031		

Est. Per. Well Recovery of Above Wells: 57,500 Bbls.
 API = 1200 Bbls./acre or 64,000 Bbls. (Rec. to Date)
 API =

Pawnee Hinton #4				Schubert McCallister #1			
Comp. 7-29-46	Elev. 3344'	DF. TD	6500'	Comp. 3-5-49	Elev. 3357'	13 3/8" @ 155'	9 5/8" @ 2839' 5 1/2" @ 5065'
5-1/2" @ 6302'	P3 6235'	Treat 011	12000	5065-5735'	Treat w/ 8750 gals.	3 treatment	
gals. + 4000 gals.	Subd. 1 1/2 BOPD	P3 6235'		Pot. 18 BOPD	Subg.		
P3 6185'-6205'	Subd. by Treat	1500 gals.					
1000 gals.	Fluid 38 BOPD	23 hrs.	Refract w/				
3000 gals.	Fluid. 21 BOPD	1000 MC	FPD. Treat				
w/ 500 gals.	fluid acid.	P3 5195'-5205'	Treat				
w/ 3000 gals.	Fluid. 21-27 BOPD	P3 5030'-70'					
Treat w/ 5000 gals.	Fluid. 50 BOPD	P3 5030'-70'	Fluid.				
60 BOPD 1/2" chd.	w/ 1/2" on 2 chd.	5543'					
5029' thru	guffs	5030'-70'					
3A	3930' (-580')						
Orinetta	5130' (-1780')						

Furn - Butler #5				Tilaco - Lockhart NET-1 #2			
Comp. 5-25-53	Elev. 3353'	DF. 13 3/8" @ 108' 8-5/8'		Comp. 5-24-45	Elev. 3354'	DF. 13 3/8" @ 271'	
@ 2958' 5-1/2" @ 6410'	w/ 750 TD 712'	Treat		w/ 300. 9 5/8" @ 2504'	w/ 1000. 7" @ 6459'	TD	
011 w/ total	12,000 gals.	Pot. Fluid 207 BOPD		7597' DST 5125'-5230'	Opd. 1 1/2 hrs.	Pec.	
100" TP. 100' 500'	500' 500'	Cy. 300'		240' 140' 100' 70'	P3 5150'		
Dunham Products				5235' Subd. by Treat	w/ 2000 gals.	Subd.	
Blindry: 8-3-02	P3 5030'-28' 5042'-54'			5135' w/ 8 hrs.	Segd. P3 5500'-5610'	Treat	
5055'-68' 5700'-18'	Treat w/ 500 gals.	+ 5,000		w/ 2000 gals.	Subd. 5732/22 hrs.	3 1/2% SW.	
gals. reg. Frac w/ 18,500 gals.	refined oil			Fluid. 40 BOPD	8 hrs. - 25% SW.	Fluid. 40 BOPD	
3200' P3	Fluid. 120 BOPD	+ 204 MC	FPD	30% SW. P3	Fluid. 65 BOPD	+ 23 SW	PDm
@ 1/4" TP	50 F, CP: 750', GOR: 1700			1/2 chd.			
				Jates	2070' (-684')		
				3000' (-606')			
				Pedlock	5143' (-1789')		
				Orinetta	5170' (-1810')		
				Blindry	5100' (-2206')		
				Subd.	6055' (-2701')		
				Dunham	9400' (-6106')		

202107

NW 500
7

Qum. 1-1-GG: 28,789

Qum. 1-1-GG: 28,789

2000/0018

NE NW 18

Tefaco-Lochhart NCT-1 #5

Qum. 1-1-GG: 31,337

Jan. 66
Feb
Mar
Apr.
May
June
July
Total
Aug
Sum 8-1-

Est. Per Well Recovery of Above Wells: 53,000 Bbl.
API = 2250 Bbl. / Acre or 90,000 Bbl. (Rec. to Date)

Tull Oil

Comp. 10-10-48 Blindlug 8 1/4" @ 550' TD	Comp. 7-10-77 Dullbit cement 5' @ 5735'
5795' Treat 13,000 gal. Fluid 15 BOPH	Blind - new open hole to 7" PBG 45' cement
Elev. 3348'	also Ran 3 1/2" liner 5420' - 6490' Perf.
4-G-04. No. 67131. 5" liner 5424' to	G234'-57' G241'-G267' G311'-15' G322'-34'
G828' Treat w/500 gal. 4,000 gal. + pore	Treat w/500 gal. + 6,000 gal. Pol. Fluid.
w/5000 gal. dolo. fine. 2500# Fluid	117 BOPD, 14 1/4" chh.
12 BOPD 4 hrs.	
11/10/57 PG 6930' Perf. G272'-82' G253'-59'	
G216'-32' G197'-G207' G193'-41' Treat	
w/5000 gal. Pol. Fluid 63 BOPD, 22 1/4" chh.	
TP: 100# OP: 475# GOR: 1048	
TP - Belcher #1	Sch. - McCallister #1

Comp. 1-19-20 Elev. 3354. 7" @ G411' Originally	Comp. 8-22-53 Elev. 3353. Perf. G170'-G210'
Run back in 11/30/45. G + G411' - 7597'	Treat w/20,000 gal. + 50' w/10,000 gal. +
Tull PBG 279' Perf. G129'-G134' G140'-G163'	10,000# Pol. Fluid 70 BOPD 20 1/4" chh.
G190'-G210' Treat w/100 gal. + 50' w/20,000	TP: 850#
gal. + 20,000# Pol. Fluid. 63 BOPD, 24 1/4"	
TP: 850# GOR: 2150	
Blindlug	
Treat - Lockhart NCT-1 #2	Treat - Lockhart NCT-1 #5

Dinbard Oil.

NE SE 12

Gulf-Saunders #1 SW 3E 7

Cum. 1-1-66: 58,938

Pemrose-Hinton #9

Cum. 1-1-66: 22,137

Jan. 66
Feb.
Mar.
Apr.
May
June
July
Total
Avg.
Cum. 8-1-66

Allow	Oil	Gas	Water	Allow	Oil	Gas	Water
186	188	636	-	93	108	-	-
168	174	652	-	84	78	-	-
186	185	726	-	93	71	-	-
180	179	684	-	90	76	-	-
186	185	571	-	93	87	-	-
180	178	720	-	90	69	-	-
186	171	802	-	93	59	-	-
	1260	4791			548		
	180	684			78		
	60,198				22,685		

NW NE 18

NF NW 18

Texas-Luchhart NCT-1 #7

Cum. 1-1-66: 59,580

Texas-Luchhart NCT-1 #5

Cum. 1-1-66: 59,304

Jan. 66
Feb.
Mar.
Apr.
May
June
July
Total
Avg.
Cum. 8-1-66

Allow	Oil	Gas	Water	Allow	Oil	Gas	Water
124	123	1083	3	186	182	1580	-
117	101	920	2	168	145	1304	-
124	94	940	2	186	148	1460	-
120	97	931	2	180	134	1269	-
124	94	820	2	186	142	1221	-
120	103	707	5	180	133	457	3
93	91	500	30	186	153	421	-
	703	5901			1037	7712	
	100	843			148	1102	
	60,283				60,341		

Est. Per Well Recovery of Above Wells: 70,000 Bbls.
API = 3250 Bbls./Acre or 130,000 Bbls. (Rec. to Date)

330' FSL + 2310' F EL of Sec. 7 Comp. 11-24-54. Elev. 3362'
 13 3/4" @ 335' w/ 400 8 5/8" @ 2400' w/ 650 5 1/2" @ TD 7158' w/ 250
 Prof. Dinkard: G 13' 20' G 34' 64' 7000' 18' 7054' - 76'
 7100' - 24' + 7138' 45' Treat w/ 500 gals. Subd. KO. fluid.
 187 BO/GZ h. 3/4" TP: 50# Acidize 7083-7145 w/ 1000
 gals. Acidize 7054' - 76' w/ 500 gals. Acidize 7000' - 18'
 w/ 1,000 gals. Acidize G 13' - 64' w/ 1000 gals. Fluid.
 100 BO + 21 BA w/ 14 h. 3 3/4" Fluid G5 BOPD on 3/4"
 Retreat 3,000 gals. entire section. Fluid 170 BOPD,
 1/2" ch. TP: 80# GOR-1978.
 Tops: Anhyd. 1400' (+1962')
 Queen 3390' (- 28')
 Penrose 3507' (- 145')
 San And 3959' (- 597')
 Glorieta 5296' (- 1934')
 Tubb 6250' (- 2888')
 Dinkard 6497' (- 3135')

Comp. 11-24-46. Elev. 3343' DF TD GSG
 5 1/2" @ 6345' DST 5140' - 5212' Gnd
 Rec. 180' O. GCM. Treat OH w/ 6000 gals.
 Subd. - fluid by leads 55 BOPD - fluid
 30 BOPD. Retreat 10,000 gals. Fluid 25 B
 h. - fluid PB 5241' Prof. 5221' - 4' Tre
 w/ 5000 gals. Subd. 5 BFP 1/6 h. w/ 7
 SW Sogd. Prof. 5161' - 2' Treat 1000 g
 Subd. G BFP 1/6 h. - 55% SW. Sogd.
 5224' - 30' Treat 500 gals. Subd. 135
 for 42 h. w/ trace of oil. Pot.: Fluid
 10 BOPD on 1/2" ch. w/ 2" log @ GSGO

Quib - Saunders #1

Penrose - Hinton #9

Comp. 3-3-54. Elev. 3362' DF TD 7130'
 5 1/2" @ 6840' Treat OH w/ 2500 gals. Pot.
 Fluid. 204 BOPD, 1 3/4" ch. TP: 250#
 GOR: 226, Q. 21.80
 Yates 2640' (+ 722')
 SA 4073' (- 711')
 Glorieta 5245' (- 1893')
 Tubb 6273' (- 2911')

Comp. 8-22-53. Elev. 3353' DF TD 7110'
 5 1/2" @ 6840' Treat OH w/ 5500 gals. Pot.
 Fluid. 290 BOPD, 2 3/4" ch. Q. 39.64 TP: 100#
 GOR: 1,008
 Yates 2599' (+ 765') Tubb 6150' (+ 2797')
 SA 4015' (- 662') Dinkard 6640' (+ 3287')
 Glorieta 5175' (- 1822')

SOT 12-29-58 w/ 20,000 gals. + 20,000# Suc.
 5 BOPD to 22 BOPD

Tecoco - Lockhart NCT-1 #2

Tecoco - Lockhart NCT- #5

Dual Tubingless - Paddock and Blinbury

	Dry Hole	Producer
<u>Drilling Costs</u>		
6000' @ \$4.50 per ft.	\$ 27,000	\$ 27,000
Day Work, WDP	3,000	3,000
, WODP		1,000
Total Drilling Costs	\$ 30,000	\$ 31,000
<u>Intangible Costs</u>		
Location + Access	\$ 500	\$ 500
Drilling Mud	4,500	4,500
Trucking	250	350
Eq. Accessories	400	750
Cement + Services	1,500	3,200
Rental - Tanks, tbg. tanks etc.	400	1,000
Logging	1,800	1,800
Perforating		1,200
Treating		10,000
Coring and analyses	2,000	2,000
Swabbing + completion unit		2,000
Labor + Supervision	250	1,000
Total Intangible Costs	\$ 11,600	\$ 28,300
Total Drilg. + Intang. Costs	\$ 41,600	\$ 59,300
<u>Tangible Costs:</u>		
1400' of 2-5/8" @ \$328/100'	\$ 4,600	\$ 4,600
11500' of 2 1/2" tbg. @ \$95/100'		11,000
2000' of 2" line pipe		800
Well head + connections		3,500
LACT Unit per well		3,500
Total Tangible Costs	\$ 4,600	\$ 23,400
Cost of Dry Hole	\$ 46,200	\$ 82,700
Cost of Producer		↓

Dual Tubingless - Tubb and Drinkard

	Dry Hole	Producer
<u>Drilling Costs</u>		
7100' @ \$4.50 per ft.	\$ 31,950	\$ 31,950
Day Work, WDP	3,000	3,000
" " WDP		1,000
Total Drilling Costs	\$ 34,950	\$ 35,950
<u>Intangible Costs</u>		
Location + Access	\$ 500	\$ 500
Drilling Mud	5,000	5,000
Trucking	250	350
Eq. Accessories	400	750
Cement + Services	1,500	3,500
Rental - Tanks, tbg. tong. etc.	400	1,000
Logging	2,000	2,000
Perforating		1,200
Treating		10,000
Coring and analyses	2,000	2,000
Swabbing + completion unit		2,000
Labor and Supervision	250	1,000
Total Intangible Costs	\$ 12,300	\$ 29,300
Total Drilg. + Intang. Costs	\$ 47,250	\$ 65,250
<u>Tangible Costs</u>		
1400' of 7-5/8" @ \$328/100'	\$ 4,600	\$ 4,600
13000' of 2-1/2" Tbg. @ \$95/100'		12,400
2000' of 2" line pipe		800
Well head + connections		3,500
LACT Unit per well		3,500
Total Tangible Costs	\$ 4,600	\$ 24,800
Cost of Dry Hole	\$ 51,850	
Cost of Producer		\$ 90,050

Economics - Paddock and Blinbury

Reserves: Paddock: 80,000 Bbls.

Blinbury: 60,000 "

Top Allowable: 62 BOPD

Op. 37° = \$2.89/Bbl. (Som)

Op. 41° = \$2.95/Bbl. (Som)

Paddock: 15 BOPD and 17 MCFPD

$$15 \times 0.345 \times 30.4 \times \$2.25 = \$354$$

$$17 \times 0.345 \times 30.4 \times 7¢ = \$12$$

\$366

\$867/Mo.

Blinbury: 15 BOPD and 200 MCFPD

$$15 \times 0.345 \times 30.4 \times \$2.25 = \$354$$

$$200 \times 0.345 \times 30.4 \times 7¢ = \$147$$

\$501

$$\$41,350 / \$867 = 47.6 \text{ mos. est. pay-out}$$

$$140,000 \times 0.345 \times \$2.25 = \$108,500$$

$$\$108,500 / \$41,350 = 2.63 \text{ to } 1, \text{ Ratio of Income to Investment}$$

Economics - Tubb and Dunbar

Reserves: Tubb : 55,000 Bbls.

Dunbar: 70,000 "

Op. 38° = \$2.91/Bbl. (Som)

Op. 40° = \$2.95/Bbl. (Som)

Tubb : 15 BOPD and 130 MCFPD

$$15 \times 0.345 \times 30.4 \times \$2.25 = \$354$$

$$130 \times 0.345 \times 30.4 \times 7¢ = \$95$$

\$449

\$821/Mo.

Dunbar: 15 BOPD and 25 MCFPD

$$15 \times 0.345 \times 30.4 \times \$2.25 = \$354$$

$$25 \times 0.345 \times 30.4 \times 7¢ = \$18$$

\$372

$$\$45,025 / \$821 = 54.8 \text{ mos. est. pay out}$$

$$125,000 \times 0.345 \times \$2.25 = \$98,000$$

$$\$98,000 / \$45,025 = 2.15 \text{ to } 1, \text{ Ratio of Income to Investment}$$

Ratio of Income to Investment on all Four Zones:

$$\$206,500 / \$86,375 = 2.39 \text{ to } 1$$

BEFORE EXAMINER NUTTER

OIL CONSERVATION COMMISSION

APPL EXHIBIT NO. 3
CASE NO. 3543

August 21, 1965

Mr. McCain
Giddon Lane Building
610 Marshall
Shreveport, Louisiana

Re: J. T. Belcher Lease,
Lea County, New
Mexico

Dear Mr. McCain:

In line with our telephone conversation yesterday, I hereby submit the following farm-out proposal for consideration by the Bauerdorf Estate and W. P. Prentiss for their 50% Working Interest in the subject lease:

AREA: Paddock, Blinebry, Tubb and Drinkard Pools.

ACREAGE: S/2 SW/4 and NE/4 SW/4 of Section 7,
T-22-S, R-36-E, Lea County, New Mexico;
totalling 120 acres.

BAUERDORF AND PRENTISS TO RETAIN: A 1/16th of
8/8ths overriding royalty throughout the
producing life of the lease, reduced pro-
portionately according to the working
interest.

LOCATION OF INITIAL WELL: SW/4 SW/4 of Section 7.

DEPTH OF INITIAL WELL: Approximately 7100' or
adequate to test the Drinkard formation
with rights requested to 100' below total
depth.

COMMENCEMENT OF INITIAL WELL: Within 90 days
after receiving farm-out letter or reason-
able amount of time to work-out arrange-
ments with Texas Pacific Oil Company,
whichever is less.

CONTINUOUS DEVELOPMENT: Yes. 90 days between
wells or as per arrangements with Texas
Pacific Oil Company.

WELL DENSITY: Per field rules.

Page 2
Mr. McCain

PENALTY FOR NON-PERFORMANCE: Reassignment of all
undrilled acreage.

Mr. Chandler and myself would like to offer a larger over-ride but as you can see, the offer made leaves only a 75% Net Revenue Interest and this is a minimum on which we can afford to develop the lease. Every effort will be made to drill the initial well as soon as possible and to have as short a period of time as possible between the drilling of the wells.

Very truly yours,

John Xuronka

BEFORE EX.	NOTARY PUBLIC
CONCERN	IN
CASE NO.	3545

JOHN YURONKA
CONSULTING PETROLEUM ENGINEER
120-C CENTRAL BUILDING
MIDLAND, TEXAS

OFFICE MU 4-6223
RESIDENCE OX 4-7149
AREA CODE 915

June 23, 1966

Mr. M. F. McCain
730 Lane Building
Shreveport, Louisiana 71101

Re: S/2 SW/4 and NE/4 SW/4 of Section
7, Township 22 South, Range 38 East
Lea County, New Mexico

Dear Mr. McCain:

We refer to the captioned acreage and our previous correspondence concerning the Paddock, Blinebry, Tubb and Drinkard Pools.

The following outlines our agreement with respect thereto:

The Bauerdorf Estate and W. P. Prentiss have agreed to farm out their aggregate working interests of one-half (subject to existing overriding royalties which are represented but not warranted to equal $1/2 \times 1/16th \times 8/8ths$ and reserving to themselves, in their respective proportions of ownership, a $3/64th \times 8/8ths$ overriding royalty) upon the following terms and conditions:

1. We shall drill or cause to be drilled a well located in the SW/4 of SW/4 of Section 7, T-22S, R-38E, Lea County which shall be commenced by October 1, 1966 and shall be continued with due diligence to a depth sufficient to test the Drinkard Formation or 100 feet below total depth of 7100 feet, whichever is the lesser depth.
2. We shall make such tests of the Paddock, Blinebry, Tubb and Drinkard Formations as would be made by a normally prudent operator, based upon indications of samples, cores and electric logs taken in the well.
3. We shall send daily drilling reports to the Bauerdorf Estate, 9363 Wilshire Blvd., Los Angeles, California, 90020, and W. P. Prentiss, 730 Lane Building, Shreveport, Louisiana, 71101, concerning the progress of this well.
4. We shall protect and defend the Bauerdorf Estate and W. P. Prentiss against, indemnify and save them harmless, from all liability, claims, demands and causes of action arising out of the execution and performance of work under this agreement. This indemnity agreement shall be insured by the actual operator of the well.

EX-11-1-66

5. All work under this agreement shall be performed in accordance with applicable laws, rules and regulations.
6. The Bauerdorf Estate and W. P. Prentiss are to be allowed access to each derrick floor at all times and will be supplied with one copy of all logs and reports concerning this well and all subsequent wells drilled under this agreement.
7. If and when we shall have drilled the well aforesaid in accordance with the foregoing and shall complete the same as a producer of oil in accordance with all applicable regulations and shall have furnished the Bauerdorf Estate and W. P. Prentiss satisfactory evidence thereof, they shall assign to us, without warranty, their working interest in the SW/4 of the SW/4 of Section 7, T-22S, R-38E, Lea County, New Mexico, subject to the terms and conditions hereafter mentioned.

3/64/78

The assignment shall be made subject to all overriding royalties now affecting the said working interest and the Bauerdorf Estate and W. P. Prentiss, in addition, shall reserve unto themselves $3/64$ ths x $8/8$ ths overriding royalty in oil, gas and other minerals which may be produced from said lands, which overriding royalty shall not be diminished in any event.

The working interest assigned shall be limited to 7200 feet or to the base of the Drinkard Formation, whichever is the lesser depth.

If the well aforesaid is completed as a well classified and subject to regulations as a gas well, said assignment shall cover and affect gas and gas rights only and shall be confined to the stratum or strata in which the well is completed but shall extend to all three 40-acre tracts described in the caption hereof. In such event, we shall have permission to communitize any undrilled acreage in the SW/4 of Section 7, T-22S, R-38E, Lea County, New Mexico, for a 160-acre gas proration unit on usual terms of participation as to, but only as to, the particular formation or formations proved productive of gas in said well.

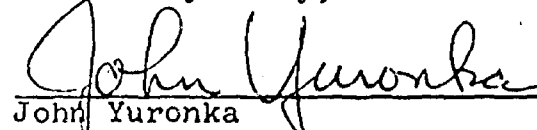
Page -3- Mr. M. F. McCain

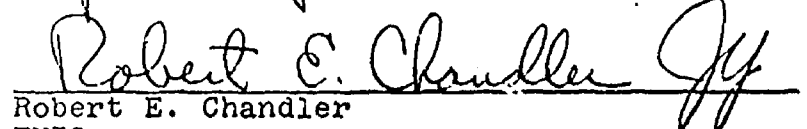
Rights not earned in the SW/4 of SW/4 of said Section 7 by such gas well completion, may be earned by oil producers subsequently drilled and completed in the manner above provided for the first well.

8. In like manner and under like circumstances and conditions the other two 40-acre tracts described in the caption hereof will be drilled, with a well to be commenced upon a second tract within 90 days after completion of the well on the SW/4 of the SW/4 of said Section 7 as a producer and a well to be commenced on the third tract within 90 days from completion of the well on the second tract as a producer. We may designate which shall be the second and third tracts. All other terms and conditions applicable to the well to be drilled on the SW/4 of the SW/4 of Section 7 shall apply to the wells to be drilled on the other tracts. Assignments of rights as to each tract shall be earned and made upon the same bases as specified in paragraph 7 for the SW/4 of the SW/4 of Section 7.
9. We request permission to assign certain working interests, rights and obligations to third parties who shall bear their proportionate share of the obligations and liabilities arising from this agreement. Executed copies of these assignments will be made available to the Bauerdorf Estate and to W. P. Prentiss.

If the foregoing sets forth your understanding of our agreement, please have the Bauerdorf Estate representatives and W. P. Prentiss sign attached copies of this letter in the space provided and return one to this office.

Yours very truly,


John Yuronka


Robert E. Chandler

AGREED TO AND ACCEPTED THIS
23 DAY OF June, 1966.


W. P. Prentiss

Page -4- Mr. M. F. McCain

AGREED TO AND ACCEPTED THIS
25th DAY OF July, 1966.

BAUERDORF ESTATE

Thelma Bauerdorf
Mrs. Thelma Bauerdorf

AGREED TO AND ACCEPTED THIS
21st DAY OF July, 1966.

BAUERDORF ESTATE

Constance Cartwright
Mrs. Constance Cartwright

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Appl EXHIBIT NO. 5
CASE NO. 3545

JOHN YURONKA
CONSULTING PETROLEUM ENGINEER
120-C CENTRAL BUILDING
MIDLAND, TEXAS

OFFICE MU 4-6223
RESIDENCE OX 4-7149
AREA CODE 915

February 24, 1967

Mr. M. F. McCain
730 Lane Building
Shreveport, Louisiana 71101

Re: S/2 SW/4 and NE/4 SW/4 of
Section 7, T-22-S, R-38-E,
Lea County, New Mexico

Dear Mr. McCain:

Confirming our discussion by telephone yesterday, Mr. Chandler and myself are hereby submitting the following amendments to the farmout agreement previously granted on the captioned acreage:

- (1). We shall drill or cause to be drilled, a well - hereafter called initial well - located in the SW/4 SW/4 of Section 7, T-22-S, R-38-E, Lea County, New Mexico, which shall be drilled with due diligence to a depth sufficient to test the Drinkard Formation or to a depth of 7400', whichever is the lesser depth.

- (7). Third paragraph.

The working interest assigned shall be limited to a depth of 7400' or to the base of the Drinkard Formation, whichever is the lesser depth.

This agreement shall amend our original previous agreement herein above referred to so that we agree to commence an initial well on or before 120 days after either (a) the date on which we accept title or (b) the date on which we receive a favorable order on our forced-pooling hearing, whichever of (a) or (b) is the later date. We agree that title will be acceptable to us on the date that Requirement No. 1 in the title opinion of Stanley B. Catlett dated December 8, 1966, and addressed to Cornell Oil Company is satisfied in the opinion of our attorney.

It is understood and agreed that we shall, in conjunction with the rights granted to us under the terms of the farmout agree-

Page 2
Mr. M. F. McCain

ment, proceed with a request for a hearing before the New Mexico Oil Conservation Commission for forced-pooling of the mineral leasehold interests owned by Texas Pacific Oil Company under the above-captioned land. We will keep you informed of all developments in this regard as they occur.

In consideration of the amendments to our original farmout agreement as herein set forth, we agree to pay a forfeit of \$500.00 to W. P. Prentiss and \$4500.00 to the G. F. Bauerdorf Estate if operations to commence the initial well are not started within the time herein above provided.

If the foregoing sets forth your understanding of our agreement, please have the Bauerdorf Estate representatives and W. P. Prentiss sign copies of this letter and return one to this office.

Yours very truly,

John Yuronka
John Yuronka

Robert E. Chandler
Robert E. Chandler

AGREED AND ACCEPTED THIS
9 DAY OF March, 1967.

W. P. Prentiss
W. P. Prentiss

AGREED AND ACCEPTED THIS
21st DAY OF March, 1967.

ESTATE OF G. F. BAUERDORF

Mrs. Thelma Bauerdorf
Mrs. Thelma Bauerdorf

AGREED AND ACCEPTED THIS
17th DAY OF March, 1967.

ESTATE OF G. F. BAUERDORF

Mrs. Constance B. Cartwright
Mrs. Constance B. Cartwright

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
7-44-1	EXHIBIT NO. 6
CASE NO. 3545	

September 12, 1966

Mr. Frank A. Bolen
Texas Pacific Oil Company
P. O. Box 4067
Midland, Texas

Dear Mr. Bolen:

Please consider this letter as a formal request for a farmout of the oil, gas and casinghead gas rights under the following described leasehold, to-wit:

AREA: Paddock, Blinbry, Tubb and Drinkard Pools

ACREAGE: S/2 SW/4 and NE/4 SW/4 of Section 7,
T-22-S, R-38-E, Lea County, New Mexico,
totalling 120 acres.

TEXAS PACIFIC OIL COMPANY TO RETAIN:

1. Assuming only a 1/8th royalty and a 1/16th of 8/8ths overriding royalty with a resulting 81.25% Net Revenue Interest, a 3/32nds of 8/8ths overriding royalty, reduced proportionally according to the working interest. This would result in a 71.875% Net Revenue Interest Lease for the 50% Working Interest.

I AGREE AS FOLLOWS:

1. To drill or cause to be drilled, a well to thoroughly test the formations mentioned above to an approximate depth of 7100'.
2. Location of Initial Well: SW/4 SW/4 of Section 7.
3. Commencement Date: Within 60 days after final execution of the farmout agreement but in no event later than December 1, 1966.

Mr. Frank A. Bolon
Page 2

4. Assignment of Acreage: Within 30 days after commercial production has been established.
5. Continuous Development: Yes, 90 days between wells.
6. Well Density: Per Field Rules.
7. Depth To Be Assigned: 100' below total depth drilled or to 7200', whichever is the lesser depth.
8. Penalty For Non-Performance: Re-assignment of all undrilled acreage.

Thank you for your fullest consideration and your prompt attention to this matter.

Very truly yours,

John Yuronka

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 441
CASE NO. 3545

SIDNEY E. GLENN
1214 Petroloma Life Building
Midland, Texas 79701

April 1, 1967

Mr. John Yuronka and Robert E. Chandler
120 Central Building
Midland, Texas 79701

Dear John and Bob:

I am outlining below the events as they occurred regarding negotiations with Texas Pacific Oil Company commencing on or about October 6, 1966, for an operating agreement on the Belcher Lease covering the S/2 SW/4 and the NE/4 SW/4 of Section 7, Township 22 South, Range 38 East, Lea County, New Mexico.

I, Sidney E. Glenn, representing the Fundamental Oil Company, indicated tentative acceptance of the drilling prospect pending negotiations with Texas Pacific on the above-mentioned operating agreement and requested that you arrange a meeting for myself and Mr. Charles Woolfolk with Mr. Frank A. Bolen, the Texas Pacific Landman in their Midland Office. Mr. Bolen indicated TP's desire to operate the lease and quoted a price of \$500.00 for the supervision of drilling operations and \$100.00 per month per well bore for administrative overhead plus direct expenses for operations. I countered with the same proposal except that the administrative overhead would be \$65.00 per month per well bore. Mr. Bolen said that TP would insist on operations and a compromise figure of \$82.50 per month per well bore was reached pending the approval of my management. A day or two later, Mr. Bolen called to inform me that the \$82.50 per month administrative overhead was per producing zone in a well and each company could operate for a two year period if so desired. I felt that we could not proceed on this basis and so declined the prospect.

During the conversation with Mr. Bolen, he indicated Texas Pacific's desire to go to 7300 feet to look at the possible productivity of the Granite Wash formation. Further, if this were so, they would want to run casing to that depth and attempt to negotiate some type of agreement with W. P. Prentiss and the Bauerdorf Estate on these rights but not to attempt a completion at that time. TP agreed to pay all costs for this additional drilling below the rights allotted in the farm-out agreement and present Fundamental with a satisfactory well bore for completion in any of the desired zones above. This was deemed acceptable since no completion would be attempted in the Granite Wash in the initial well.

If I can be of any further assistance, please contact me.

Very truly yours,

Sidney E. Glenn
Sidney E. Glenn

SPEED MESSAGE

TO <u>Mr. R. Brackbill</u> <u>Texas Pacific Oil Company</u> <u>2700 Fidelity Union Tower</u> <u>Dallas, Texas</u>	FROM <u>Bob Chandler</u> <u>120 Central Building</u> <u>Midland, Texas</u>
---	---

SUBJECT Belcher Prospect

DATE 10/12/66 1966

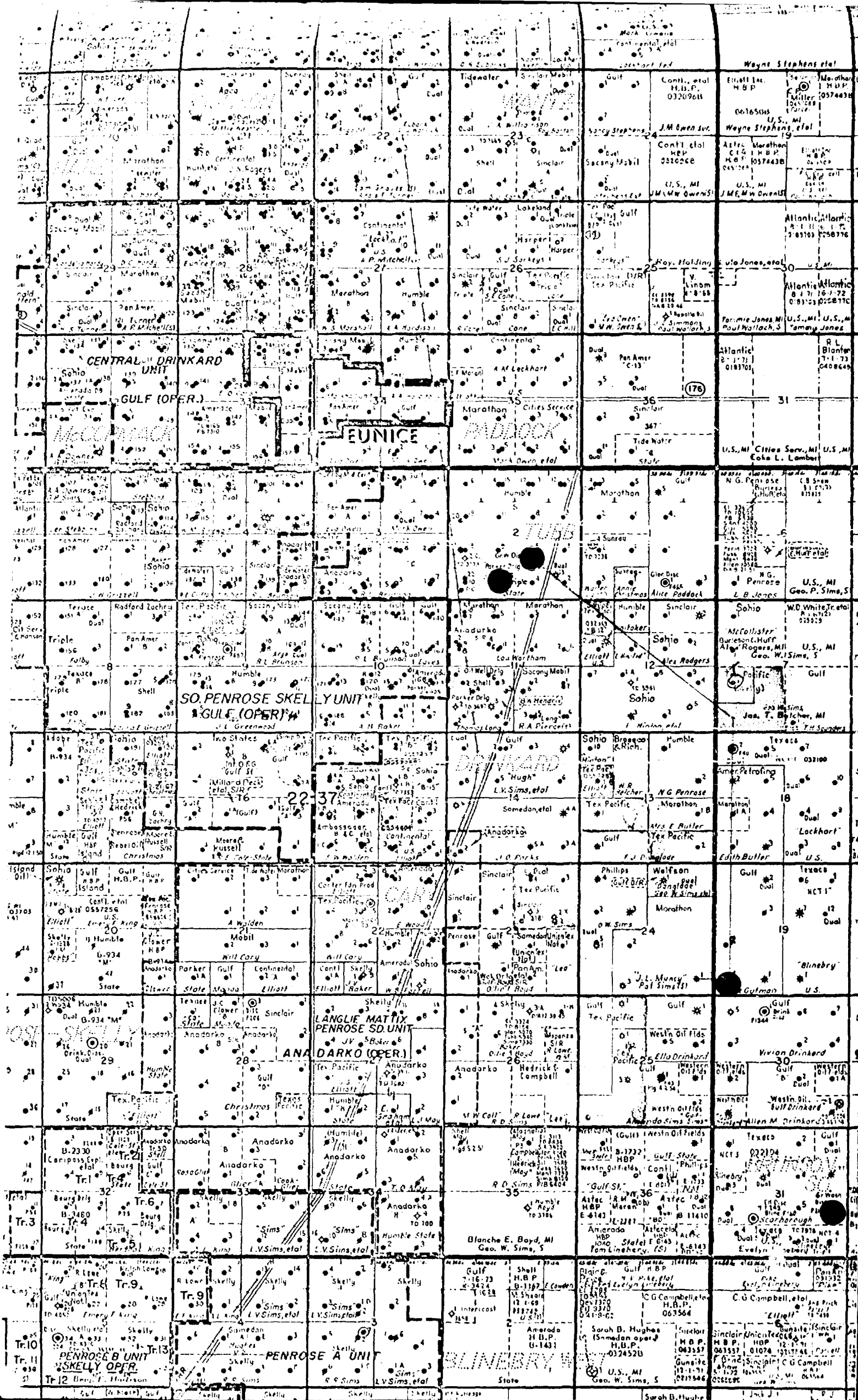
Dear Mr. Brackbill:

More developments on the above: We have lost Fundamental for the deal. As near as we can determine from Mr. Sidney Glenn, Fundamental's representative in Midland, in the Kattix meeting in Mr. Frank Bolen's office with Mr. Glenn, TP stated and operated overhead of 100 dollars per well bore for administrative overhead. Mr. Glenn offered to operate for \$65 per well bore per month or agreed to a figure of \$65 per month if TP wanted to operate. In a couple of days, Frank Bolen called Mr. Glenn and offered a compromise figure of \$82.50 per well bore. Mr. Glenn said O.K. we have a deal and then called his boss in California to advise him of the deal made. Later the same day or next day Frank Bolen called Mr. Glenn and said sorry, the 82.50 was per completion zone, or for a dual, double the figure previously quoted and accepted. That is when I called you. I went back to Mr. Glenn and said sorry, that is TP's only deal. He then called his boss who said to hell with it, they have changed their minds three times already and this is just a forerunner of what would happen if we operate with them. I think this deal is so out of hand now that all we can do is start immediately to try to find you folks another partner.

I am convinced nobody in your land department is conscious trying to sabotage this deal, but I think to avoid misunderstandings if we find someone who will go on the deal we have discussed and agreed to for Fundamental we will immediately put their head man in touch with you and try to get a deal between your two company's settled before going to the paper work. Besides, I feel that you are very persuasive regards explaining why the 82.50 is a good deal. I don't anticipate too much trouble with it provided we are talking about it from the start. We have a number of company's who are qualified operators who we believe will be interested in being your partners, particularly since though reluctantly are willing to provide for exchange of operators if desired every two year period. Maybe we can get someone on the dotted line with you yet.

Grayline "SNAP-A-WAY" FORM 44-900 2-PARTS
WILSON JONES COMPANY © 1961 PRINTED IN U.S.A.

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
EXHIBIT NO. <u>8</u>	
CASE NO. <u>3545</u>	





MABEE PETROLEUM CORP.
1916 First Natl. Bldg.,
Tulsa Oklahoma 74103

August 23, 1976

file
Case 3545

In Re: Belcher #1 (NMOCO #R-3263-A)
Belcher "A" (NMOCO #R-3388)

Case
3545

Examiner
Antler

New Mexico Oil Conservation Commission
P. O. Box 3088
Santa Fe, New Mexico 87501

Gentlemen:

We are enclosing herewith copies of Joint Account Statements reflecting the payout status on the above captioned orders. Also enclosed find copy of letter to Tesoro Petroleum Corporation advising of the payout of the Belcher #1.

These statements are for the period April, 1975 through June, 1976.

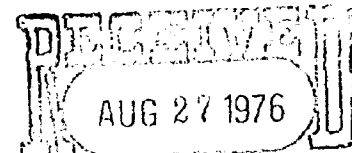
We trust you will find this information satisfactory.

Yours very truly,

C. Arnold Brown

C. Arnold Brown,
President

MI
Encls.



OIL CONSERVATION COMM.
Santa Fe

Joint Account Statement

Belcher #1 (MMOCCO No. R-3263-A)

Date April & May, 1975

Case 3545

Balance

Well Costs

\$ 148,781.34

Operating Costs

\$ 41,456.70

April, 1975

641.49

May, 1975

664.26

42,762.45

TOTAL

\$ 191,543.79

Plus 35%

67,040.33

258,584.12

TEXAS PACIFIC - 50% Working Interest

\$ 129,292.06

Value of Oil Runs

(After taxes & trucking)

\$ 257,407.77

March, 1975

7,259.21

April, 1975

4,934.97

\$ 269,601.95

TEXAS PACIFIC - 40.625%

\$ 109,525.79

Net Deficit

19,766.27

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date June, 1975

Balance

Well Costs

\$ 148,781.34

Operating Costs
June, 1975

\$ 42,762.45
614.55

43,377.00

TOTAL
Plus 35%

\$ 192,158.34
67,255.42
259,413.76

TEXAS PACIFIC - 50% Working Interest

\$ 129,706.88

Value of Oil Runs
(After taxes & trucking)
May, 1975

\$ 269,601.95
4,413.07

\$ 274,015.02

TEXAS PACIFIC - 40.625%

\$ 111,318.60

Net Deficit

18,388.28

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date July, & August, 1975

Balance

Well Costs

\$ 148,781.34

Operating Costs

\$43,377.00

July, 1975

853.34

August, 1975

674.53

44,604.87

TOTAL

\$ 193,386.21

Plus 35%

67,685.17

261,071.38

TEXAS PACIFIC - 50% Working Interest

\$ 130,535.69

Value of Oil Runs

(After taxes & trucking)

\$ 274,015.02

June, 1975

3,861.59

July, 1975

4,961.53

\$ 282,838.12

TEXAS PACIFIC - 40.625%

\$ 114,902.98

Net Deficit

15,632.71

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date September, 1975

Balance

Well Costs

\$ 148,781.34

Operating Costs
September, 1975

\$ 44,604.87
1,597.69

46,202.56

TOTAL
Plus 35%

\$ 194,983.90
68,244.37
263,228.27

TEXAS PACIFIC - 50% Working Interest

\$ 131,614.14

Value of Oil Runs
(After taxes & trucking)
August, 1975

\$ 282,838.12
3,296.65

\$ 286,134.77

TEXAS PACIFIC - 40.625%

\$ 116,242.25

Net Deficit

15,371.89

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date October & November, 1975

Balance

\$ 148,781.34

Well Costs

Operating Costs
October, 1975
November, 1975

\$ 46,202.56
621.40
000 68

47,814.64

TOTAL
Plus 35%

\$ 196,595.98
68,808.59
265,404.57

TEXAS PACIFIC - 50% Working Interest

\$ 132,702.28

Value of Oil Runs
(After taxes & trucking)
September, 1975
October, 1975

\$ 286,134.77
3,318.18
3,984.53

\$ 293,437.48

TEXAS PACIFIC - 40.625%

\$ 119,208.98

Net Deficit

13,493.30

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date December, 1975

		<u>Balance</u>
Well Costs		<u>\$ 148,781.34</u>
Operating Costs	\$ 47,814.64	
December, 1975	<u>405.42</u>	
		<u>48,220.06</u>
TOTAL		<u>\$ 197,001.40</u>
Plus 35%		<u>68,950.49</u>
		<u>265,951.89</u>
TEXAS PACIFIC - 50% Working Interest		<u>\$ 132,975.95</u>
Value of Oil Runs		
(After taxes & trucking)	\$ 293,437.48	
November, 1975	<u>5,846.59</u>	
		<u>\$ 299,284.07</u>
TEXAS PACIFIC - 40.625%		<u>\$ 121,584.15</u>
Net Deficit		11,391.80

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date January & February, 1976

Balance

\$ 148,781.34

Well Costs

Operating Costs	\$ 48,220.06
January, 1976	1,345.30
February, 1976	<u>510.39</u>

50,075.75

TOTAL
Plus 35%

\$ 198,857.09
<u>69,599.98</u>
<u>268,457.07</u>

TEXAS PACIFIC - 50% Working Interest

\$ 134,228.54

Value of Oil Runs	
(After taxes & trucking)	\$299,284.07
December, 1975	5,037.96
January, 1976	<u>5,529.29</u>

\$ 309,851.32

TEXAS PACIFIC - 40.625%

\$ 125,877.10

Net Deficit

8,351.44

Joint Account Statement

Belcher #1 (MOCCO No. R-3263-A)

Date March & April, 1976

Balance

Well Costs

\$ 142,791.34

Operating Costs

\$50,075.75

March, 1976

392.04

April, 1976

660.50

51,128.29

TOTAL

\$ 199,909.63

Plus 35%

69,968.37

269,878.00

TEXAS PACIFIC - 50% Working Interest

\$ 134,939.00

Value of Oil Runs

(After taxes & trucking)

\$ 309,851.32

February, 1976

4,884.96

March, 1976

5,827.94

\$ 320,564.22

TEXAS PACIFIC - 40.625%

\$ 130,229.21

Net Deficit

4,709.79

Joint Account Statement

Belcher #1 (NM0000 No. R-3263-A)

Date May, 1976

Balance

\$ 148,781.34

Well Costs

Operating Costs
May, 1976

\$ 51,128.29
542.91

51,671.20

TOTAL
Plus 35%

\$ 200,452.54
70,158.39
\$ 270,610.93

TEXAS PACIFIC - 50% Working Interest

\$ 135,305.47

Value of Oil Runs
(After taxes & trucking)
April, 1976

\$ 320,564.22
6,504.02

\$ 327,068.24

TEXAS PACIFIC - 40.625%

\$ 132,871.47

Net Deficit

2,434.00

Joint Account Statement

Belcher #1 (NMOCCO No. R-3263-A)

Date June, 1976

Balance

\$148,781.34

Well Costs

Operating Costs
June, 1976

\$ 51,671.20
401.51

52,072.71

TOTAL
Plus 35%

\$200,854.05

70,298.92

\$271,152.97

TEXAS PACIFIC - 50% Working Interest

\$ 135,576.49

Value of Oil Runs
(After taxes & trucking)
May, 1976

\$ 327,058.24
3,512.22

\$330,580.64

TEXAS PACIFIC - 40.625%

\$ 134,298.39

Net Deficit

1,278.10



MABEE PETROLEUM CORP.
1916 First Natl. Bldg.,
Tulsa Oklahoma 74103

August 18, 1976

In Re: Belcher Lease
SW/4 SW/4 Sec. 7-22S-38E
Lea County, New Mexico

Tesoro Petroleum Corporation
8520 Crownhill
San Antonio, Texas 78209

Gentlemen:

In accordance with the provisions of your division order dated February 28, 1972 covering Lease #7000, we are hereby notifying you that the 135% recovery factor has been satisfied with the June runs and the working interests and overriding royalty interests should be reduced according to the provisions of Order #B-3263 entered by the New Mexico Oil Conservation Commission in Case No. 3545.

Please prepare transfer orders for the signatures of all parties concerned.

Per our telephone conversation of this date, you have agreed to suspend July and subsequent runs until these transfer orders have been signed and returned to you.

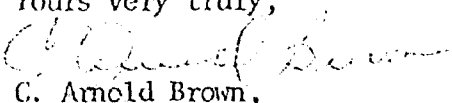
We are enclosing the following instruments which should assist you in the determination of new interests:

- 1 - Your Division Order dated February 28, 1972.
- 2 - Copy of Assignment dated January 29, 1968
- 3 - Copy of Letter Agreement between Yuronka & Chandler and Mabee Royalties, Inc. dated October 2, 1967
- 4 - Title Opinion dated February 7, 1968
- 5 - Schedule of interests - before and after payout - according to our calculations.

If there is any other information you need, please let us know.

CAB/mi

Yours very truly,


C. Arnold Brown,
President