

CASE 6271: DOYLE HARTMAN FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO

CASE NO.

6271

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.



NICK FRANKLIN
SECRETARY

July 18, 1978

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SANTA FE, NEW MEXICO 87501
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Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: CASE NO. 6271
ORDER NO. R-5769

Applicant:

Doyle Hartman

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC	x
Artesia OCC	x
Aztec OCC	

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6271
Order No. R-5769

APPLICATION OF DOYLE HARTMAN FOR
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 6, 1978,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 17th day of July, 1978, the Division
Director, having considered the testimony, the record, and
the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

(1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.

(2) That the applicant, Doyle Hartman, seeks an order
pooling all mineral interests in the Jalmat Gas Pool under-
lying the S/2 SW/4 of Section 20, Township 24 South, Range 37
East, NMPM, Lea County, New Mexico, as a non-standard Jalmat
gas proration unit, or in the alternative, all mineral
interests in the Langlie Mattix Pool underlying the SE/4 SW/4
of said Section 20 as a standard Langlie Mattix oil proration
unit.

(3) That the applicant has the right to drill and proposes
to drill a well at a standard Langlie Mattix oil well location
thereon.

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

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

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

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

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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

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

(11) That \$1500.00 per month while drilling and \$200.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled units to commence drilling of the well to which said units are dedicated on or before October 1, 1978, the order pooling said units should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Jalmat Gas Pool underlying the S/2 SW/4 of Section 20, Township 24 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a non-standard 80-acre Jalmat gas spacing and proration unit, and all mineral interests, whatever they may be, in the Langlie Mattix Pool, underlying the SE/4 SW/4 of said Section 20 are hereby pooled to form a standard 40-acre Langlie Mattix oil spacing and proration unit, with either or both of said units to be dedicated to a well to be drilled at a standard oil well location thereon.

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

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of October, 1978, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Division for good cause shown.

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

(2) That Doyle Hartman is hereby designated the operator of the subject well and units.

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

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

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

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

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

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

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$1500.00 per month while drilling and \$200.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

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

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall 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 operator shall notify the Division of the name and address of said escrow agent within 90 days from the date of this order.

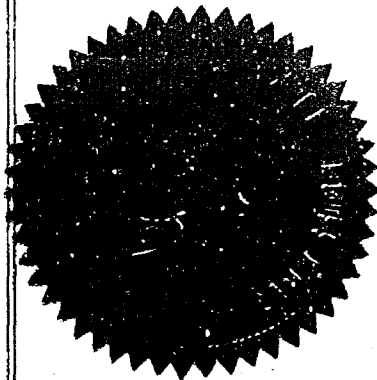
(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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Case No. 6271
Order No. R-5769

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



Joe D. Ramey
JOE D. RAMEY,
Director

dr/

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Doyle Hartman for
compulsory pooling, Lea County,
New Mexico.

CASE
6271

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Lynn Teschendorf, Esq.
Legal Counsel for the Division
State Land Office Building
Santa Fe, New Mexico 87501

For the Applicant:

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1 MR. NUTTER: Call Case Number 6271.

2 MS. TESCHENDORF: Case 6271. Application of
3 Doyle Hartman for compulsory pooling, Lea County, New
4 Mexico.

5 MR. KELLAHIN: If the Examiner please, I don't
6 believe this seriously affects the advertising in this
7 case, but the docket shows the applicant is seeking to pool
8 mineral interests in the Queen formation for a Jalmat gas
9 well and, of course, the Jalmat zone is beneath the upper
10 portion of the Seven Rivers.

11 And in addition, in the Langlie - Mattix it
12 doesn't say what formation we're talking about, but there
13 we're talking about the Lower Seven Rivers and the Queen.

14 And I just wanted to point that out, but I
15 don't believe it would require re-advertising because we
16 are talking about a Jalmat gas well and a Langlie - Mattix
17 oil well.

18 MR. NUTTER: Well, it would be the Queen
19 formation if the -- if the order is applicable to the
20 southeast southwest as a Langlie - Mattix oil well.

21 MR. KELLAHIN: That is correct.

22 MR. NUTTER: But it would be the Jalmat gas
23 pool if it's applicable to the south half of the southwest.

24 I don't think that's too fatal, do you?

25 MR. KELLAHIN: I don't feel it is, no, sir,

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1 But I wanted to point it out.

2 MR. NUTTER: Uh-huh. Okay, go ahead.

3 MR. KELLAHIN: May the record show the same
4 appearances as in the preceding case and that the two
5 witnesses have been qualified?

6
7 J. A. DAVIDSON

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

10
11 DIRECT EXAMINATION

12 BY MR. KELLAHIN:

13 Q Would you state your name, please?

14 A James A. Davidson.

15 Q Are you the same Mr. Davidson who testified
16 in the previous case?

17 A Yes, sir.

18 Q Mr. Davidson, are you familiar with the ap-
19 plication in 6271?

20 A Yes, sir.

21 Q Have you had anything to do with attempting
22 to obtain voluntary agreement in connection with this pro-
23 posed unit?

24 A Yes, sir.

25 Q What units are we talking about in this case?

1 A. Well, we're talking about the southeast quarter
2 of the southwest quarter of Section 20 if it's a Langlie -
3 Mattix well and the south half of the southwest quarter --
4 excuse me, if it's a Jalmat completion.

5 Q. Now, referring to what has been marked as the
6 Applicant's Exhibit Number One, would you identify that
7 exhibit?

8 A. Yes, sir, that's a land map and outlined with
9 a yellow hatch line is the Jalmat Unit and the solid yellow
10 would be the Langlie - Mattix.

11 Q. Now, Exhibit Number One indicates that Hartman
12 owns a portion of this tract, is that correct?

13 A. Yes, sir, Hartman owns a part interest in the
14 southwest southwest where he operates a well with Fleur (sic)
15 and he owns all the leases in the southeast southwest, ex-
16 cept these parties that are named in this application.

17 Q. So as to the south half we're only really
18 concerned with pooling the portion of the southeast of the
19 southwest, is that correct?

20 A. Yes, sir.

21 Q. Now, referring to what has been marked as
22 Exhibit Number Two, would you identify that exhibit?

23 A. Exhibit Two is a series of letters that we
24 have written to the trustees of the T. J. Horsley Estate
25 in Oklahoma that date back to November, 1977, in which we

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1 tried to get them to either lease at the rate at which we
2 paid the rest of the owners, which is \$100 per acre, 3/16ths
3 royalty, and a two-year term lease, or to participate with
4 us in the drilling of the well. We told them that we'd
5 be happy for them to go ahead and pay their way, and we've
6 never heard from either of these gentlemen and we have not
7 been able to get them on the phone. We've never had an
8 answer by phone or by letter.

9 Their interest, as this application shows, is
10 a 1/32nd.

11 Q Where did you determine that they had an in-
12 terest in this?

13 A Hartman -- you mean their address?

14 Q Yes, sir. How did you learn that they own an
15 interest in this?

16 A Okay, we -- the title is common in the south
17 half of the southwest, and we took our title opinion on
18 the southwest southwest and took it to Lea County and
19 checked it, cross checked it against the southeast of the
20 southwest.

21 Q And it is held under the will of T. J. Horsley?

22 A Yes, sir.

23 Q But you received no answer to this inquiry
24 or any of these letters?

25 A No, sir.

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1 Q Now, attached to the letters is an AFE -- no,
2 that's separate. I'm sorry, they were stuck together here.

3 Referring to Exhibit Number Three, would you
4 identify that exhibit?

5 A Exhibit Three is a series of letters that we
6 have written that are directed to what was originally an
7 interest owned by Edgar Birdsong, and it is now owned by
8 Mrs. -- 1/3 by Mrs. Ingerton, who we now have leased. We
9 have a lease from Mrs. Sally Ingerton. 1/3 is owned by
10 the Julia Granville Estate that's in trust with the First
11 National Bank in Ft. Worth, and 1/3 is the John Birdsong
12 Estate that's represented by Allen B. Conner, and we have
13 not been able to reach agreement to lease under these same
14 terms with the Granville Estate or the John Birdsong Es-
15 tate.

16 Q Now, your letters are addressed to Allen B.
17 Conner and you say he handles the Birdsong Estate.

18 A And he also represented the originally Edgar
19 Birdsong and he was in communication with the First National
20 Bank on the Julia Granville Estate. He told us to direct
21 letters and phone calls to him directly on all of it.

22 Q I see, so he was actually representing both
23 the Granville Estate and the Birdsong Estate?

24 A Yes, sir, in effect.

25 Q So you did contact him. Did you --

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1 A Yes, we talked to him on the phone and we've
2 contacted him and we've written him and to date we haven't
3 reached an agreement of any kind, to pay or farm out or
4 lease.

5 Q So the only one you did get was the Ingerton?

6 A Yes, we have a lease from Mrs. Sally Holt
7 Ingerton.

8 Q Now I refer you to Exhibit Number Four.
9 Would you identify that exhibit?

10 A Four is the letter we recently wrote to these
11 unleased parties and enclosed an AFE and asked them -- and
12 told them that we'd send an operating agreement if they'd
13 agree to pay their way with us.

14 Q Now did you get any response from that?

15 A We got a phone call from Mr. Conner and he
16 stated he was still trying to straighten out and get us an
17 answer on the John Birdsong Estate. That's all, we didn't
18 hear from him any more.

19 So basically we have not had any agreement
20 out of this.

21 Q And what interest do they own in this?

22 A Well, the T. J. Horsley Estate owns 1/32nd.
23 These are unleased mineral interests in the southeast of
24 the southwest.

25 Mrs. Ingerton has leased to us, so we won't

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1 worry about her.

2 The Julia Granville Estate owns a 1/48th and
3 the John Birdsong Estate owns a 1/48th.

4 MR. NUTTER: Now that's in the 40-acres only,
5 right?

6 A. Yes, sir. They own in the whole 80 but we
7 have a lease on the other side.

8 MR. NUTTER: Right.

9 A. So just in this 40 is where they're unleased.

10 Q. (Mr. Kellahin continuing.) So their interest
11 in the 80-acre tract would be cut in half.

12 A. No, their interest in the 80 would be the same
13 if we made a Jalmat Well, because the title is common, but
14 it's leased in the southwest southwest, unleased in the
15 southeast southwest.

16 Q. So their interest would be the same under
17 either -- in either pool?

18 A. Yes, sir.

19 Q. Were Exhibits One through Four prepared by
20 you?

21 A. Yes, sir.

22 Q. Except the AFE?

23 A. Mr. Hartman prepared the AFE, yes, sir.

24 MR. KELLAHIN: At this time I'd like to offer
25 Exhibits One through Four, inclusive.

1 MR. NUTTER: Applicant's Exhibits One through
2 Four will be admitted in evidence.

3 MR. KELLAHIN: That's all I have from this
4 witness.

5
6 CROSS EXAMINATION

7 BY MR. NUTTER:

8 Q Now, these are all working interest owners,
9 aren't they, Mr. Davidson?

10 A These are unleased mineral owners who would
11 either be working interest owners if they remained unleased
12 or they would become lessees if they lease, but they at
13 this moment are in the position of being working interest
14 owners.

15 Q And royalty owners.

16 A Yes, sir, they have dual capacity.

17 Q Now, when you cleared up the title over here
18 in the southwest southeast were you able to obtain leases
19 from all these estates, and so forth?

20 A Well, sir, we didn't do that work. Fleur Oil
21 and Gas leased that interest and they turned it over to
22 Mr. Hartman to operate. They didn't want to operate and
23 they gave him an interest in it to operate, and at that time
24 Wiser Oil Company had a very small producer on this other
25 tract, and then subsequent to that time it came to our at-

1 tention that Wiser's well was dead and has now been plugged,
2 so we then set out ourselves to lease this southeast south-
3 west.

4 Q. But Fleur had obtained leases from all these
5 people?

6 A. Yes, sir, Fleur obtained leases from all of
7 them.

8 Q. On that 40-acre tract?

9 A. Yes, sir.

10 Q. Now, what -- do you have another witness in
11 this case?

12 MR. KELLAHIN: Yes, I do.

13 MR. NUTTER: Is Mr. Hartman going to testify
14 again?

15 MR. KELLAHIN: Yes, sir.

16 MR. NUTTER: That will be on the risk and so
17 forth?

18 MR. KELLAHIN: Yes.

19 MR. NUTTER: Are there any other questions of
20 Mr. Davidson? He may be excused.

21
22 DOYLE HARTMAN

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

25

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Would you state your name, please?

A. Yes. Doyle Hartman.

Q. Are you the same Mr. Hartman who testified in the previous hearing and were sworn?

A. That is correct.

Q. Mr. Hartman, are you familiar with the application in 6271?

A. Yes, I am.

Q. Are you the operator or the proposed operator of the pool?

A. Yes, sir.

Q. What do you propose to do?

A. We propose to compulsory pool the unleased mineral interests located in the southeast quarter of the southwest quarter of Section 20, Township 24 South, Range 37 East, Lea County, New Mexico.

Q. Now, you propose to drill possibly one well or two wells or --

A. Actually, at this time we're really proposing to drill one well and that well is to be located in the southeast quarter of the southwest quarter. Our proposed location is 330 feet from the south line, 1650 feet from

1 the west line of Section 20.

2 Q Now, is that an orthodox location?

3 A That would be an orthodox location for the
4 Langlie - Mattix Oil Pool and it would be an unorthodox
5 location for the Jalmat Gas Pool.

6 Q Now, what's the necessity for having an unor-
7 thodox location for the Jalmat?

8 A Well, as Mr. Davidson previously testified,
9 Wiser Oil Company had a well that produced from 1939 up
10 until 1978 located on this tract.

11 Q What was it?

12 A It was a Langlie - Mattix gas well producing
13 from the Langlie - Mattix Oil Pool.

14 Q Now you're moving away from that well, I take
15 it?

16 A Yes, sir, that is the reason that we're re-
17 questing an unorthodox location as far as the Jalmat is so
18 that we can move away as far as we can from that well that
19 was recently plugged.

20 Q Now there's a well in the other quarter section
21 in this unit, is there not?

22 A Yes.

23 Q What is it producing from?

24 A It's a Langlie - Mattix well also.

25 Q But that's a producing oil well?

1 A. It's actually now a gas well but we did make
2 a small amount of oil when we first started.

3 Q. And what 40-acre tract is dedicated to it?

4 A. It's got 40-acres dedicated to it, also.

5 Q. So if you complete a Langlie - Mattix well on
6 your proposed location you'd dedicate the other 40 acres
7 to that, correct?

8 A. Yes, we'd dedicate to our new proposed well
9 the southeast of the southwest.

10 Q. And if you make a Jalmat well of it, you'd
11 dedicate --

12 A. We would dedicate the entire south half of the
13 southwest.

14 Q. Now referring to what has been marked as Ex-
15 hibit Number Four to which Mr. Davidson just testified,
16 there's attached to it an AFE. Did you prepare that?

17 A. Yes, I did.

18 Q. And is that based on your experience in this
19 area?

20 A. Yes, these are very similar costs that we
21 used in the last hearing.

22 Q. Do you consider them to be reasonable?

23 A. I sure do.

24 Q. Now referring to Exhibit Number Five, will
25 you identify that exhibit?

1 A. It's another model form operating agreement
2 covering the south half of the southwest quarter of Section
3 20, 24 South, Range 37 East.

4 Q. Now does that exhibit show your normal charges
5 for supervision?

6 A. Yes, under Exhibit C of the operating agreement
7 we are proposing \$200 per well per month producing well
8 overhead rate and \$1500 per month drilling well overhead
9 rate.

10 Q. And that's the same as you proposed in the
11 other case, is it not?

12 A. That is correct.

13 Q. Now referring to what has been marked as Ex-
14 hibit Number Six, would you identify that exhibit?

15 A. Okay, Exhibit Number Six is a well schematic
16 for the Wiser Oil Company Calley "A" No. 1, which was
17 previously located in the southeast of the southwest of
18 Section 20.

19 Q. And that was plugged in 1978?

20 A. That is correct. It was plugged in April.

21 Q. Now, what are you offering this to show?

22 A. Well, we were just including this to show the
23 well that was previously located on this tract and to show
24 that what we'd like to do is be able to move away from
25 this completion, from this particular well, as far as we can,

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1 you know, while still staying on this same tract.

2 Q Now referring to what has been marked as Ex-
3 hibit Number Seven, would you discuss that exhibit?

4 A Okay, again, Exhibit Number Seven is shown
5 here to show the producing history of the Calley "A" No. 1
6 and to show that it encountered some type of wellbore prob-
7 lem that caused it to go off production within a relatively
8 short period of time, you know, from 1976 through '77.

9 Q Do you attribute that to mechanical difficulties?

10 A It's either mechanical or some type of reser-
11 voir problem in the area, and the combination of these two
12 exhibits is the reason we want to be able to move our well
13 over 330 out of the corner of that 40.

14 Q Now you don't know whether it was mechanical
15 or a reservoir problem, do you?

16 A No, that is correct.

17 Q Have you been able to find out from anyone?

18 A Well, I suspect it could be some water encroach-
19 ment from the 14-WI, Continental's Langlie Jack Unit, which
20 is located in the southwest of the southeast of 20.

21 Q Are they injecting water there?

22 A They are, that's correct. That's a Langlie -
23 Mattix water injection well.

24 Q Does that increase your risk that you're
25 assuming in drilling this proposed well?

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1 A. That is correct. I feel like it does.

2 Q. Okay.

3 A. Also, any time we're drilling in an old area,
4 low pressure gas area, such as this, that's going to increase
5 the risk and when you combine the low pressure with any
6 possible water production, that's going to compound it even
7 more.

8 Q. Now you heard Mr. Davidson testify that in the
9 event you make a Jalmat well you propose to dedicate the
10 south half of the tract to the Jalmat, is that correct?

11 A. The south half of the southwest to the Jalmat.

12 Q. And if you make a Langlie - Mattix well, you
13 will dedicate the 40 acres tract, the southeast of the
14 southwest.

15 A. That's correct.

16 Q. Now what do you consider a reasonable risk
17 factor for this well?

18 A. Well, considering that we are dealing with
19 extremely low reservoir pressures and the possible water
20 problem, we're asking the maximum penalty granted by the
21 Commission.

22 Q. And you're asking for unorthodox well location
23 for the Jalmat?

24 A. That is correct.

25 Q. And it is an orthodox location for the Langlie -

1 Mattix?

2 A. That is correct.

3 Q. And you ask to be designated as operator?

4 A. Yes, sir.

5 Q. Were Exhibits Four through Seven -- I mean the
6 AFE on Four, and Five, Six, and Seven prepared by you or
7 under your supervision?

8 A. Yes.

9 MR. KELLAHIN: At this time we offer Exhibits
10 Four through Seven, inclusive.

11 MR. NUTTER: Applicant's Exhibits Four through
12 Seven will be admitted in evidence.

13 MR. KELLAHIN: And that concludes the testimony.

14

15 CROSS EXAMINATION

16 BY MR. NUTTER:

17 Q. Mr. Hartman, to start off with, the application
18 in this case did not specify that this would be an unor-
19 thodox location for the Jalmat. It was advertised for the
20 pooling of the lands to be dedicated to a well to be drilled
21 at a standard location thereon. So you do have a standard
22 location for a Langlie - Mattix well.

23 A. Yes, sir.

24 Q. In the event when you drill the well to the
25 Langlie - Mattix and you've also got production up the hole

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

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CERTIFIED SHORTHAND REPORTER
739 Bishop's Lodge Road • Phone (505) 888-3404
Santa Fe, New Mexico 87501

1 in the Jalmat, you can apply for the approval of the non-
2 standard location for the Jalmat Pool administratively.
3 It won't take a hearing because it will be a well previously
4 drilled to another horizon.

5 A. Okay.

6 Q. Are there any Jalmat wells in the vicinity of
7 this well, Mr. Hartman?

8 A. Yes, sir, we've got Atlantic Richfield's
9 Harrison "C" 3, located in the northwest of the southwest.
10 Atlantic Richfield's Harrison "B" No. 2, located in the
11 northwest northwest of Section 29. Continental has a Jalmat
12 gas well located in the southeast of the -- or southwest
13 of the southeast of Section 20.

14 Q. Is that No. 10 there that's the east offset
15 to the Calley well is a Jalmat gas well?

16 A. That's correct. It's a twin to the 14 WI.

17 Q. So you don't expect the water injection into
18 this No. 14 to have affected the Jalmat Pool but only pos-
19 sibly the Langlie - Mattix?

20 A. That is correct.

21 Q. Are these injection wells? I note several of
22 them on this exhibit, part of the water injection program
23 for secondary recovery that Continental's conducting?

24 A. Yes, sir, that's their Langlie Jack unit.

25 Q. But the Calley never was an oil well. It was

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 968-3404
Santa Fe, New Mexico 87501

1 a gas well in the Langlie - Mattix.

2 A. It has made, if you'll look at the production
3 records, it has made some oil but for the last several
4 years it's been classified mainly as a gas well.

5 Q. So it didn't benefit from this water injection
6 program.

7 A. It got very little benefit from it, I think.

8 Q. Is it completed in a different section in the
9 Langlie - Mattix than the other wells?

10 A. No, it's produced -- completed in the same
11 section but what, if you'll notice, several of these wells
12 I've mentioned before, like the Harrison "C" 3, ARCO's
13 Harrison "D" 2, ARCO's Harrison "D" 4, all of these wells
14 were previously Langlie - Mattix gas wells.

15 There's a -- when you contour the Queen,
16 there's a Queen high running up that sort of parallels
17 the --

18 Q. So it's structural position that --

19 A. That's correct.

20 Q. -- makes these Langlie - Mattix gas wells
21 rather than oil wells.

22 A. Right. There's a low on the Queen in the
23 east half of Section 20 and then it starts going back up
24 again toward the Justis Bower trend there.

25 Q. I see.

1 MR. NUTTER: Are there any further questions
2 of Mr. Hartman? He may be excused.

3 Does anyone -- do you have anything further,
4 Mr. Kellahin?

5 MR. KELLAHIN: That's all in this case.

6 MR. NUTTER: Does anyone have anything to offer
7 in Case Number 6271?

8 We'll take the case under advisement.

9 (Hearing concluded.)

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

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REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY
CERTIFY that the foregoing and attached Transcript of
Hearing before the Oil Conservation Division was reported
by me; that the said transcript is a full, true, and correct
record of the hearing, prepared by me to the best of my
ability, knowledge and skill from my notes taken at the time
of the hearing.

Sally Walton Boyd C.S.R.
Sally Walton Boyd, C.S.R.

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 888-3404
Santa Fe, New Mexico 87501

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 6276
heard by me on 7/6, 1978.
[Signature], Examiner
New Mexico Oil Conservation Commission

May 24, 1978

RE: SE/4 SW/4 Section 20,
T-24-S, R-37-E,
Lea County, New Mexico

Mr. Curtis R. Burch and
Mr. Dubert Dennis
P. O. Box 1360
Hewoka, Oklahoma 74884

Gentlemen:

With regard to our previous letters, please find enclosed:

1. Undated Oil and Gas Lease prepared for your execution as Trustees Under Will of T. J. Horsley.
2. Bank Draft of \$225.00 (ie., your $1/32$ interest x 40 acres = 1.25 net acres x \$100.00 per acre = \$125.00).

If you are agreeable to lease, please add your Bank before you sign before a Notary and draft to me at The First National Bank of Midland.

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 2
CASE NO. 6271

Very truly yours,

JAMES A. DAVIDSON

JAD/mhd

EXHIBIT

2

DOCKET NO.

6271

April 19, 1978

Re: SE/4 SW/4 Sec. 20,
T-24-S, R-37-E,
Lea County, N. M.

Mr. Curtis R. Burch and Mr. Dubert Dennis
Trustees U/Wof W. J. Horsley
P. O. Box 1360
Wewoka, Okla. 74884

Gentlemen:

Please refer to my previous letters regarding my offer of
\$100.00 per acre--3/16 royalty--2 year oil and gas lease
on your interest in the above noted tract.

We plan to drill this tract as soon as possible and we
respectfully request that you either lease your interest,
or pay your way on the well.

Please advise your wishes so I can either send a lease or
Operating Agreement and AFE (if you plan to pay).

I would appreciate hearing from you as soon as possible,
so if you refuse to do either of the above, we can make
application to the NMOCC for force pooling.

Very truly yours,

James A. Davidson

EXHIBIT _____

DOCKET NO. _____

Dec. 12, 1977

Re: SE/4 SW/4 Sec. 20,
T-24-S, R-37-E,
LEA COUNTY, N. M.

Mr. Curtis R. Burch and Mr. Dubert Dennis
Trustee U/W of T. J. Horsley
P.O. Box 1360
Wewoka, Okla, 74884

Gentlemen:

Please refer to my letter to you of Nov. 10th regarding
your 1/32 interest in the above described tract.

I have now leased over 50% of the numerous mineral owners
including both Mr. Henry Harrison and the other two largest
owners.

I am trying to get this together to drill as soon as possible
and would very much appreciate being advised if I may send you
a lease and draft.

Thank you for your consideration and please let me hear from
you.

Very truly yours,

James A. Davidson

EXHIBIT _____

DOCKET NO. _____

November 10, 1977

RE: SE/4 SW/4 Section 20
T-24-S, R-37-E,
Lea County, New Mexico

Mr. Curtis R. Burch and Mr. Dubert Dennis
(Trustees U/W of T. J. Horsley)
P. O. Box 1360
Wewoka, Oklahoma 74884

Gentlemen:

I have a farmout from Wiser Oil Co., et al to drill a well on the above described tract, however, on close examination, I feel there is a good chance that this tract is not held by production.

Therefore, I would like to offer \$100.00 per acre - $\frac{3}{16}$ royalty - for a 2 year oil and gas lease on your $\frac{1}{32}$ interest (being 1.25 net acres) owned by you.

I will drill the well either on the farmout or the new leases but it will be to your advantage to get the $\frac{3}{16}$ royalty under the new leases and it appears more and more to me that this interest may be unleased. I have already made this deal with Mr. Henry H. Harrison who is the owner of the surface and one of the largest mineral owners.

Please reply as soon as is conveniently possible.

Very truly yours,

JAMES A. DAVIDSON

EXHIBIT _____

DOCKET NO. _____

May 7, 1978

RE: SE/4 SW/4 Section 20,
T-24-S, R-37-E,
Lea County, New Mexico

Mr. Allen B. Conner
920 Oil and Gas Building
Fort Worth, Texas 76102

Dear Mr. Conner:

Reference is made to our phone conversation last week regarding the interest of the Julia C. Granville Estate in the above described tract.

Mr. Edgar S. Birdsong owned 1/16 interest, so the Granville Estate owns 1/48 (1/3 of 1/16) or .833 net acres.

Enclosed please find the following:

1. Oil and Gas Lease providing for 2 year term and 3/16 royalty.
2. Bank Draft of \$83.33 (.833 net acres x \$100.00 per acre).

If agreeable, please ask the Bank to draft this lease to me at The First National Bank of Midland.

Also, please advise how to draw the lease on the 1/48 interest owned by the John A. Birdsong Estate and I will forward a lease and draft.

I will send a separate lease to Mrs. Ingerton.

Your assistance is greatly appreciated.

Very truly yours,

JAMES A. DAVIDSON

EXHIBIT

3

DOCKET NO.

6271

BEFORE EXAMINER NUTTER
OF CONSERVATION COMMISSION
EXHIBIT NO. 3
CASE NO. 6271

Conner &
Call me today

April 20, 1978

Re: SE/4 SW/4 Sec. 20,
T-24-S, R-37-E,
Lea County, N. M.

Mr. Allen B. Conner
920 Oil & Gas Bldg.
Fort Worth, TX 76102

Dear Sir:

Please refer to my previous letters regarding my offer to
the Julia C. Granville Estate, Mrs. Sally H. Ingerton,
and Mr. John Birdsong of \$100.00 per acre--3/16 royalty--
2 year oil & gas lease on their interest in the above noted
40 acre tract.

We plan to drill this tract as soon as possible and we again
request that these parties lease this interest. If this is
unacceptable, then we request that they pay their way on the
well.

Please let me hear from you so I can either send leases and
drafts or Operating Agreements and APES.

I would greatly appreciate hearing from you as soon as
possible so, if these parties will not one or the other,
we can apply to the NMOCC for force pooling.

Very truly yours,

James A. Davidson

John Birdsong
died
left wife to write
deed
deceased 6 mo.
no problem in this
happening

3 Executors
(all named)

Executors go along
w/ Mr. Conner

EXHIBIT _____

DOCKET NO. _____

November 10, 1977

RE: SE/4 SW/4 Section 20
T-24-S, R-37-E,
Lea County, New Mexico

Mr. Allen B. Connor
2006 W. T. Waggoner Building
Fort Worth, Texas 76102

Dear Mr. Connor:

I have a farmout from Wiser Oil Co., et al to drill a well on the above described tract, however, on close examination, I feel there is a good chance that this tract is not held by production.

Therefore, I would like to offer \$100.00 per/acre - 3/16
royalty - for a 2 year oil and gas lease on the 3/16 interest
(being 2.5 net acres) owned by ~~The Julia C. Granville Estate,~~
~~John A. Birdsong, and Mrs. Sally Holt Ingertown~~

I will drill the well either on the farmout or the new leases but it will be to ~~these parties~~ advantage to get the 3/16 royalty under the new leases and it appears more and more to me that this interest may be unleases. I have already made this deal with Mr. Henry H. Harrison who is the owner of the surface and one of the largest mineral owners.

Please reply as soon as is conveniently possible.

Very truly yours,

JAMES A. DAVIDSON

EXHIBIT _____

DOCKET NO. _____

JAD/mhd

JAMES A. DAVIDSON
Oil & Gas Properties
P. O. BOX 494
MIDLAND, TEXAS 79702

(915) 682-6482 - OFFICE
694-5472 - RESIDENCE

June 30, 1978

To: All Unleased Mineral Owners

RE: SE/4 SW/4 Sec. 20,
T-24-S, R-37-E,
Lea County, N. M.

Gentlemen:

With reference to our prior correspondence concerning your interest in the above described tract, please find enclosed AFE for the drilling of a 3700-foot Langlie Mattix and/or Jalmat test.

We would much prefer to lease your interest. In this regard, please refer to our prior offer.

However, if you wish to participate, please sign and return one copy of the enclosed AFE and we will promptly forward an Operating Agreement for your consideration.

In lieu of either of the above, we have this matter docketed for a Force Pooling Hearing at the New Mexico Oil Conservation Commission in Santa Fe, New Mexico on July 6, 1978.

Please advise should we be able to furnish anything further.

Very truly yours,


James A. Davidson

JAD/mv

Enclosures as above

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 4
CASE NO. 6271

EXHIBIT 4

DOCKET NO. 6271

AUTHORITY FOR EXPENDITURE

DETAIL WELL ESTIMATE

LEASE NO. _____ APPR. NO. _____
 LEASE NAME Henry Harrison WELL NO. 1 W. I. 100%
 COUNTY Lea STATE New Mexico FIELD Jalmat/Langlie Mattix
 LOCATION: SE/4 SW/4 Sec. 20, T-24-S, R-37-E

DRILLING INTANGIBLES:

	PRODUCER	DRY HOLE
1. Drilling Cost <u>3750</u> Feet @ <u>12.50</u> Per Foot	<u>46,900</u>	<u>46,900</u>
2. Day Work <u>2 days @ 3200/day</u>	<u>6,400</u>	<u>6,400</u>
3. Coring Service _____ Well Surveys <u>6000</u>	<u>6,000</u>	<u>6,000</u>
4. Testing _____		
5. Fuel _____ Water <u>5500</u>	<u>6,500</u>	<u>5,500</u>
6. Mud <u>5500</u> Mud Logging _____	<u>5,500</u>	<u>5,500</u>
7. Cementing Service _____ Cement _____ Floats _____	<u>11,000</u>	<u>2,800</u>
8. Company Labor _____ Contract Labor <u>500</u>	<u>1,000</u>	<u>500</u>
9. Digging Pits _____ Filling Pits <u>700</u>	<u>700</u>	<u>700</u>
10. Roads & Bridges _____ Dredging & Grading _____	<u>6,000</u>	<u>6,000</u>
11. Acidizing <u>4500</u> Fracturing <u>25,000</u> Perforating <u>1700</u>	<u>31,200</u>	<u>---</u>
12. Plugging _____	<u>---</u>	<u>2,000</u>
13. Trucking Cost _____	<u>1,000</u>	<u>500</u>
14. Development Superintendence <u>20</u> days @ \$ <u>250</u> /day	<u>5,000</u>	<u>2,500</u>
15. Rental Equipment _____	<u>2,500</u>	<u>1,000</u>
16. Swabbing and Testing <u>6 days @ 700/day</u>	<u>4,200</u>	<u>---</u>
17. Other Costs <u>Abstracts</u>	<u>3,000</u>	<u>3,000</u>
<u>Damages</u>	<u>2,000</u>	<u>2,000</u>
<u>Other</u>	<u>3,000</u>	<u>3,000</u>
Total Intangibles	<u>141,900</u>	<u>94,300</u>

WELL EQUIPMENT:

18. Casing <u>600</u> Ft. of <u>8 5/8</u> @ <u>6.25</u> Per Ft.		
<u>3750</u> Ft. of <u>5 1/2</u> @ <u>4.85</u> Per Ft.	<u>21,900</u>	<u>3,800</u>
_____ Ft. of _____ @ _____ Per Ft.		
19. Tubing <u>3600</u> Ft. of <u>2 3/8</u> @ <u>2.20</u> Per Ft.	<u>7,900</u>	<u>---</u>
20. Casing Head _____	<u>1,000</u>	<u>600</u>
21. Xmas Tree or Pumping Connections _____	<u>2,900</u>	<u>---</u>
22. Pumping Unit _____		
23. Engine _____		
24. Sucker Rods _____		
25. Pump _____		
26. Tank Battery _____		
27. Separator or Dehydration Equip. _____		
28. Metering Equipment _____		
29. Flow Lines _____	<u>1,000</u>	<u>---</u>
30. Other _____	<u>1,000</u>	<u>1,000</u>
Total Tangibles	<u>35,700</u>	<u>5,400</u>
TOTAL COST OF WELL	<u>177,600*</u>	<u>99,700</u>

REMARKS: The above cost estimate is based on a flowing gas well completion. If the proposed well is completed as a pumping oil well, the completed well cost will be \$239,600.

Originated by Doyle Hartman Title Operator-Part Owner Date 6-30-78
 Approved _____ Title _____ Date _____

A.A.P.L. FORM 610
MODEL FORM OPERATING AGREEMENT—1956
Non-Federal Lands

OPERATING AGREEMENT

DATED

June 29,, 19 78,

FOR UNIT AREA IN S/2 SW/4 Section 20, T-24-S, R-37-E, NMPM

Lea COUNTY, STATE OF New Mexico

Exhibit 5
6271

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
CASE NO. _____

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. <u>5</u>
CASE NO. <u>6271</u>

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OPERATING AGREEMENT

THIS AGREEMENT, entered into this 29th day of June, 1978, between
DOYLE HARTMAN

hereafter designated as "Operator"; and the signatory parties other than Operator.

WITNESSETH, THAT:

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

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- (6) The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

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

A. Title Examination:

There shall be no examination of title to leases, or to oil and gas interests, except that title to the lease covering the land upon which the exploratory well is to be drilled in accordance with Section 7, shall be examined on a complete abstract record by Operator's attorney, and the title to both the oil and gas lease and to the fee title of the lessors must be approved by the examining attorney, and accepted by all parties. A copy of the examining attorney's opinion shall be sent ^{upon request} to each party immediately after the opinion is written, and, also, each party shall be given, as they are written, a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy the examining attorney's requirements shall be made by the party owning the lease covering the drillsite.

If title to the proposed drillsite is not approved by the examining attorney or the lease is not acceptable for a material reason, and all the parties do not accept the title, the parties shall select a new drillsite for the first exploratory well; provided, if the parties are unable to agree upon another drillsite, this agreement shall, in that case, come to an end and all parties shall then forfeit their rights and be relieved of obligations hereunder. If a new drillsite is selected, title to the oil and gas lease covering it and to the fee title of the lessor shall be examined, and title shall be approved or accepted or rejected in like manner as provided above concerning the drillsite first selected. If title to the oil and gas lease covering the second choice drillsite is not approved or accepted, other drillsites shall be successively selected and title examined, until a drillsite is chosen

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

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

B. Failure of Title:

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

- (1) The party whose lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and
- (2) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Unit Area by the amount of the interest lost; and
- (3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the Unit Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and
- (4) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, or equipment previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and
- (5) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production.

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

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

3. UNLEASED OIL AND GAS INTERESTS

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

4. INTERESTS OF PARTIES

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

If the interest of any party in any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth ($\frac{1}{8}$) royalty, such party shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

DOYLE HARTMAN 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 31st day of August, 1978, Operator shall commence the drilling of a well for oil and gas in the following location:

SE/4 SW/4, Section 20
T-24-S, R-37-E, NMPM
Lea County, New Mexico.

and shall thereafter continue the drilling of the well with due diligence to a depth of 3750 feet or to a depth that is sufficient to test the productive internal of the Queen Formation whichever is lessor.

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 ^{thoroughly log, but not core or DST,} ~~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.~~ evaluate.

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 ^{twelve percent (12%)} ~~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 ^{working} interest of each party covered by this contract, and in each party's ^{working} 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 ^{claimed by the operator to be} 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 until the well hereinabove provided for in Section 7 is completed and only as long thereafter as there is (a) production from the area and depths covered by this agreement, or (b) there is a well capable of production from such area and depths, or (c) drilling or workover operations are being conducted on such area and depth after the well provided for in Section 7 has been drilled with no cessation of operations; 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 such area and depths, then at the end of ninety (90) days after the 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 until such well or wells shall have been drilled and completed. If production results therefrom, this agreement shall continue in force 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 Fifteen Thousand and No/100 Dollars (\$ 15,000.00) 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 \$ 15,000.00

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%~~^{300%} 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%~~^{300%} 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) ~~200%~~^{300%} of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and ~~200%~~^{300%} of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

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

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

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

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

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production which it takes or sells and shall hold the other parties free from any liability therefor. Any extra expenditures incurred 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 such division orders and contracts as may be required for the sale of its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

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

14. ACCESS TO UNIT AREA

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

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

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

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

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

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

- (1) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;
- (2) proceeds, less operating expenses thereafter incurred attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which would, in the absence of such lease termination, be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and
- (3) any moneys, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Unit Area or becoming a party to this contract.

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

~~18. PREFERENTIAL RIGHT TO PURCHASE~~

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

19. SELECTION OF NEW OPERATOR

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

20. MAINTENANCE OF UNIT OWNERSHIP

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

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

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

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

21. RESIGNATION OF OPERATOR

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

22. LIABILITY OF PARTIES

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

23. RENEWAL OR EXTENSION OF LEASES

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

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

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

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

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.

24. SURRENDER OF LEASES

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

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

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

25. ACREAGE OR CASH CONTRIBUTIONS

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

26. PROVISION CONCERNING TAXATION

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

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

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

27. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State 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.

28. CLAIMS AND LAWSUITS

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

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

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

29. FORCE MAJEURE

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

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

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

30. NOTICES

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

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

31. OTHER CONDITIONS, IF ANY, ARE:

31-A If any party hereto hereafter shall create any overriding Royalty, Production payment, or other burden against its working interest production and if any party or parties shall conduct non-consent operations pursuant to any provision of this agreement and, as a result, become entitled to receive the working interest production otherwise belonging to the nonparticipating party, the party or parties entitled to receive the working interest production of the non-participating party shall receive such production free and clear of burdens against such production which may have been created by subsequent to this agreement. In this regard, any such interest which may have been created subsequent to this agreement shall ipso facto terminate and vest in the consenting parties.

31-B Each party hereto owning an undivided interest in the Unit Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

31-C A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

31-D In connection with any and all of its operations under or by virtue of this agreement, Operator shall fully comply with paragraphs (1) through (7) in Section 202 of Executive Order 11246, issued September 24, 1965, and Rules, Regulations and relevant orders of the Secretary of Labor thereunder, which are hereby made a part of this agreement as fully as though copied herein.

31-E As to any contract executed by Operator with an independent contractor covering operations or services to be performed on properties covered by this operating agreement, Operator shall require that any indemnification provision contained therein shall extend to and inure to the benefit of non-operator in the same manner as Operator.

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

"OPERATOR"

DOYLE HARTMAN

By _____

"NON-OPERATORS"

J.A. DAVIDSON

By _____

HUGH CORRIGAN ET AL

By _____

JACK FLETCHER

By _____

CURTIS R. BURCH AND DUBERT DENNIS,
TRUSTEES U/W OF T. J. HORSLEY

By _____

By _____

THE FIRST NATIONAL BANK OF FORT WORTH
TEXAS, INDEPENDENT EXECUTOR OF THE
ESTATE OF JULIA C. GRANVILLE, DECEASED,
ERNEST B. GRANVILLE AND ROBERT LEROY,
DEVISEES OF THE ESTATE OF JULIA C.
GRANVILLE, DECEASED

By _____

ESTATE OF JOHN BIRDSONG

By _____

ATTEST:

EXHIBIT "A"

Attached to and made a part of Operating Agreement dated June 29, 1978, covering S/2 SW/4 Sec. 20, T-24-S, R-37-E, between DOYLE HARTMAN as Operator and HUGH CORRIGAN et al as Non-Operators:

I. (a) Lands Subject to Agreement:

T-24-S, R-37-E

Section 20: S/2 SW/4
Lea County, New Mexico

(b) Depth Limitations:

Surface to 3750' below the surface.

II. Percentages of Interests and Addresses of Parties:

(a) SE/4 of SW/4 of said Section 20 in the event Paragraph 7 Test Well is completed from Langlie Mattix formation:

Doyle Hartman 508 C & K Petroleum Bldg. Midland, TX 79701	73.5678%
J. A. Davidson P.O. Box 494 Midland, TX 79702	12.5000%
Hugh Corrigan et al P.O. Box 3388 Vero Beach, Florida 32960	5.0781%
Jack Fletcher Rt. 1 Box 133-C Midland, TX 79701	1.5625%
Curtis R. Burch and Dubert Dennis, Trustees U/W of T. J. Horsley P.O. Box 1360 Wewoka, Oklahoma 74884	3.1250%
The First National Bank of Fort Worth, Texas, Independent Executor of the Estate of Julia C. Granville, Deceased, Ernest B. Granville and Robert Leroy, Devisees of the Estate of Julia C. Granville, Deceased Trust Department, First National Bank of Fort Worth Fort Worth, TX 76102	2.0833%
Estate of John Birdsong c/o Allen B. Conner 920 Oil and Gas Building Fort Worth, TX 76102	2.0833%
	<hr/> 100.0000%

(b) S/2 of SW/4 of said Section 20 in the event Paragraph 7 Test Well is completed from Jalmat formation:

Doyle Hartman	77.21356%
J. A. Davidson	12.50000%
Hugh Corrigan et al	5.07810%
Jack Fletcher	1.56250%
Curtis R. Burch and Dubert Dennis, Trustees U/W of T. J. Horsley	1.56250%
The First National Bank of Fort Worth, Texas, Independent Executor of the Estate of Julia C. Granville, Deceased, Ernest B. Granville and Robert Leroy, Devisees of the Estate of Julia C. Granville, Deceased	1.04167%
Estate of John Birdsong	<u>1.04167%</u>
	100.00000%

EXHIBIT "B"

There is no Exhibit "B".

EXHIBIT " C "

Attached to and made a part of the Operating Agreement dated June 29, 1978 and covering the S/2 SW/4 Section 20 T-24-S, R-37-E, NMPM, Lea County, New Mexico between DOYLE HARTMAN, as Operator and J. A. DAVIDSON, JACK FLETCHER, et al, as Non-Operators.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

I. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

- (☒) Fixed Rate Basis, Paragraph 1A, or
() Percentage Basis, Paragraph 1B.

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

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not (☒) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 1500.00

Producing Well Rate \$ 200.00

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

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

(b) Operating

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

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

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

~~2. Overhead - Major Construction~~

~~To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ _____:~~

~~A. _____ % of total costs if such costs are more than \$ _____ but less than \$ _____; plus~~

~~B. _____ % of total costs in excess of \$ _____ but less than \$1,000,000; plus~~

~~C. _____ % of total costs in excess of \$1,000,000.~~

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of that Operating Agreement dated June 29, 1978, and covering the S/2 SW/4 Sec. 20, T-24-S, R-37-E, Lea County, New Mexico between DOYLE HARTMAN, as Operator, and J. A. DAVIDSON, JACK FLETCHER, et al, as Non-Operators.

Operator, at all times while operations are conducted hereunder, shall carry, and require its contractors to carry insurance to indemnify, protect and hold the parties hereto harmless as follows;

1. Insurance which shall comply with the Workmen's Compensation, Employers Liability and Occupational Disease laws of the State in which operations hereunder are conducted;
2. Comprehensive general liability insurance with limits of not less than:
 - A. Bodily Injury:
\$100,000 per person and \$300,000 for each occurrence and,
 - B. Property Damage:
\$100,000 for each occurrence and \$300,000 in the aggregate.
3. Automobile liability insurance with limits of not less than:
 - A. \$100,000 per person and \$300,000 per accident pertaining to bodily injury to, or death of persons; and,
 - B. \$100,000 per accident pertaining to loss of, or damage to, property.

Upon successful completion of first well, all premiums paid on such insurance shall be charged to the joint account. Except by mutual consent of the parties, no other insurance shall be maintained for the joint account, and all losses not covered by such insurance shall be charged to the joint account.

Operator shall not be liable to Non-Operator (s) for loss suffered on account of the insufficiency of insurance carried, or of the insurer with whom carried, nor shall Operator be liable to Non-Operator (s) for any loss accruing by reason of Operator's inability to provide or maintain the insurance above mentioned; provided, however, that if at any time during the life of this agreement Operator is unable to obtain or maintain such insurance, Operator shall promptly notify Non-Operator (s) in writing of such fact.

COMPANY	Wiser Oil Co. (Two States Oil Corp)
WELL	Calley "A" No. 1
FIELD	Langlie - Mattix
LOCATION	660 FSL & 2310 FHL (N) Sec. 20, T-24-S, R-37-E
COUNTY	Lea
STATE	New Mexico
ELEVATIONS:	KB _____ DF _____ GL 3273

COMPLETION RECORD	
SPUD DATE	8-9-39
COMP. DATE	9-15-39
TD	3635
PSTD	3635
CASINO RECORD	8 5/8 @ 387 w/150 5 1/2 @ 3360 w/200
PERFORATING RECORD	OH: 3360 - 3635 (Seven Rivers - Queen)
STIMULATION	A/2000 Shot/160 (3530 - 3610)
IP	IPF= 30 BOPD + 1125 MCFPD
GOR	37,500
GR	
TP	CP
CHOKE	TUBING 2 3/8 @ 3630
DST RECORD	
REMARKS	Well is twin to proposed 3725-foot Penrose test. Well was P & A in 1978.

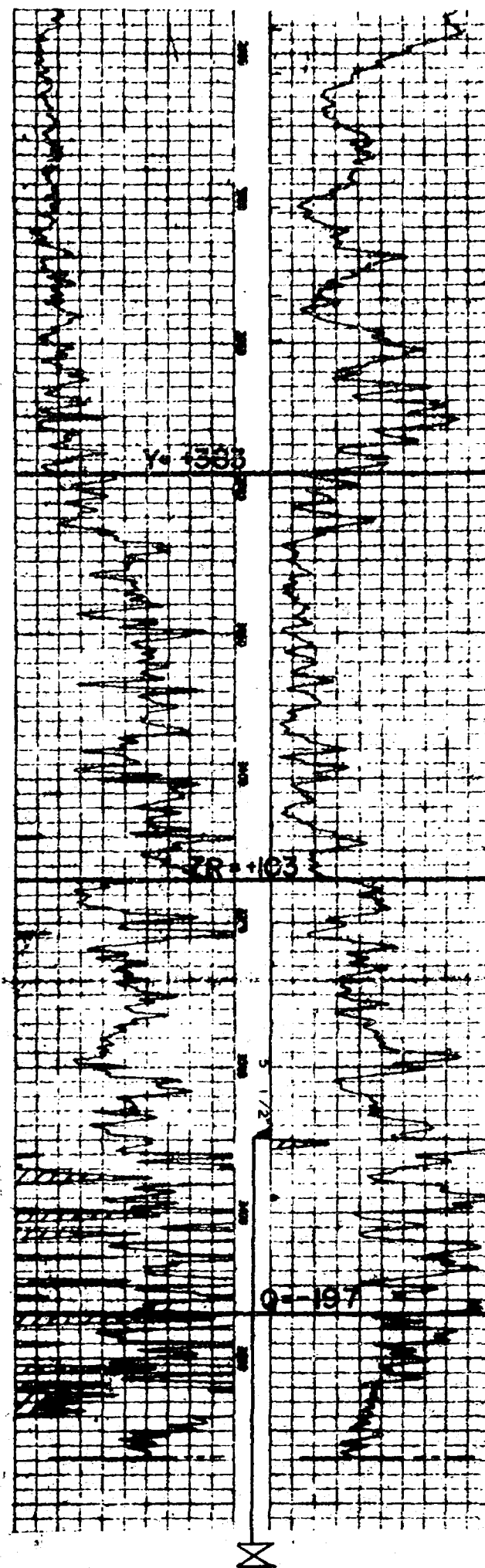


Exhibit 6

Docket No. 6271

BEFORE EXAMINER NOTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. <u>6</u>
CASE NO. <u>6271</u>

CASE 6263: (Continued from June 21, 1978, Examiner Hearing)

Application of Adobe Oil & Gas Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mississippian formation underlying the NE/4 of Section 17, Township 14 South, Range 36 East, Austin Field, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6264: (Continued from June 21, 1978, Examiner Hearing)

Application of Doyle Hartman for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Jalmat Gas Pool underlying the W/2 NE/4 of Section 36, Township 24 South, Range 36 East, Lea County, New Mexico, to form a non-standard gas proration unit to be dedicated to a well to be drilled at an unorthodox location 330 feet from the North line and 2310 feet from the East line of said Section 36. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6271: Application of Doyle Hartman for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Queen formation underlying the S/2 SW/4 of Section 20 as a non-standard gas proration unit for a Jalmat gas well, or in the alternative, the SE/4 SW/4 of Section 20 for a Langlie Mattix oil well, all in Township 24 South, Range 37 East, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6272: Application of Doyle Hartman for an exception to Rule 15 of Order No. R-1670, as amended, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Rule 15 of Order No. R-1670, as amended, which will allow him to produce his overproduced Etz Well No. 1, located in Unit D of Section 7, Township 25 South, Range 37 East, NMPM, Jalmat Gas Pool, Lea County, New Mexico, at 60% of its allowable until such time as the overproduction has been made up.

CASE 6273: Application of Gulf Oil Corporation for creation of a new gas pool and special rules, including gas prorationing, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Morrow gas pool in Eddy County comprising all, or portions of, Sections 24 and 25, Township 18 South, Range 24 East, and Sections 18 thru 20, 28 thru 30, and 32 and 33, Township 18 South, Range 25 East; applicant further seeks the promulgation of special rules for said pool, including the prorationing of gas production on a straight acreage basis and the prohibition of more than one well to each 320-acre proration unit.

Dockets Nos. 23-78 and 24-78 are tentatively set for hearing on July 19 and August 2, 1978. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - JULY 6, 1978

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

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

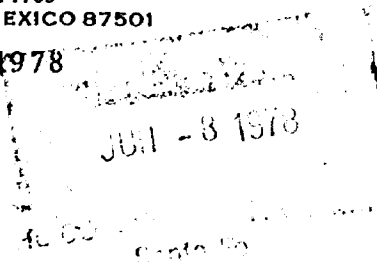
- CASE 6265: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Bedx Producing Co. and all other interested parties to appear and show cause why the Cain State Well No. 1 located in Unit B of Section 16, Township 15 North, Range 33 East, Harding County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 6266: Application of Harvey E. Yates Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of an Upper Pennsylvanian test well to be located 600 feet from the North and East lines or, in the alternative, 990 feet from the North and East lines of Section 23, Township 22 South, Range 23 East, Indian Basin-Upper Pennsylvanian Gas Field, Eddy County, New Mexico, all of said Section 23 to be dedicated to the well.
- CASE 6267: Application of Yates Petroleum Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the E/2 of Section 28, Township 17 South, Range 26 East, Kennedy Farms Field, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6268: Application of Southland Royalty Company for an unorthodox gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Reid Well No. 25 to be drilled in the SE/4 of Section 19, Township 28 North, Range 9 West, Blanco Mesaverde Pool, San Juan County, New Mexico, said well being off-pattern for the first well on the proration unit, the S/2 of Section 19.
- CASE 6269: Application of Marathon Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in all formations from the top of the San Andres thru the Abo underlying the NE/4 NW/4 of Section 25, Township 16 South, Range 38 East, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6270: Application of Enserch Exploration, Inc., for pool creation and special pool rules, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks an order creating a new oil pool in the Fusselman formation for its Lambirth Well No. 1 located in Unit K of Section 31, Township 5 South, Range 33 East, Roosevelt County, New Mexico, and for promulgation of special pool rules, including provision for 80-acre spacing, a gas-oil ratio limitation of 3,000 to 1, and special well location requirements.
- CASE 6258: (Continued from June 21, 1978, Examiner Hearing)
- Application of Atlantic Richfield Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Devonian, McKee, and Ellenburger formations underlying the S/2 of Section 21, Township 22 South, Range 36 East, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6262: (Continued from June 21, 1978, Examiner Hearing)
- Application of Adobe Oil & Gas Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mississippian formation underlying the SE/4 of Section 17, Township 14 South, Range 36 East, Austin Field, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

JASON W. KELLAHIN
ROBERT E. FOX
W. THOMAS KELLAHIN

KELLAHIN and FOX
ATTORNEYS AT LAW
800 DON GASPAR AVENUE
P. O. BOX 1769
SANTA FE, NEW MEXICO 87501

TELEPHONE 982-4818
AREA CODE 505

June 5, 1978



Mr. Joe Ramey
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Doyle Hartman

Dear Mr. Ramey:

Please set the enclosed forced pooling application
for hearing on July 6, 1978.

Very truly yours,

A handwritten signature in dark ink, appearing to read "W. Thomas Kellahin". The signature is fluid and cursive, with a large initial "W".
W. Thomas Kellahin

CC: Mr. James A. Davidson
Mr. Doyle Hartman

WTK:kfm

Enclosure

JUL - 3 1953

BEFORE THE
OIL CONSERVATION DIVISION
STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF DOYLE HARTMAN FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO

Case 6271

A P P L I C A T I O N

COMES NOW Doyle Hartman, and as provided by Section 65-3-14, New Mexico Statutes Annotated, 1953 Comp., as amended, applies to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interest in and under the S/2SW/4 of Section 20 for a Jalmat gas well or in the alternative the SE/4SW/4 of Section 20 for a Langlie Mattix oil well all in Township 24 South, Range 37 East, Lea County, New Mexico and in support thereof would show the division:

1. Applicant is an operator in the S/2SW/4 of Section 20.
2. Applicant has obtained voluntary agreement for pooling from all but the following:

<u>Name</u>	<u>Interest</u>
Curtis R. Burch and Dubert Dennis, Trustees for T. J. Horsley Estate P. O. Box 1360 Wewoka, Oklahoma 74884	1/32 of SE/SW
Mrs. Sally Holt Ingerton 2601 Bowie Amarillo, Texas 79109	1/48 of SE/SW

The First National Bank of Fort Worth
Independent Executor of the Estate of
Julia C. Granville, Earnest B. Granville
and Robert Leroy, Devisees in the
Estate of Julia C. Granville
c/o The First National Bank Building
Fort Worth, Texas 76102

1/48 of SE/SW

Estate of John Birdsong
c/o Mr. Allen B. Conner
Attorney at Law
920 Oil and Gas Building
Fort Worth, Texas 76102

1/48 of SE/SW

3. Applicant proposes to drill a well 330 feet from the South line and 1650 feet from the West line of said Section 20 at a projected depth of 3750 feet to the Queen formation and to complete either:

(a) As a Langlie Mattix producer and dedicating a 40-acre proration unit to said well consisting of the SE/4 SW/4 of Section 20; or

(b) As a Jalmat Gas well and dedicating an 80-acre gas proration unit to said well consisting of the S/2SW/4 of said section 20.

4. Applicant has been unable to obtain voluntary agreement for the pooling of the unpooled interests indicated in paragraph 2 above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, the Division should pool all interests in the spacing or proration unit as a unit.

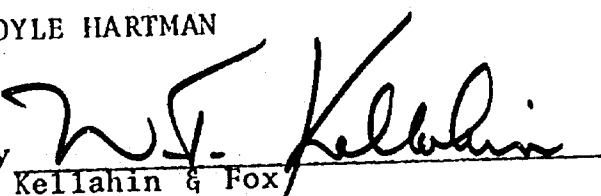
WHEREFORE, Applicant respectfully requests that the Division set this matter for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law the Division enter its order pooling all interest underlying the ~~W/2NE/4 of Section 36, Township 24-South, Range 36 East, N.M.P.M., Lea County, New Mexico,~~ and designating applicant operator of the pooled unit, together

with provision for applicant to recover its costs out of production including a risk factor to be determined by the Division and with provisions for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear and for such further orders as may be proper in the premises.

Respectfully submitted,

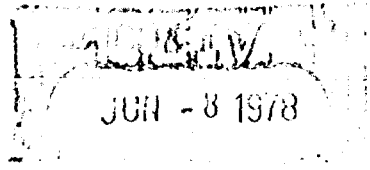
DOYLE HARTMAN

By


Kellahin & Fox

P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT



BEFORE THE COMMISSION
OIL CONSERVATION DIVISION
STATE OF NEW MEXICO

Case 6271

IN THE MATTER OF THE APPLICATION
OF DOYLE HARTMAN FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO

A P P L I C A T I O N

COMES NOW Doyle Hartman, and as provided by Section 65-3-14, New Mexico Statutes Annotated, 1953 Comp., as amended, applies to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interest in and under the S/2SW/4 of Section 20 for a Jalmat gas well or in the alternative the SE/4SW/4 of Section 20 for a Langlie Mattix oil well all in Township 24 South, Range 37 East, Lea County, New Mexico and in support thereof would show the division:

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and Robert Leroy, Devisees in the
Estate of Julia C. Granville
c/o The First National Bank Building
Fort Worth, Texas 76102

1/48

Estate of John Girdsong
c/o Mr. Allen B. Conner
Attorney at Law
920 Oil and Gas Building
Fort Worth, Texas 76102

1/48

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(b) As a Jalmat Gas well and dedicating an 80-acre gas proration unit to said well consisting of the S/2SW/4 of said section 20.

4. Applicant has been unable to obtain voluntary agreement for the pooling of the unpooled interests indicated in paragraph 2 above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, the Division should pool all interests in the spacing or proration unit as a unit.

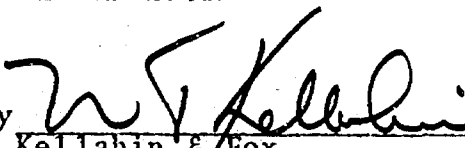
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with provision for applicant to recover its costs out of production including a risk factor to be determined by the Division and with provisions for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear and for such further orders as may be proper in the premises.

Respectfully submitted,

DOYLE HARTMAN

By



Kellahin & Fox

P. O. Box 1769

Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

BEFORE THE
OIL CONSERVATION DIVISION
STATE OF NEW MEXICO

Case 6271

IN THE MATTER OF THE APPLICATION
OF DOYLE HARTMAN FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO

A P P L I C A T I O N

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Attorney at Law
920 Oil and Gas Building
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(b) As a Jalmat Gas well and dedicating an 80-acre gas proration unit to said well consisting of the S/2SW/4 of said section 20.

4. Applicant has been unable to obtain voluntary agreement for the pooling of the unpooled interests indicated in paragraph 2 above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, the Division should pool all interests in the spacing or proration unit as a unit.

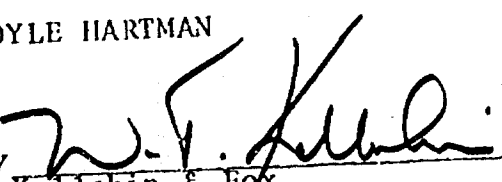
WHEREFORE, Applicant respectfully requests that the Division set this matter for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law the Division enter its order pooling all interest underlying the W/2NE/4 of Section 36, Township 24 South, Range 36 East, N.M.P.M., Lea County, New Mexico, and designating applicant operator of the pooled unit, together

with provision for applicant to recover its costs out of production including a risk factor to be determined by the Division and with provisions for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear and for such further orders as may be proper in the premises.

Respectfully submitted,

DOYLE HARTMAN

By


Kellahin & Fox
P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

DRAFT

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6271

Order No. R- 5769

APPLICATION OF DOYLE HARTMAN FOR
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 6
19 78, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of July, 19 78, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

(1) That due public notice having been given as required by
law, the Division has jurisdiction of this cause and the subject
matter thereof.

(2) That the applicant, Doyle Hartman,
seeks an order pooling all mineral interests in the Jalmat Pool
in the Queen

Pool
formation underlying the S/2 SW/4
of Section 20, Township 24 South, Range 37 East
NMPM, _____, Lea County, New
Mexico,

Jalmat
~~xxxxxxLangliexxxxMattiexxxxxwell~~
as a non-standard gas proration unit for a Jalmat gas well or in
the alternative, all mineral interests in the Langlie Mattie Pool underlying
the SE/4 SW/4 of Section 20 for a Langlie Mattie
as a standard Langlie Mattie oil proration unit.
oil well, all in

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon ^{Langlie Matting oil well}.

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

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

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

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

(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

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

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

Case No.
Order No. R-

while drilling and \$200.00 per month
while producing

(11) That \$1500.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before October 1, 1978, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Jalmar Gas Pool Queen formation underlying the SE 1/4 SW 1/4 of Section 20, Township 24 South, Range 37 East, NMPM, Lea County, New Mexico,

are hereby pooled to form a standard 80-acre gas spacing Jalmar and all mineral interests, whatever they may be, in the Rangier Valley and proration unit Pool underlying the SE 1/4 SW 1/4 of said Section 20 are hereby pooled to form a standard 40-acre Jalmar Rangier Valley oil spacing and proration unit, with either of or both of said units to be dedicated to a well to be PROVIDED HOWEVER, that the operator of said unit shall

commence the drilling of said well on or before the first day of October, 1978, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Queen formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of October, 1978, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Division for good cause shown.

Drilled at a standard 80-acre location.

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

(2) That Doyle Hartman is hereby designated the operator of the subject well and units.

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

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

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

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

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

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

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

(B) As a charge for the risk involved in the drilling of the well, ~~200 percent~~ of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs. *while drilling and \$200.00 per month while producing are*

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

-6-

Case No.
Order No. R-

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

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

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

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

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