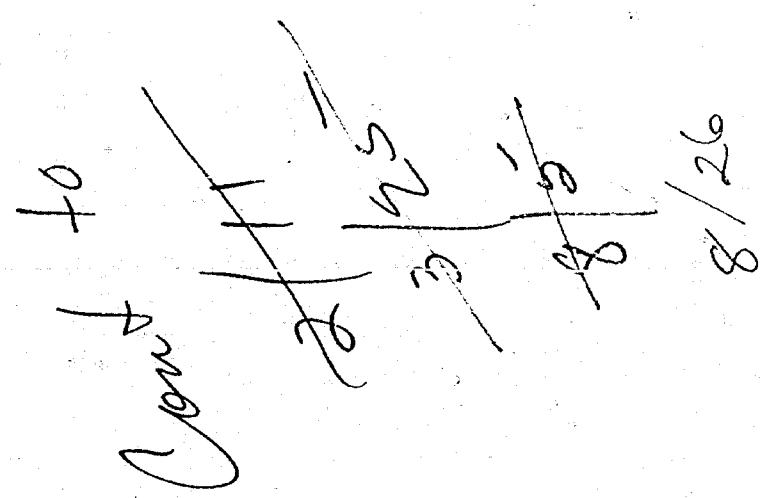
CASE 7129: KOCH EXPLORATION COMPANY
FOR COMPULSORY POOLING, SAN JUAN COUNTY
NEW MEXICO



CASE NO.

7129

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

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

September 25, 1981

Mr. William F. Carr
Campbell, Byrd & Black
Attorneys at Law
Post Office Box 2208
SantaFe, New Mexico

Re: CASE NO. 7129
ORDER NO. ~~R-6771~~

Applicant:

Koch Exploration Company

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD x

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. 7129
Order No. R-6771

APPLICATION OF KOCH EXPLORATION
COMPANY FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on August 26, 1981, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 24th day of September, 1981, 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, Koch Exploration Company, seeks an order pooling all mineral interests in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, NMPM, Basin-Dakota Pool, San Juan County, New Mexico.

(3) That the applicant has the right to drill and has drilled a well at a standard location thereon.

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

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

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

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

(8) That any non-consenting working interest owner who 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 who 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 $1050.00 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.

(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.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, NMPM, Basin-Dakota Pool, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well drilled at a standard location thereon.

(2) That Koch Exploration Company is hereby designated the operator of the subject well and unit.

(3) That within 90 days after the effective date of this order, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

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

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 45 days after entry of this order; 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 who 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 $1050.00 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 interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
Division Director

SEAL

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
26 August 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

CASE 7129 and 7169

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division:	W. Perry Pearce, Esq. Legal Counsel to the Division State Land Office Bldg. Santa Fe, New Mexico 87501
For the Applicant:	William F. Carr, Esq. CAMPBELL, BYRD, & BLACK P.A. Jefferson Place Santa Fe, New Mexico 87501

I N D E X

E X H I B I T S

MR. STAMETS: We'll call now Case 7129.

MR. PEARCE: Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

MR. CARR: May it please the Examiner, my name is William F. Carr, with the law firm Campbell, Byrd, & Black, P. A., of Santa Fe, appearing on behalf of the applicant.

I have two witnesses who need to be sworn.

Initially I would request that this case be consolidated for purposes of the hearing with Case 7169. These involve the same lease; they're contiguous, if it is contiguous, corner to corner. They involve exactly the same ownership in question and the same parties are being pooled, and for that reason, we request consolidation.

MR. STAMETS: Let's call that second case and we will consolidate those for purposes of testimony.

MR. PEARCE: The application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

(Witnesses sworn.)

DAVID D. FRIEND

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. David D. Friend, 2327 Ventoso, Wichita, Kansas.

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

I am a consulting engineer. I'm representing Koch Exploration at this hearing.

Q. Have you previously testified before this Commission or one of its examiners and had your credentials accepted and made a matter of record?

A. Yes, I have.

Q. Are you familiar with the applications of Koch in these cases and the subject proration units?

A. Yes.

MR. CARR: Are the witness' qualifications acceptable?

MR. STAMETS: They are.

Q. Mr. Friend, will you briefly state what Koch seeks with this application?

A. Koch seeks compulsory pooling of two standard proration units with 200 percent risk penalty and for Koch to be designated as the operator of the units.

Q. Will you please refer to what has been marked for identification as Koch Exhibit Number One, identify this, and explain to Mr. Stamets what it shows?

A. Exhibit Number One shows the Dryden lease and the two proration units which we would like to force pool. It also shows the ownership that Koch Industries owns 7/8ths of these leases. The other 1/8th, it's really not known who owns it at this time. There is a 1/8th royalty against the lease.

The map also shows initial potential for the various wells in the area.

It shows that, say, Section 20, Section 21, the wells in the northern part of Section 21, the wells do have good initial potentials, but move on down into the area of the Dryden leases, the IP is quite a bit smaller.

So this is an area where there is some risk, not a dry hole risk, but the quality of the reservoir is something unknown.

Q. Mr. Friend, are these subject proration

units standard spacing units for the Dakota formation?

A. Yes, they are, they're 320-acre spacing units.

Q. And are both of these proposed wells to be drilled or being drilled at orthodox locations?

A. Yes, the Dryden Well No. 1, which is shown on the exhibit, is 800 feet from the north section line, it's 840 feet from the west section line, on the -- in the north half of Section 28.

Dryden Well No. 2 is 1100 feet from the west section line, 1800 feet from the south section line, in Section 22.

Q. What is the status of each of the Dryden wells?

A. The wells have been drilled. They are completed and they might be on today. They had not been hooked up last week, but they should go on line in a matter of days.

Q. And it is your testimony that Koch owns 7/8ths of the wells, with 1/8th of the ownership in dispute.

A. Yes, that's right.

Q. Will you now refer to what has been marked as Koch Exhibit Two and review this for the Examiner?

A. Exhibit Two shows the immediate offset

to the Dnyden lease. It shows the completion date of the various wells. Again the initial potential is shown, the cumulative production to June the 1st, 1981, and the May, 1981, producing rate.

The exhibit shows that most of the development in the area has been since 1978, possibly due to the higher gas prices, and for this reason there is not a lot of production history available. The wells which have been completed several years ago, such as the McHugh - Hardy No. 5, completed in 1968, had initial potential of 4731 and produced in excess of 800,000 Mcf, and is still a good well.

However, the Lively No. 2 also is another good well, had initial potential of in excess of 40,000.

The Lively 2-E does not appear to be that good a well, had an initial potential, low potential, of 2621 Mcf a day.

The two bottom wells shown on this exhibit, the Koch wells, the Dryden No. 2 had initial potential of 684; the Dryden No. 1 of 1930.

Q. So is it fair to characterize this exhibit as showing there is a substantial amount of variation in the initial potential and production rates from the wells in the area?

A. Yes, it does.

Q. Will you now refer to Koch Exhibit 3 and review this for the Examiner?

A. Exhibit Number Three shows the pertinent well data for the Dryden No. 1 and Dryden No. 2, the first page being the Dryden No. 1.

The spud date was in January, 1981, and it was completed in February in '81, and anticipated sales date -- initial sales date will be September the 1st.

Other economic parameters is a gas price of about $2.50 an Mcf, operating costs of about $550 per month. The cost to drill and complete this well was $523,921. This price is, this cost is much lower than would normally be expected. While drilling the well Koch encountered an oil flow at about 5700 feet. They were drilling with gas at the time and as a result the drill pipe was stuck. They did have a fishing job. They had to mud up. They had a high expense to drill the well.

The Dryden No. 2 well cost was $389,682, which is more in line with what one would expect when drilling a well. The other economic parameters are the same.

Q. Mr. Friend, when we look at the category, cost to drill and complete the well, would the figure after -- in that category include the cost of supervision while drilling the well?

A. Yes, it would be included.

Q. Have you made an estimate of the cost to be assessed for supervision of each of these wells?

A. It is included in this cost that we have given and not a --

Q. And that is the monthly figure of $550 per month?

A. Yes, it is.

Q. And is that figure in line with what is being charged by other operators in the area?

A. Yes, it is.

Q. How was that figure derived?

A. It was derived by taking the actual operating expenses from a number of wells that Koch operates, which I feel will be similar to these, and including estimated overhead costs, and this was compared with the actual cost of other wells operated by people that Koch has an interest in. Now this cost will include compression, if required, cleaning out, all work which has to be done on the well.

Q. Are greater monthly amounts being charged by other operators in the area?

A. Yes, they are.

Q. Will you now refer to what has been marked for identification as Exhibit Four and review this?

A. Exhibit Number Four is sort of a summary of economic data with no penalty for the two wells that Koch has taken the risk to drill. And by no penalty I'm assuming that Koch will recoup their money and then the 1/8th will revert away from Koch.

The Dryden No. 1 Well will have net reserves of 286 MMCF, a revenue to the net interest of $715,000. Operating expense will be approximately $133,000. The investment to drill and complete was $524,000. The cash flow to Koch before income tax will be $58,000. After Federal income tax, $31,000.

The discounted cash flow at 21 percent which is prime at the time the wells were spudded, plus one percent, will be a -225,000 before tax, -172,000 after tax, rate of return, that's discounted cash flow rate of return, of 2.6 before tax, 2 percent after tax.

Dryden Well No. 2 will have net reserves of 635,000 MCF, revenue to the net interest of $1,587,000, operating expense $189,000. The investment was approximately $390,000. The cash flow before tax would be $1,000,008 and after tax it's reduced to $544,000.

The cash flow discounted 21 percent will be $115,000 before tax, $18,000 after tax. The rate of return before Federal income tax will be 30.4 percent and 21

percent after Federal income tax.

The Dryden No. 2 economics are (inaudible) however total of No. 1 and 2 is given in the next column and it would show that the cash flow before income tax would be $1,066,000. After Federal income tax, $576,000, and discounted 21 percent, that is, it will be a minus $110,000 before Federal income tax, a minus $154,000 after Federal income tax.

The composite rate of return will be 16.8 percent before Federal tax, and 13 percent after.

These really are not acceptable economics, not for Koch.

Q. Mr. Friend, are you prepared to make a recommendation to the Examiner as to any risk penalty factor that should be assessed against any interest which does not participate in this -- in the drilling of these wells?

A. I feel that the maximum penalty should be assessed.

Q. And upon what do you base this recommendation?

A. Well, Koch tried to have the issue settled before they drilled the wells. They did take a risk in drilling in an area of unknown reservoir quantity, plus the mechanical risk which evolves with any well, so I feel

that they are entitled to a fair rate of return on their investment.

Q. And is it fair to characterize these wells as being of marginal economic quality?

A. Yes. The total of the two wells together are certainly marginal.

Q. Does Koch ask to designated operator of the wells?

A. Yes, we do ask to be designated as operator.

Q. And will Koch have another witness who will testify as to title matters and efforts to obtain joinder of the 1/8th interest in this effort?

A. Yes, they will.

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

A. Yes, they will.

Q. Were Exhibits One through Four prepared by you or under your direction and supervision?

A. Yes, they were.

MR. CARR: At this time, Mr. Stamets, we would offer Exhibits One through Four.

MR. STAMETS: These exhibits will be

admitted.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Friend, on Exhibit Number Three, down at the bottom it appears as though an estimated ultimate recovery of 334-billion cubic feet of gas is shown?

A. Okay, I am sorry, that should be 334, decimal point, 334.516.

Q. All right, thank you.

A. And the same thing on the next page.

Q. All right, however, those two figures, neither one correspond to the figures shown in Exhibit Number Four. Why is that?

A. Exhibit Number Four would be Koch's net after giving up the 1/8th.

Q. Okay.

A. Plus -- plus taking out royalty.

Q. All right. Now, in discussing the $550 a month operating cost, I'm not certain we're talking about the same thing there as the rates that we normally put in the order as combined fixed rates.

Do you have any -- have you entered into any operating agreements recently that call for a $550 a month

overhead charge?

A. No, but the operating agreement would include the expenses plus the overhead charge.

Q. Okay, those are two different things. One, the expenses can be charged against production on a monthly basis, but the overhead charge is -- is a different charge, you know.

A. I understand.

Q. And that represents Koch's overhead in operating, and so I need -- what I would like to have, if you don't have it with you today, is a copy of a recent Koch operating agreement which would show what you are charging, or one that you've entered into voluntarily recently, which would would indicate a fair rate of return -- or fair charges for overhead.

A. We can provide that.

Q. Okay, would you like to provide that subsequent to the hearing?

A. Well --

MR. CARR: We may have it, Mr. Stamets. We'll offer testimony with Mr. Buettner that I think will correct that.

MR. STAMETS: Okay, very good.

Q. Looking at Exhibit Number Four, it would

appear as though there is a substantial risk that that well will ever pay out. I'm talking about the Dryden No. 1.

A. There is.

Q. And Dryden No. 2, that one looks like a sure payout.

A. Yes. That No. 2 has good economics.

Q. Now, it would appear to me as though Koch has taken on substantial risk already in drilling these wells before getting any compulsory pooling for it.

A. Well, it was done in good faith and perhaps some later testimony will -- will explain that.

Yes, they took a risk.

Q. And essentially you pretty well know where you're going to stand on these two wells as far as pay out is concerned.

A. Well, we hope.

MR. STAMETS: All right. Any other questions of this witness? Mr. Chavez?

QUESTIONS BY MR. CHAVEZ:

Q. Mr. Friend, does the revenue that is shown on Exhibit Number Four, does that include the adjustment for increase in gas prices under Section 103 N.G.P.A.?

A. No, it does not include it. It does

not include an escalation; neither are the operating costs escalated. I believe that will be determined more by inflation, and again, our policy -- our policy they do not escalate prices, and when it's as unknown as it is now, I don't really feel that it is wise to escalate prices.

Q. Why is that?

A. The gas price went up -- I may be off about it, but $2.48, approximately; from there, $2.50. The next increase was to $2.51. So I'm not sure what has happened in the past is going to continue in the future, because the rate of increase in prices is going down, we had it two cents in one month, to about one cent, and if inflation is controlled there would not be additional increases.

MR. CHAVEZ: That's all I have.

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

MR. CARR: I would call Mr. Buettner.

ROBERT D. BUETTNER

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. My name is Robert Douglas Buettner. I reside at 15027 Castle Drive, Wichita, Kansas.

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

A. I am employed as Secretary and Attorney for Koch Exploration Company, a wholly owned subsidiary of Koch Industries, Incorporated.

Q. Mr. Buettner, have you previously testified before this Commission or one of its Examiners and had your credentials made a matterof record?

A. I have not.

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

A. I graduated with a Bachelor of Arts from the College of Worchester in Worchester, Ohio, in 1969, with a major in geology; subsequently did graduate work in geology at the University of Cincinnati, and obtained a Juris Doctorate degree from Cincinnati in 1973.

I was thereafter admitted to the practice of law in the States of Ohio, Illinois, Mic higan, and Kansas

And I have previously appeared before administrative tribunals, which, like this one, administer the oil and gas conservation laws in the States of Colorado, Illinois, Michigan, North Dakota, South Dakota, Utah, and Wyoming.

Through the period since 1973 I have been employed as an attorney for Marathon Oil Company, for American Natural Resources Company, and since February, 1980, with Koch Industries in the capacities that I've described.

In my position with Koch my professional responsibilities include the negotiation, drafting, and review of title status and joint operations documents for wells that Koch participates in.

Q. Were you responsible for attempting to obtain voluntary joinder in the subject wells by all working interest owners in the subject spacing units?

A. I was.

Q. Are you familiar with the applications filed for Koch in each of these cases?

A. I am.

Q. Are you familiar with the status of the various wells? On these units?

A. Yes, I am.

MR. CARR: Is Mr. Buettner qualified to

testify in this matter?

MR. STAMETS: The witness is considered qualified.

Q. Mr. Buettner, would you please refer to what has been marked for identification as Koch Exhibit Number Five, and explain to Mr. Stamets what this is and what it shows?

A. That exhibit is a copy, which I recognize from the Koch file designation in the upper righthand corner of it, of a letter dated February 20th, 1980, addressed to Reserve Oil, Incorporated, from the land manager of Koch Exploration Company, which concerns a joint well proposal regarding the Koch No. 2 Dryden Well. It, the letter enclosed with it two copies of the joint operating agreement and authorization for expenditure, and a copy of the prognosis and well program regarding that well.

This was the first approach that Koch made to Getty -- or to the company which was subsequently merged into Getty, and it was made about eleven months before the first well was spudded.

I'll point out, as will become apparent from the next exhibit that we get to, that the AFE on that well, the AFE which is attached to this exhibit, is the AFE for the Dryden No. 1 Well, which was returned by -- stamped

Getty Reserve Oil Company, Inc., and it was indeed executed by a representative of Getty Reserve.

Q. Will you now refer to Exhibit Number Six and review this?

A. Exhibit Number Six, which I recognize from the file stamp in the upper righthand corner as being a business record of Koch Industries, is a copy of a letter from Getty Oil Company addressed to Koch Exploration Company and dated May 29th, 1980.

It concerns the Dryden No. 1 and Dryden No. 2 Wells and it states that -- that it contains -- and returned with it are copies, executed copies, of the AFE submitted by Koch to Getty.

Subsequent to the time that that -- that that letter was received, and of course, that letter was received after -- after our submittal to Getty, the joint operating agreements were not in fact returned. In fact, we were subsequently contacted by a land representative of Getty Oil and he stated at that time that Getty was revoking its authorization of the AFEs on the basis that they could not confirm that Getty had title to the 1/8th interest in question.

Accordingly, Koch scheduled the forced pooling causes, which have finally come on for hearing today.

Getty then orally contacted our land re-

presentatives again and asked that those causes be continued so that they might further examine their title records to determine whether indeed they did claim title to the 1/8th interest in question.

And Koch made a response which is reflected in our next exhibit.

Q. That is Exhibit Seven and it includes two documents which are put together.

A. Exhibit Seven, which I also recognize as being a business record of Koch based on the file stamps that are on it, is a letter dated February 18th, 1981, addressed to Getty Reserve Oil, Inc., Care of Getty Oil Company, related to the Dryden No. 1 and Dryden No. 2 Wells, and it's a letter which I wrote, and it transmits to Getty the letter agreement, a joint -- two joint operating agreements, and authorizations of expenditures covering the Dryden No. 1 and Dryden No. 2 Wells.

Referring to the letter agreement, which is the second -- which is the second, third, and fourth pages of that, of the exhibit, the second page of that letter really contains the guts of the agreement which we thought we had an oral approval from Getty On when we sent it out to them.

Specifically, the arrangement which we had reached with GEtty, and I point out that this arrangement

this letter is dated February 18th, 1981, and in fact, the second Dryden well was completed on the 19th of February, 1981, so the well had already been drilled at this time, Getty had agreed that they would execute and return to Koch their joint operating agreements and AFEs which were attached to the letter.

Koch was then to bill Getty for its share of its drilling expenses in accord with their joint operating ageement.

The billings were to include interest at the rate provided for in the operating agreement from the date of spud of the respective wells. If Getty did not approve title to the wells by payment in full of all of those billings within six months of the date of the spudding of the Dryden Well No. 2, then Exhibits One and Two would be null and void and Koch would -- would come in for a forced pooling before this Commission, and in the interim Koch was to continue its forced pooling process.

To date Koch has billed Getty, and incidentally, there's another provision in here that in the event that Getty did not pay its billings that we sent to them, then they would not oppose us in force pooling hearing, which was to take place after that.

In fact, Getty never actually executed

and returned this agreement. In fact, we've had no further contact with GEtty since that time.

Koch has invoiced Getty. Getty has not paid any of these invoices. Koch has honored its proposal and the six months have passed since the spudding of the second Dryden well, and now Koch would ask that it be put in the position which it thought it was going to be in when it spudded those wells.

I do note that as far as I know Getty is not here today and they're honoring the spirit, I guess, if not the letter of this agreement.

Q. Attached, I believe, is an operating agreement.

A. That's correct, and if I may, I'll just go right back to the COPAS accounting procedure which is attached as Exhibit C to each of those agreements and to get to the question on operating expenses and overhead, the numbers which we'd originally proposed to Getty and which were actually reflective of the kind of charges that we're making, call for an overhead producing well rate of $200 per month, and Mr. Friend's estimates, of course, added to that actual operating expenses, and under those circumstances I believe Mr. Friend was making allowance for overhead of only about $150 a month and we'd actually proposed, and we thought we

had an agreement with Getty for substantially more than that, for $200 a month.

MR. STAMETS: Does this agreement provide for a risk factor?

A. It does provide for operations by less than all parties and --

MR. STAMETS: Where is that shown?

A. Okay, that is shown on page five of the joint operating agreement.

And I'll -- and that would provide, in the case of wells other than the subject well, that is, the first well to be drilled, for a penalty of 200 percent.

MR. STAMETS: Where is that shown?

A. Okay, we're looking at -- on page five at the bottom of that page there are two paragraphs lettered with upper case letters and parenthetical (B) provides 200 percent of that portion approximate expenses of drilling, re-working, et cetera, et cetera.

MR. STAMETS: Okay, maybe I'm looking at the wrong page five.

A. Okay, page five of the joint operating agreement itself and not of the accounting procedure.

MR. STAMETS: Okay.

Q. Mr. Buettner, I direct your attention now

to what has been marked for identification as Koch Exhibit Number Eight and ask if you would just identify those?

A. Koch Exhibit Number Eight is a letter to Getty Oil Company. It is certified mail, return receipt requested letter, and it advises that -- it advises that it encloses a copy of the docket for the hearing scheduled for August 26, 1981, and states that Getty may have an interest that will be affected by the above referenced cause.

Q. And do we have evidence that the letters were in fact received?

A. I am holding here two certified mail return receipts showing delivery of this, or receipt of this by Getty Oil Company, of both letters and both --

Q. Exhibit Eight contains a number of identical letters. They're addresses also to Rock Hill Oil Company. Could you tell us who this Rock Hill Oil Company is?

A. Rock Hill Oil Company is apparently a predecessor in title of Getty, of the Getty Reserve interest.

Q. Is that what your title data indicated?

A. Our title data indicated Rock Hill. Our people were aware outside the chain of title of the subsequent acquisition, apparent in our view, acquisition by Getty of those interests. Getty no longer claims those interests.

Q. And so that's the status to your knowledge

of the 1/8th interest which is not committed to these wells?

A. That is correct.

Q. Koch filed an application to seek pooling of these lands prior to the drilling of these wells, is that correct?

A. I'm not sure what the initial filing -- what the date of the initial filing was.

Q. Approximately six months ago, in any event?

A. Yes, that's right.

Q. And the wells have not produced to date?

A. That's correct.

Q. And the continuances were as a result of agreements with Getty?

A. They were the results of oral understandings. I don't know if I can identify those as agreements in a legal sense or not.

Q. What will be done with the 1/8th sum that will not be retained by Koch?

A. That will --

Q. That portion of the proceeds?

A. That will, the gas purchaser will be holding that in suspense.

Q. In your opinion have you made a voluntary

effort to resolve this problem and obtain the voluntary joinder of all the working interest in each of these tracts?

A. Very definitely.

Q. Were Exhibits Five, Six, and Seven prepared by you?

A. Yes, they were.

Q. And Exhibit Eight is a list of letters that were prepared giving notice of this hearing, is that correct?

A. That's correct.

MR. CARR: At this time, Mr. Stamets, we would offer Koch Exhibits Five, Six, Seven, and Eight.

MR. STAMETS: These exhibits will be admitted.

MR. CARR: I have nothing further on direct.

CROSS EXAMINATION

BY MR. STAMETS:

Q. Mr. Buettner, is there still a Rock Hill Oil Company?

A. Not to my knowledge.

Q. Do you have any opinion or have you researched this situation to determine who the owner of interest

might be if Getty is not the owner of interest?

A. If Getty is not, no, we keep on coming up with Getty.

They apparently don't want this tract. I should say we have had a title opinion prepared on this, and as I say, as nearly as we can discern from our title examination, the interest would have passed to predecessors in title of Getty, the corporate predecessors of Getty. That's -- that's what we come up with.

Q. Getty has told you, I presume, that they think Rock Hill Oil Company is.

A. They've told us that they don't have the foggiest notion. They only say that -- that Getty does not.

MR. STAMETS: Any other questions of this witness?

MR. CARR: I do want to make one very brief comments, and it will be brief.

MR. STAMETS: The witness may be excused

MR. CARR: Mr. Stamets, I think it's important to note that although Koch now knows where they stand in regard to payout, Getty or anyone else who might have an interest in this would also know at this time what the wells are capable of producing. I think the economics are

marginal. I wouldn't suggest that they're going to rush and try and jump in and participate.

But the fact that the wells have been drilled and are in their present status, we submit, should not preclude the assessment of a risk factor against that 1/8th interest because I believe the statute is clear, it says that you can pool the lands and that the order may provide for a risk factor, and we believe that the normal standards apply and an assessment of a risk factor are supplied by the appropriate method.

MR. STAMETS: The hearing is adjourned.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing 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.

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7129 & 7169 heard by me on 8-26 19 81.

Richard L. Stamets, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
12 August 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

CASE 7129 and 7169

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant:

MR. NUTTER: Call now Case 7129.

MR. PADILLA: Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

MR. NUTTER: And also Case 7169.

MR. PADILLA: Application of Koch Exploration Company for compulsry pooling, San Juan County, New Mexico.

MR. NUTTER: Koch Exploration has requested continuance in these cases.

Cases Numbers 7129 and 7169 will be continued to the Examiner Hearing scheduled to be held at this same place at 9:00 o'clock a. m. August 26th, 1981.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and complete record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7129-7169 heard by me on 8/12, 19 81.

, Examiner
Oil Conservation Division

DRYDEN LEASE OFFSET WELL DATA
T28N R8W
SAN JUAN CO. NEW MEXICO

OPERATOR	LEASE	LOCATION	COMP DATE	INITIAL POT. MCF/D	CUM. PROD. TO 6/1/81 MCF	MAY 1981 PROD MCF
Tenneco	No. 3 Bolack	SW/4 Sec. 20	12-79	2264	179812	7928
Tenneco	No. 1 Gooch	NE/4 Sec. 20	5-79	4367	353744	11380
Tenneco	No. 1 Tapp	SW/4 Sec. 21	7-79	678 OF	131666	5852
Lively Exploration	No. 2 Lively	NW/4 Sec. 21	2-73	4001	676239	2390
Lively Exploration	No. 2E Lively	NE/4 Sec. 21	2-81	2621	18618	16716
Tenneco	No. 3 Tapp	NE/4 Sec. 22	3-80	3120	86192	4553
Tenneco	No. 1 Russell Com	SW/4 Sec. 23	11-79	2643	85009	3342
J. P. McHugh	No. 5 Hardie	SE/4 Sec. 23	5-68	4731	809091	2394
J. P. McHugh	No. 5E Hardie	NE/4 Sec. 23	6-81	344	0	0
Tenneco	No. 1 Story D	SW/4 Sec. 26	12-66	5243	306932	768
J. P. McHugh	No. 1 Florance	NW/4 Sec. 26	6-68	2219	423741	2288
Lively Exploration	No. 1 Lively	SE/4 Sec. 27	12-72	1949	234868	1133
Tenneco	No. 2 Story D	NE/4 Sec. 27	6-80	2443	48649	2748
Tenneco	No. 1 Dryden	SW/4 Sec. 28	1-67	3944	538743	2849
Tenneco	No. 1 Bolack	SW/4 Sec. 29	6-78	1999	142521	1467
Tenneco	No. 2 Gooch	NE/4 Sec. 29	10-79	4012	131667	5626
Koch Ind.	No. 2 Dryden	SW/4 Sec. 22	2-81	684	0	0
Koch Ind.	No. 1 Dryden	NW/4 Sec. 28	2-81	1930	0	0

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Koch EXHIBIT NO. 2
CASE NO. 7729+7169
Submitted by FRIEND
Hearing Date 8/26/81

DRYDEN NO. 1

WELL AND COST DATA

Spud Date:	Jan. 10, 1981
Completion Date:	Feb. 12, 1981
Anticipated Date of Initial Sales:	Sept. 1, 1981
Expected Gas Price:	$2.50/MCF
Expected Operating Costs:	$550/Mo.
Cost to Drill & Complete:	$523,921
Royalty:	1/8
Est. Ult. Prod., MMCF	334516

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
KOCH EXHIBIT NO. 3
CASE NO. 7129+7169
Submitted by FRIEND
Hearing Date 8/26/81

DRYDEN NO. 2

WELL AND COST DATA

Spud Date:	Feb. 2, 1981
Completion Date:	Feb. 19, 1981
Anticipated Date of Initial Sales:	Sept. 1, 1981
Expected Gas Price:	$2.50/MCF
Expected Operating Costs:	$550/Mo.
Cost to Drill & Complete:	$389,682
Royalty:	1/8
Est. Ult. Prod., MMCF	802607

SUMMARY OF ECONOMIC DATA
NO PENALTY
KOCH INDUSTRIES DRYDEN LEASES
SAN JUAN CO. NEW MEXICO

	DRYDEN NO. 1	DRYDEN NO. 2	TOTAL
Net Reserves, MMCF	286	635	921
Revenue to Net Interest, M $	715	1587	2302
Operating Expense, M $	133	189	322
Investment, M $	524	390	914
Cash Flow, M $			
Before Fed. Income Tax	58	1008	1066
After Fed. Income Tax	31	544	576
Cash Flow Discounted 21%, M $			
Before Fed. Income Tax	-225	115	-110
After Fed. Income Tax	-172	18	-154
Rate of Return, %			
Before Fed. Income Tax	2.6	30.4	16.8
After Fed. Income Tax	2.0	21.0	13.0

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Koch EXHIBIT NO. 4
CASE NO. 7129 + 7169
Submitted by FRIEND
Hearing Date 8/26/81

SUMMARY OF ECONOMIC DATA
KOCH INDUSTRIES DRYDEN WELLS
SAN JUAN CO. NEW MEXICO

	100 PERCENT PENALTY			200 PERCENT PENALTY		
	DRYDEN NO. 1	DRYDEN NO. 2	TOTAL	DRYDEN NO. 1	DRYDEN NO. 2	TOTAL
Net Reserves, MMCF	293	655	948	293	677	969
Revenue to Net Interest, M $	732	1638	2370	732	1692	2423
Operating Expense, M $	141	192	333	141	196	338
Investment, M $	524	390	914	524	390	914
Cash Flow, M $						
Before Fed. Income Tax	66	1057	1123	66	1105	1172
After Fed. Income Tax	36	571	607	36	597	633
Cash Flow Discounted 21%, M $						
Before Fed. Income Tax	-224	135	-89	-224	145	-80
After Fed. Income Tax	-171	29	-142	-171	34	-137
Rate of Return, %						
Before Fed. Income Tax	2.9	32.0	17.7	2.9	32.6	18.1
After Fed. Income Tax	2.2	24.3	13.6	2.2	24.7	13.9

C-25-AD

KOCH EXHIBIT ____

February 20, 1980

KOCH EXPLORATION COMPANY

Reserve Oil, Inc.
Post Office Box 17609
Denver, CO 80217

Attention: Mr. Peter Bosche
Division Land Manager

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Koch EXHIBIT NO. 5
CASE NO. 7129 + 7169
Submitted by Buettner
Hearing Date 8/26/81

RE: JOINT WELL PROPOSAL
KOCH #2 DRYDEN
S½ SEC. 22-T28N-R8W
SAN JUAN COUNTY, NEW MEXICO
C-25-AD, NM-03817

Gentlemen:

Koch Exploration Company hereby proposes the drilling of a 6,800' Dakota well to be located 1,100' FWL & 1,800' FSL of Section 28-T28N-R8W, San Juan County, New Mexico. Such well will be located on USA Oil and Gas Lease NM-013861, such lease being jointly owned by Koch (87.5%) and Reserve (12.5%).

In order to facilitate the drilling of this proposed well, we are enclosing the following:

1. Two copies of Joint Operating Agreement.

2. Two copies of Authorization for Expenditure.

3. One copy of Prognosis and Well Program.

After your review of the enclosed material, we respectively request your execution and return of one copy of both the Joint Operating Agreement and Authorization for Expenditure. Additionally, we would appreciate your furnishing us with four executed Designation of Operator forms naming Koch Industries, Inc., P. O. Box 2256, Wichita, Kansas 67201 as Operator of the above-mentioned USA Oil and Gas Lease for the above-described lands.

If you have any question or desire additional information concerning this proposal, please advise the undersigned.

Very truly yours,

KOCH EXPLORATION COMPANY

H. J. Whisnand
Land Manager

HJW:clf
Enc.
cc: J. A. Ziser - Wichita

(OGNOSIS AND WELL PROGR(.

KOCH EXPLORATION COMPANY
P. O. Box 2256
Wichita, Kansas 67201

DATE January 29, 1980

OPERATOR: Koch Exploration Company
WELL NAME: Dryden No. 2
AREA: Basin/Dakota Field
FOOTAGE LOCATION: 1100' FWL & 1800' FSL Section 22-T28N-R8W
GRID LOCATION:
COUNTY & STATE: San Juan County, New Mexico PERMIT NO.:
CONTRACTOR:
ELEVATION: GR 5820' KB 5830'est TD: 6800'

--PROGNOSIS--

GEOLOGICAL PROGRAM

SPECIAL INSTRUCTIONS:

ESTIMATED FORMATION TOPS:

Formation	Top	Subsea	Formation	Top	Subsea
Ojo Alamo	1330	4500	Dakota	6540	-710
Menefee	4080	1750			
Point Lookout	4580	1250			
Mancos	4800	1030			
Gallup	5670	160			
Greenhorn	6420	-590			

OBJECTIVES:

Primary	Depth	Subsea	Secondary	Depth	Subsea
Dakota	6540	-710			

CORRELATION WELLS:
A. Lively Exp Lively No. 2
B. J.P. McHugh Hardie No. 5

--WELL PROGRAM--

SAMPLES: No. of sets:
Interval to be sampled:
30' samples from surface to .
10' samples from to .
5' samples from to .
Special Instructions:

DST's: As required to evaluate sample and log shows.

DST time intervals: IFP_____ min. ISI_____ min.
FFP_____ min. FSI_____ min.

CORES:

Core #	Formation	Est. Top	Footage

Special Instructions: _____

LOGS:

Type	Interval to be Logged
Gamma Ray Induction Log	Int csg to TD
Compensated Neutron Formation Density	Int csg to TD

DISTRIBUTION OF LOGS, CHARTS AND REPORTS:

Company	Attention	Address	No. of Copies Field	Final
Koch Exploration	C.D. McCormick	1515 Arapahoe, Denver, Co. 80202		1
Koch Exploration	David Friend	Box 2256; Wichita, Ks. 67201	2	2
Reserve Oil Co.	Robbie Gries	Box 17609; Denver, Co. 80217	1	1
U.S.G.S. & N.M. Con Comm.				

SUGGESTED SERVICES:

Drill Stem Test None Planned
Coring _____
Core Analysis _____
Logging _____
Mud Contractor _____
Other _____

MUD PROGRAM:

Contractor _____

Mud Properties: Mud up at _____ formation, est. depth _____

0-250' gel-lime slurry 1800-2900' gel-spersene
2900-TD drill w/gas

Unusual Drilling Conditions: _____

CASING PROGRAM:

Surface: 250' 10-3/4"
2900' 7"

Production: 6800' 4-1/2"

DAILY REPORTS & NOTIFICATION OF TESTS, CORES OR LOSS:

Daily drilling reports will be made to the Wichita office of Koch Exploration Company.

Person in Charge:

Name	Office	Home
David D. Friend	316/832-5595	316/755-2586

Other Company Representatives Requiring Calls:

Condition	Name	Company	Phone
Emergency	Vernon Lowe	Koch Exploration	316/267-7546

SPECIAL INSTRUCTIONS TO DRILLING CONTRACTOR:

1. CLEAN SAMPLES are MANDATORY.

2. CALL the WELLSITE GEOLOGIST when a depth of _____ is reached.

Name	Address	Office Phone	Home Phone
James K. Folk	Route 1, Box 41, Aztec, N.M.	505/334-3696	505/334-3696

3. DO NOT DRILL BELOW 6000' UNLESS GEOLOGIST IS ON LOCATION.

4. Keep FIVE-FOOT (5') drilling time from surface to _____. From _____ to TD, keep ONE-FOOT (1') drilling time.

5. Have DRILLER PICK and report drilling time TOP of the _____ formation (estimated at _____).

6. STRAP the DRILL PIPE on the trip nearest _____ and again prior to drilling the _____ (_____).

AFE No. 605

C-25-AD

KOCH INDUSTRIES, INC.

AUTHORIZATION FOR EXPENDITURE

LEASE NAME and WELL NO. Dryden Well No. 2

LOCATION Section 22-28N-8W COUNTY San Juan

FIELD Basin/Dakota STATE New Mexico

Authority Is Requested to Expend $ 275,691 (Koch's part)

for drilling and completing Dryden Well No. 1

KOCH Working Interest 87.5 KOCH Net Interest 76.5625%

Reason for Expenditure: Anticipate ultimate production of approximately 764 MMCF which will give a reasonable rate of return in excess of 20%.

Payout 3 years Based on

Particulars	Estimated Cost
Intangible drilling and completion costs	$223,800
Tangible drilling and completion costs	91,275
	$ 315,075

PARTICIPANTS

Operator: Koch Exploration Company	W.I. 87.5%	$ 275,691
Partner: Reserve Oil Company	W.I. 12.5%	$ 39,384
Partner:	W.I.	$
Partner:	W.I.	$
	1.0000	$ 315,075

Approvals - KOCH INDUSTRIES, INC.

Approved by

Approved by

Date Prepared January 29, 1980

PARTNERS

Please indicate your approval by signing and returning one copy.

Company GETTY RESERVE OIL, INC.

By

Date 5/22/80

AFE NAME AND WELL NO. Dryden #2 AFE NO. 605 SEC. W. I. 87.5%

FIELD Rky Mtn. COUNTY San Juan STATE New Mexico LOCATION Sec. 22-T28N-R8W

T. D. P. 6800 FT. FORMATION Koch Exploration Company FIELD OR AREA Basin/Dakota

DRILLING (INTANGIBLES): DATE

	Producer	Dry Hole
LOCATION EXPENSE:		
DIG PITS $ 2000 FILL PITS $ 2000 ROADS-BRIDGES $ 3500		
DRGD.-GRADE $ ____ SURV. LOCATION $ 500 DAMAGES $ 500		
STATE-MISC. FEES $ ____ MISC. (LIST) $ ____		
FEATURE TOTAL	$ 8500	$ 8500
RIG COSTS:		
DRILLING ____ FT. AT $ ____/FT. $ ____ DAY WORK $ 5500 X 15 days = $82,500		
BITS-REAMERS $ 4000 WATER $ 3500 MIST-MIST $ 30,000		
COMPRESSORS $ 6000 CABLE TOOLS $ ____ FUEL-SUPPLIES $ 5,000		
BOILER CHG $ ____ SWAB UNIT $ 5 days @ 1500 = $7500		
MISC. (LIST) $ ____		
FEATURE TOTAL	$ 138,500	$ 131,000
CEMENT AND SERVICES:		
CEMENT AND SERVICE: SURFACE $ 3000 INTR. $ 3000 PROD $ 3000		
FLOATS $ ____ CENTRALIZERS $ ____ GUIDES $ ____		
STAGE TOOLS $ ____ SCRATCHERS $ ____ PLUGGING $ ____		
SQUEEZES $ ____ MISC (LIST) $ ____		
FEATURE TOTAL	$ 9,000	$ 6,000
DRILLING FLUIDS:		
MUD $ 2000 CHEMICALS $ 1000 OIL $ ____		
MISC. (LIST) $ Water 3000		
FEATURE TOTAL	$ 6000	$ 6000
WELL SURVEYS AND TESTING:		
CORING $ ____ CORE HEADS $ ____ TEMP. SURV. $ ____		
CALIPER SURV. $ ____ ELEC. SURV. $ 3000 MUD LOG $ ____		
D. S. T.S ____ AT $ ____ EA. $ ____ RADIATION LOG $ ____		
MISC. (LIST) $ ____		
FEATURE TOTAL	$ 3000	$ 3000
SPECIAL SERVICES:		
PERFORATING $ 2500 PLUGS-RETAINERS $ 1000 ACID $ 2000		
FRAC. $ 40,000 MISC. TOOL RENTAL $ frac tanks 3000		
FEATURE TOTAL	$ 13,500	$ 0
LABOR AND SUPERVISION:		
CO. LABOR $ ____ SUPV.-PERS. EXP. $ 1000 OVERHEAD $ ____		
DIST EXP. $ ____ CONTRACT LABOR $ 1000 COMMUNICATION $ 500		
FEATURE TOTAL	$ 2500	$ 2500
TRANSPORTATION:		
CO. CARS $ 500 AIR TRAVEL $ ____		
TRUCKING (CASING, TUBING, CABLE TOOLS) $ 2500		
FEATURE TOTAL	$ 3000	$ 3000
OTHER COSTS:		
(ITEMIZE) Consulting Geologist 1800		
Casing Crews 3000		
FEATURE TOTAL	$ 4800	$ 4800
CONTINGENCY ____	$ ____	$ ____
TOTAL INTANGIBLES	$ 223,800	$ 164,800
EQUIPMENT:		
CASING AND TUBING (SIZE, WT., GRD., CPLG., NEW OR USED)		
250 FT. OF 10-3/4 " AT $ 10.50 /FT. $ 2,625		
2900 FT. OF 7" AT $ 7.00 /FT. $ 20,300		
6800 FT. OF 4-1/2" AT $ 4.50 /FT. $ 30,600		
6700 FT. OF 2-3/8" AT $ 2.50 /FT. $ 16,750		
FEATURE TOTAL	$ 70,275	$ 22,925
CASING HD. $ 1000 XMAS TREE OR PUMPING CONNECTION $ 2000	$ ____	$ ____
PUMPING UNIT $ ____ ENGINE OR ELECTRIC MOTOR $ ____	$ ____	$ ____
SUCKER RODS ____	$ ____	
PUMP $ ____ POLISHED ROD $ ____ FEATURE TOTAL	$ 3,000	$ 0
TANKS 2-300 AT $ 3500 LA. $ 7000 BUILD BATTERY $ 2000		
FLOWLINES ____ FT. OF ____ AT $ ____ PER FT. $ ____		
LAY FLOWLINES $ ____ PERICING-PAINTING $ 1000 VALVES-FITTINGS $ 1000		
FEATURE TOTAL	$ 11,000	$ 0
SEPARATOR $ ____ HTR. TRTR. $ ____ DEHYDRATION EQUIP. $ ____	$ ____	$ ____
METERING EQUIP. $ ____	$ ____	$ ____
OTHER (ITEMIZE) Gas Package Unit $7000	$ 7,000	$ 0
TOTAL TANGIBLES	$ 91,275	$ 22,925
TOTAL ESTIMATE	$ 315,075	$ 187,725
LESS CONTRIBUTIONS	$ ____	$ ____
NET WELL COST	$ ____	$ ____
Koch's 87.5% OUR NET COST	$ 275,691	$ 164,259

PREPARED BY David D. Friend DATE 1-29-80 APPROVED ____ DATE ____

APPROVED ____ DATE ____ APPROVED ____ DATE ____

Dryden #2.
C-25-AD

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956

Non-Federal Lands

OPERATING AGREEMENT

DATED

February 20, 1980
~~December 10~~, 19~~79~~,

S/2 of Section 22
FOR UNIT AREA IN/TOWNSHIP 28 North, RANGE 8 West,

San Juan COUNTY, STATE OF New Mexico.

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

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into this ~~10th~~ 20th day of ~~December~~ February, 19 ~~79~~ 80, between Koch Exploration Company, a division of Koch Industries, Inc., 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:

Recognizing that the oil and gas lease committed hereto is currently producing in other lands or formations not committed to this agreement, there shall be no requirement for current examination of title to the oil and gas lease committed hereto; however, at the option of Operator, title to the oil and gas lease as to the drillsite for the proposed well may be examined by an attorney selected by Operator on a complete abstract record prior to drilling the initial test well hereunder. If prepared, a copy of the examining attorney's opinion shall be sent to each party prior to drilling. A good faith effort to satisfy the examining attorney's requirements shall be made by each of the parties to this agreement.

The cost of any such title examination shall be borne by the parties to this agreement, unless such party furnishes Operator an existing title opinion showing clear leasehold title in such party and in that case the cost thereof shall be borne by the party being the cost of the drilling of the initial test well and shall be considered a part of the cost of drilling such well. No charge shall be made; however, for any title examination made by any attorney who is an employee of a party hereto.

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

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

B. Failure of Title:

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

C. Loss of Leases For Other Than Title Failure:

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

~~3. UNLEASED OIL AND GAS INTERESTS~~

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

"Joint Loss"

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 (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

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

6. EMPLOYEES

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

7. TEST WELL

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

S/2 ~~NW/4~~ of Section ~~25~~ 22, Township ~~30~~ 28 North, Range ~~14~~ 8 West, San Juan County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to

6,800 ~~7,350~~ feet or sufficient to test the Dakota formation

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

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

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

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ~~xxx~~ twelve (12%)* percent (~~xx%~~) 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.

* But in no event, however, shall said interest exceed the maximum rate permitted by applicable law.

9. OPERATOR'S LIEN

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

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

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

10. TERM OF AGREEMENT

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

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty thousand and no/100----------Dollars ($20,000.00) 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 $ 10,000.00.

12. OPERATIONS BY LESS THAN ALL PARTIES

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

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

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

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

(B) 200% 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% 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 take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

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

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale, nor shall Operator create any supplier/purchaser relationship with respect to any other party's share of production without express prior written consent of such other party.

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 materials 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

The party presently paying shall continue to
~~Each party shall~~ pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 100% of any such shut-in well payment. The amount of such reimbursement shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisiton shall be subject to the provisions of Section 23 of this agreement.

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

~~18. PREFERENTIAL RIGHT TO PURCHASE~~

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and in-~~terests 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 who bore the costs of such operation 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 defence 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 five thousand ($5,000.00) ~~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

27. INSURANCE

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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.

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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 defence 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.~~

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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.

Notwithstanding any language set out in Section 12 to the contrary, each Non-Consenting Party to a reworking operation on a well conducted pursuant to Section 12 shall, upon commencement of such operation, 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, only insofar as the interval or intervals of the formation or formations which are being reworked and to which such Non-Consenting Party does not desire to join in the reworking thereof, 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, only insofar as the production secured from the interval or intervals of the formation or formations which are subject to said reworking operations accruing with respect to such interest until it reverts) shall equal the total of those certain costs as further described in Subparagraphs (A) and (B) of the third grammatical paragraph under Section 12 hereof.

32. LATER CREATED LEASE BURDENS

If any party hereto hereafter creates any overriding royalty, production payment or other burden against its working interest production, and if any other party conducts operations hereunder in which the party so creating said burden against its working interest production elects not to participate under any provision of this agreement, and, as a result, any party conducting such operations becomes entitled to receive the working interest production otherwise belonging to such other party any party conducting such operations shall receive such production free and clear of any burden so created by the other party, and the latter shall save the party conducting such operations completely harmless with respect to the receipt of such working interest production.

33. NONDISCRIMINATION

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

34. COVENANTS RUN WITH THE LAND

The terms, provisions, covenants and conditions of this agreement shall be deemed to be covenants running with the lands, the lease or leases and leasehold estates covered hereby, and all of the terms, provisions, covenants and conditions of this agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, executors, administrators, personal representatives, successors and assigns.

35. LAWS AND REGULATIONS

All of the provisions of this agreement are expressly subject to all applicable laws, orders, rules and regulations of any governmental body or agency having jurisdiction in the premises, and all operations contemplated hereby shall be conducted in conformity therewith. Any provision of this agreement which is inconsistent with any such laws, orders, rules or regulations is hereby modified so as to conform therewith, and this agreement, as so modified, shall continue in full force.

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

ATTEST:

E. J. Whisnand, Assistant Secretary
KOCH INDUSTRIES, INC.

KOCH EXPLORATION COMPANY, a division of Koch Industries, Inc.

By: _____
R. T. Bick, President

OPERATOR

ATTEST:

_____

RESERVE OIL, INC.

By: _____

ATTEST:

_____

_____

EXHIBIT "A"

February 20, 1980 ~~December 10, 1979~~, by and between Koch Exploration Company, as Operator and Reserve Oil, Inc.

Attached to and made a part of that certain Operating Agreement dated

I. LANDS SUBJECT TO OPERATING AGREEMENT

TOWNSHIP ~~30~~ 28 NORTH, RANGE ~~10~~ 8 WEST
Section ~~[redacted]~~ 22: S/2
containing 320.00 acres, more or less

II. RESTRICTIONS AS TO FORMATIONS OR DEPTHS:

Below the Mesa Verde formation.

III. INTERESTS AND ADDRESSES OF THE PARTIES:

Koch Exploration Company Post Office Box 2256 Wichita, KS 67201	87.5%
Reserve Oil, Inc. Post Office Box 17609 Denver, CO 80217	12.5%

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated ~~December 10, 1979~~ February 10, 1980, Koch Exploration Company as Operator and Reserve Oil, Inc., as Nonoperator.

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** (See Section VI)

   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** (See Section VI)

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

10. **Taxes**

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

11. **Insurance**

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

12. **Other Expenditures**

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

III. OVERHEAD

1. **Overhead - Drilling and Producing Operations**

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

(xxx) 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 (xx) 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 $ 1,050.00
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, commerce 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.

SECTION VI:

Should Operator determine that it is necessary or advisable to retain an outside attorney to represent Operator for the benefit of the Parties at a hearing of, or before, a state or federal regulatory agency concerning a matter directly affecting the Joint Property, then the fees and expenses of such outside attorney shall be considered "cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property" as set out in Section II.6.

KOCH EXHIBIT

Getty Oil Company | Three Park Central, Suite 700, 1515 Arapahoe St.; Denver, CO 80202 • 303/623-4200

H. W. Anderson, District Administrative Coordinator
Denver Exploration and Production District

C-25-AC
C-25-AD
C-25-AE

May 29, 1980

Koch Exploration Company, Inc.
P.O. Box 2256
Wichita, Kansas 67201
ATTENTION: MR. R.L. MC CALMAN

RE: DRYDEN NO. 1, DRYDEN NO. 2
GONSALES NO. 1, ALL IN
SAN JUAN COUNTY, NEW MEXICO

Gentlemen:

We are returning an approved copy of each of your AFEs to drill the above-captioned wells.

Attached is a copy of our geologic and well information requirements. We request that your dailing drilling reports include a daily cost, as well as a cumulative-to-date cost. Should an overexpenditure be anticipated, we will require a supplemental AFE to be in hand for our consideration and approval prior to the occurrence of the overexpenditure.

Very truly yours,

H.W. Anderson

HWA:HRW:lp
atts.

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
KOCH EXHIBIT NO. 6
CASE NO. 7129 + 7169
Submitted by [illegible]
Hearing Date 8/26/81

GETTY OIL COMPANY
DRILLING WELL REQUIREMENTS
FOR JOINT INTEREST PROPERTIES

Reference Well(s): Dryden No. 1, Dryden No. 2 and Gonsales No. 1

Operator: Koch Exploration Company

Please provide Getty Oil Company, Three Park Central, Suite 700, 1515 Arapahoe Street, Denver, Colorado 80202, with the following information relative to the well(s) being drilled by your company in which Getty has a working interest:

1. One copy of your expected drilling program or prognosis prior to spud.

2. A daily telephone report from spud date to well completion (contact Mrs. Bonnie Scales (303) 623-4200). Please include any known geological information in this telephone report, such as sample tops, lithology, shows, etc.

3. Confirmation of drilling report by mail.

4. Timely notification prior to DST, coring, logging, abandonment or any other special operations. During office hours (7:30 a.m. - 4:30 p.m., Monday through Friday) please call (303) 623-4200. Otherwise contact one of the following at home phone listed below:

   A. C.M. Castelluccio - Geologist
   (303) 399-6171

   B. Bert Marier - District Development Geologist
   (303) 795-1271

   C. Abe Landers - Engineer
   (303) 237-9633)

5. Two copies each of preliminary and three copies each of final results of any tests, DST's, core descriptions, core analysis or other special operations.

6. One copy of all notices and reports filed with State, Federal or other agencies.

7. One copy of final well report, completion summary and engineering report.

8. Three copies of wire line log field prints.

9. One sepia and two prints of final log.

10. Sample cut requirements: None.

11. One field and one final copy of mud log (if any). Please arrange to mail field copy daily, if possible.

12. Please advise us of the names and phone numbers of the primary personnel with your company that may be contacted for information regarding this well.

W.J. Newman
District Production Manager

WJN:lp

KOCH EXHIBIT _____

KOCH INDUSTRIES INC.
LEGAL DEPARTMENT

February 18, 1981

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
Koch EXHIBIT NO. 7
CASE NO. 7129 + 7169
Submitted by Buettner
Hearing Date 3/26/81

Getty Reserve Oil, Inc.
c/o Getty Oil Company
3 Park Central
Suite 700
1515 Arapahoe Street
Denver, CO 80202

Attn: Mr. Dan W. Sparks

Re: Dryden #1 and #2, T 28N, R 8W,
San Juan County, NM C-25-AC, C-25-AD

Gentlemen:

Attached for your review and execution if satisfactory, are part and counterpart of a letter agreement and joint operating agreements and authorizations for expenditures covering the captioned wells.

The joint operating agreements and authorizations for expenditures are the same as those you executed a few months ago except for the interest rate change noted in the letter agreement and the insurance provisions. The agreements as submitted herewith reflect the corporate policy of Koch Industries, which is to carry no insurance beyond workmen's compensation for the joint account. The previous submittal was inadvertent and erroneous and reflected a provision in a form proposed by another operator in another area.

Yours very truly,

Robert D. Buettner

R. D. Buettner

cc: H. J. Whisnand w/encs.
David Friend w/o encs.

2/127a

KOCH
EXPLORATION COMPANY

February 18, 1981

Getty Reserve Oil, Inc.
c/o Getty Oil Company
3 Park Central
Suite 700
1515 Arapahoe Street
Denver, CO 80202

Attn: Mr. Dan W. Sparks

Re: Dryden #1 and #2, T 28N, R 8W,
San Juan County, NM C-25-AC, C-25-AD

Gentlemen:

In examining title in preparation for the drilling of the captioned wells, it has appeared to Koch that Getty Reserve is the owner of a .125% working interest in that certain oil and gas lease from the United States of America as Lessor, which covers the drill site units for such wells known as the O. L. Dryden Lease, dated April 1, 1948. You have advised that you desire to participate in the drilling of these wells pursuant to a joint operating agreement and authorization for expenditure attached hereto as Exhibits 1 and 2, respectively, and made a part hereof.

However, you have advised that you are presently unable to satisfy yourselves that you have title to the interests in question.

Therefore, Koch has filed applications with the oil conservation division of the New Mexico Department of Energy and Minerals for an order pooling all mineral interests which will be evaluated by the captioned wells, that is, all interests in the North Half of Section 28 and the South Half of Section 22, all in Township 28 North, Range 8 West NMPM, San Juan County, New Mexico.

Accordingly, it has been and hereby is agreed by and between Getty Oil Company (Getty) and Koch Exploration Company, a division of Koch Industries, Inc., (Koch), effective January 1, 1981 regardless of the date of execution hereof, as follows:

1. Getty shall execute and return to Koch Exhibits 1 and 2.

2. Koch shall thereafter bill Getty for its share of drilling based upon the division of interest shown in the exhibits.

3. Such billings shall include interest at the rate provided for in Paragraph 8 of Exhibit 1 from the date of spud of the well which is the subject of the respective billing through payment date by Getty.

4. If Getty has not signified its approval of title by payment in full of all such billings received by Koch within six (6) months of the date of spudding of the Dryden well #2, then Exhibits 1 and 2 shall be null and void and of no further force and effect and Getty shall have no obligation to pay any part of such billings.

5. Koch shall continue or cause to be continued or withdraw, as it deems necessary, its applications for compulsory pooling hereinabove referred to during the period ending six months after spudding of the Dryden #2 well.

6. If Getty has not paid such billings in full within six months of the date of spudding the Dryden #2 well, then Koch may carry forward its applications for compulsory pooling and Getty agrees that it shall in no way oppose such applications.

7. This agreement shall bind the successors, affiliates and assigns of Koch and Getty.

If the foregoing accurately sets forth your understanding of our agreement and is in all respects satisfactory to Getty,

please execute and then return to this office one fully executed copy of each of this letter, Exhibit 1 and Exhibit 2.

ATTEST:

By _____
H. J. WHISNAND, ASSISTANT SECY

KOCH EXPLORATION COMPANY, a division of Koch Industries, Inc.

_____
R.T. BICK, PRESIDENT

KOCH INDUSTRIES, INC.

ACCEPTED AND AGREED TO THIS ____ DAY OF _____, 1981.

ATTEST:

By _____

GETTY OIL COMPANY

By _____

2/034
2/127

Exhibit 1-A attached to and made a part of letter agreement dated February 18, 1981, between Getty Oil Compan and Koch Exploration Company.

Copy

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956

Non-Federal Lands

OPERATING AGREEMENT

DATED

February 20, 1980,

N½ of Section 28
FOR UNIT AREA IN/TOWNSHIP 28 North, RANGE 8 West,

San Juan COUNTY, STATE OF New Mexico.

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

TABLE OF CONTENTS

A.A.P.L. FORM 610

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 20th day of February, 1980, between Koch Exploration Company, a division of Koch Industries, Inc.,

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:

Recognizing that the oil and gas lease committed hereto is currently producing in other lands or formations not committed to this agreement, there shall be no requirement for current examination of title to the oil and gas lease committed hereto; however, at the option of Operator, title to the oil and gas lease as to the drillsite for the proposed well may be examined by an attorney selected by Operator on a complete abstract record prior to drilling the initial test well hereunder. If prepared, a copy of the examining attorney's opinion shall be sent to each party prior to drilling. A good faith effort to satisfy the examining attorney's requirements shall be made by each of the parties to this agreement.

The cost of any such title examination shall be borne by the parties to this agreement, unless such party furnishes Operator an existing title opinion showing clear leasehold title in such party and in that case the cost thereof shall be borne by the party being the cost of the drilling of the initial test well and shall be considered a part of the cost of drilling such well. No charge shall be made; however, for any title examination made by any attorney who is an employee of a party hereto.

"Joint Loss"

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

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

B. Failure of Title:

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

C. Loss of Leases For Other Than Title Failure:

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

~~3. UNLEASED OIL AND GAS INTERESTS~~

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

4. INTERESTS OF PARTIES

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

If 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 (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

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

6. EMPLOYEES

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

7. TEST WELL

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

N½ of Section 28, Township 28 North, Range 8 West,
San Juan County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to

6,670 feet or sufficient to test the Dakota formation

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

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

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

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the prime rate on date of billing as established by the First National Bank at Wichita, Kansas, plus one percent (1%)* 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.

* But in no event, however, shall said interest exceed the maximum rate permitted by applicable law.

9. OPERATOR'S LIEN

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

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

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

10. TERM OF AGREEMENT

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

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty thousand and no/100---------- Dollars ($20,000.00) 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 $10,000.00.

12. OPERATIONS BY LESS THAN ALL PARTIES

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

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

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

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

(B) 200% 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% 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 take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

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

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale , nor shall Operator create any supplier/purchaser relationship with respect to any other party's share of production without express prior written consent of such other party.

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

The party presently paying shall continue to
~~Each party shall~~ pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 100% of any such shut-in well payment. The amount of such reimbursement shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisiton shall be subject to the provisions of Section 23 of this agreement.

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

~~18. PREFERENTIAL RIGHT TO PURCHASE~~

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and in~~terests 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 ma~~jority 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 who bore the costs of such operation 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 Interhal 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~~ no other 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 five thousand ($5,000.00) ~~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.

Notwithstanding any language set out in Section 12 to the contrary, each Non-Consenting Party to a reworking operation on a well conducted pursuant to Section 12 shall, upon commencement of such operation, 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, only insofar as the interval or intervals of the formation or formations which are being reworked and to which such Non-Consenting Party does not desire to join in the reworking thereof, 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, only insofar as the production secured from the interval or intervals of the formation or formations which are subject to said reworking operations accruing with respect to such interest until it reverts) shall equal the total of those certain costs as further described in Subparagraphs (A) and (B) of the third grammatical paragraph under Section 12 hereof.

32. LATER CREATED LEASE BURDENS

If any party hereto hereafter creates any overriding royalty, production payment or other burden against its working interest production, and if any other party conducts operations hereunder in which the party so creating said burden against its working interest production elects not to participate under any provision of this agreement, and, as a result, any party conducting such operations becomes entitled to receive the working interest production otherwise belonging to such other party any party conducting such operations shall receive such production free and clear of any burden so created by the other party, and the latter shall save the party conducting such operations completely harmless with respect to the receipt of such working interest production.

33. NONDISCRIMINATION

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

34. COVENANTS RUN WITH THE LAND

The terms, provisions, covenants and conditions of this agreement shall be deemed to be covenants running with the lands, the lease or leases and leasehold estates covered hereby, and all of the terms, provisions, covenants and conditions of this agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, executors, administrators, personal representatives, successors and assions.

35. LAWS AND REGULATIONS

All of the provisions of this agreement are expressly subject to all applicable laws, orders, rules and regulations of any governmental body or agency having jurisdiction in the premises, and all operations contemplated hereby shall be conducted in conformity therewith. Any provision of this agreement which is inconsistent with any such laws, orders, rules or regulations is hereby modified so as to conform therewith, and this agreement, as so modified, shall continue in full force.

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

ATTEST:

H. J. WHISNAND, ASSISTANT SEC'Y

KOCH INDUSTRIES, INC.

KOCH EXPLORATION COMPANY, a division of Koch Industries, Inc.

By:

R. T. BICK, PRESIDENT

OPERATOR

ATTEST:

GETTY OIL COMPANY

By: _____

ATTEST:

_____

_____

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated February 20, 1980, by and between Koch Exploration Company, as Operator and Reserve Oil, Inc.

I. LANDS SUBJECT TO OPERATING AGREEMENT

TOWNSHIP 28 NORTH, RANGE 8 WEST
Section 28: N½
containing 320.00 acres, more or less

II. RESTRICTIONS AS TO FORMATIONS OR DEPTHS:

Below the Mesa Verde formation.

III. INTERESTS AND ADDRESSES OF THE PARTIES:

Koch Exploration Company — 87.5%
Post Office Box 2256
Wichita, KS 67201

Reserve Oil, Inc. — 12.5%
Post Office Box 17609
Denver, CO 80217

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated February 20, 1980, Koch Exploration Company as Operator and Getty Oil Company as Nonoperator.

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. prime rate as established on the date of billing by the First National Bank of Wichita, Kansas, plus one percent (1%) per

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 (See Section VI)

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 (See Section VI)

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

(XX) 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 (XX) 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 $ 1,050.00
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 reconditioniag 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.

SECTION VI:

Should Operator determine that it is necessary or advisable to retain an outside attorney to represent Operator for the benefit of the Parties at a hearing of, or before, a state or federal regulatory agency concerning a matter directly affecting the Joint Property, then the fees and expenses of such outside attorney shall be considered "cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property" as set out in Section II.6.

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WAROLE

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

August 18, 1981

Getty Oil Company
III Park Central
Suite 700
1515 Arapahoe Street
Denver, Colorado 80212

Re: New Mexico Oil Conservation Division
Case 7169

OIL CONSERVATION DIVISION
Exhibit No. 8
Case No. 7129 + 7169
Submitted by Buettner
Hearing Date 8-26-81

Gentlemen:

Enclosed is a copy of the docket for the August 26, 1981 Oil Conservation Division Examiner Hearing.

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

Very truly yours,

William F. Carr

WFC:lr

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTE

P 221 117 846

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

SENT TO
Getty Oil Co
STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE	$
CERTIFIED FEE	¢
SPECIAL DELIVERY	¢
RESTRICTED DELIVERY	¢
CONSULT POSTMASTER FOR FEES	
OPTIONAL SERVICES	
RETURN RECEIPT SERVICE	
SHOW TO WHOM AND DATE DELIVERED	¢
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	8/18/81

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
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SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

August 18, 1981

Rock Hill Oil Company
Merchant's LaClede Building
St. Louis, Missouri

Re: New Mexico Oil Conservation Division
Case 7169

Gentlemen:

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

Very truly yours,

William F. Carr

WFC:lr

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUEST

P22 11117847

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

SENT TO: Rock Hill Oil Co
STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE	$
CERTIFIED FEE	¢
SPECIAL DELIVERY	¢
RESTRICTED DELIVERY	¢
CONSULT POSTMASTER FOR FEES	
OPTIONAL SERVICES	
RETURN RECEIPT SERVICE	
SHOW TO WHOM AND DATE DELIVERED	¢
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	8/19/81

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

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WILLIAM F. CARR
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POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

August 18, 1981

Getty Oil Company
III Park Central
Suite 700
1515 Arapahoe Street
Denver, Colorado 80212

Re: New Mexico Oil Conservation Division
Case 7129

Gentlemen:

Enclosed is a copy of the docket for the August 26, 1981 Oil Conservation Division Examiner Hearing.

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

Very truly yours,

William F. Carr

WFC:lr

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTE

P22 1117845

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

SENT TO: Getty Oil Co
STREET AND NO.:
P.O., STATE AND ZIP CODE:

POSTAGE	$
CERTIFIED FEE	¢
SPECIAL DELIVERY	¢
RESTRICTED DELIVERY	¢
CONSULT POSTMASTER FOR FEES	
OPTIONAL SERVICES	
RETURN RECEIPT SERVICE	
SHOW TO WHOM AND DATE DELIVERED	¢
SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	8/18/81

PS Form 3800, Apr. 1976

CAMPBELL, BYRD & BLACK, P.A.
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August 18, 1981

Rock Hill Oil Company
Merchant's LaClede Building
St. Louis, Missouri

Re: New Mexico Oil Conservation Division
Case 7129

Gentlemen:

Enclosed is a copy of the docket for the August 26, 1981 Oil Conservation Division Examiner Hearing.

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

Very truly yours,

William F. Carr

WFC:lr
Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUEST

P22 1117844

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

SENT TO: Rock Hill Oil Co.
STREET AND NO.
P.O., STATE AND ZIP CODE

POSTAGE	$
CERTIFIED FEE	¢
SPECIAL DELIVERY	¢
RESTRICTED DELIVERY	¢
RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED	¢
RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY	¢
RETURN RECEIPT SERVICE: SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY	¢
RETURN RECEIPT SERVICE: SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY	¢
TOTAL POSTAGE AND FEES	$
POSTMARK OR DATE	8/18/81

CONSULT POSTMASTER FOR FEES
OPTIONAL SERVICES

PS Form 3800, Apr. 1976

Exhibit 2-A attached to and made a part of letter agreement dated February 18, 1981, between Getty Oil Company and Koch Exploration Company.

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956

Non-Federal Lands

Copy

OPERATING AGREEMENT

DATED

February 20, 1980,

S½ of Section 22
FOR UNIT AREA IN/TOWNSHIP 28 North, RANGE 8 West,

San Juan COUNTY, STATE OF New Mexico.

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

TABLE OF CONTENTS

A.A.P.L. FORM 610

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 20th day of February, 1980, between Koch Exploration Company, a division of Koch Industries, Inc.,

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:

Recognizing that the oil and gas lease committed hereto is currently producing in other lands or formations not committed to this agreement, there shall be no requirement for current examination of title to the oil and gas lease committed hereto; however, at the option of Operator, title to the oil and gas lease as to the drillsite for the proposed well may be examined by an attorney selected by Operator on a complete abstract record prior to drilling the initial test well hereunder. If prepared, a copy of the examining attorney's opinion shall be sent to each party prior to drilling. A good faith effort to satisfy the examining attorney's requirements shall be made by each of the parties to this agreement.

The cost of any such title examination shall be borne by the parties to this agreement, unless such party furnishes Operator an existing title opinion showing clear leasehold title in such party and in that case the cost thereof shall be borne by the party being the cost of the drilling of the initial test well and shall be considered a part of the cost of drilling such well. No charge shall be made; however, for any title examination made by any attorney who is an employee of a party hereto.

"Joint Loss"

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

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

B. Failure of Title:

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

C. Loss of Leases For Other Than Title Failure:

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

~~3. UNLEASED OIL AND GAS INTERESTS~~

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

4. INTERESTS OF PARTIES

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

If 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 (⅛) royalty, such party shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

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

6. EMPLOYEES

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

7. TEST WELL

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

S½ of Section 22, Township 28 North, Range 8 West,
San Juan County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to

6,800 feet or sufficient to test the Dakota formation

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

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

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

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the prime rate on date of billing as established by the First National Bank at Wichita, Kansas, plus one percent (1%)* 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.

* But in no event, however, shall said interest exceed the maximum rate permitted by applicable law.

9. OPERATOR'S LIEN

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

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

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

10. TERM OF AGREEMENT

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

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty thousand and no/100---------- Dollars ($20,000.00) 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 $10,000.00.

12. OPERATIONS BY LESS THAN ALL PARTIES

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

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

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

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

(B) 200% 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% 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 take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

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

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale, nor shall Operator create any supplier/purchaser relationship with respect to any other party's share of production without express prior written consent of such other party.

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

The party presently paying shall continue to ~~Each party shall~~ pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment date. The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 100% of any such shut-in well payment. The amount of such reimbursement shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisiton shall be subject to the provisions of Section 23 of this agreement.

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

~~18. PREFERENTIAL RIGHT TO PURCHASE~~

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

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 who bore the costs of such operation 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~~ no other 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 five thousand ($5,000.00) ~~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

35. LAWS AND REGULATIONS

All of the provisions of this agreement are expressly subject to all applicable laws, orders, rules and regulations of any governmental body or agency having jurisdiction in the premises, and all operations contemplated hereby shall be conducted in conformity therewith. Any provision of this agreement which is inconsistent with any such laws, orders, rules or regulations is hereby modified so as to conform therewith, and this agreement, as so modified, shall continue in full force.

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

ATTEST:

H. J. WHISNAND, ASSISTANT SEC'Y
KOCH INDUSTRIES, INC.

KOCH EXPLORATION COMPANY, a division of Koch Industries, Inc.

R. T. BICK, PRESIDENT

OPERATOR

ATTEST:

GETTY OIL COMPANY

By: _____

ATTEST:

_____

_____

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated February 20, 1980, by and between Koch Exploration Company, as Operator and Reserve Oil, Inc.

I. LANDS SUBJECT TO OPERATING AGREEMENT

TOWNSHIP 28 NORTH, RANGE 8 WEST
Section 22: S½
containing 320.00 acres, more or less

II. RESTRICTIONS AS TO FORMATIONS OR DEPTHS:

Below the Mesa Verde formation.

III. INTERESTS AND ADDRESSES OF THE PARTIES:

Koch Exploration Company Post Office Box 2256 Wichita, KS 67201	87.5%
Reserve Oil, Inc. Post Office Box 17609 Denver, CO 80217	12.5%

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

COPAS

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated February 20, 1980, Koch Exploration Company as Operator and Getty Oil Company as Nonoperator.

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~~ prime rate as established on the date of billing by the First National Bank of Wichita, Kansas, plus one percent (1%) 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 (See Section VI)

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 (See Section VI)

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 ope tion thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of t Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Pa ties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Wor men's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its electi include the risk under its self-insurance program and in that event, Operator shall include a charge at Operato 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 I and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

(XX) 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 offi and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeal under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection w matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be consider as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless su 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 consulta services and contract services of technical personnel directly employed on the Joint Property shall ( ) sh not (XX) 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 $1,050.00
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 the date the drilling or completion rig is released, whichever is later, except that no charge sh 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 equipme arrives on location and terminate on the date the drilling or completion equipment moves off loc tion or rig is released, whichever occurs first, except that no charge shall be made during suspe sion 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) co secutive days or more shall be made at the drilling well rate. Such charges shall be applied the period from date workover operations, with rig, commence through date of rig release, exce that no charge shall be made during suspension of operations for fifteen (15) or more consecuti days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be consider as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled do hole shall be considered as a one-well charge providing each completion is considered a separa well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the produ tion shall be considered as a one-well charge providing the gas well is directly connected to a pe manent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operatio are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowab 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 t agreement to which this Accounting Procedure is attached. The adjustment shall be computed by mul plying the rate currently in use by the percentage increase or decrease in the average weekly earnings Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar ye preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Produ tion Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or t equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall 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.

SECTION VI:

Should Operator determine that it is necessary or advisable to retain an outside attorney to represent Operator for the benefit of the Parties at a hearing of, or before, a state or federal regulatory agency concerning a matter directly affecting the Joint Property, then the fees and expenses of such outside attorney shall be considered "cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property" as set out in Section II.6.

AFE No. 605

KOCH INDUSTRIES, INC.

AUTHORIZATION FOR EXPENDITURE

Exhibit 2-B attached to and made a part of letter agreement dated _____, 1981 between Getty Oil Company and Koch Exploration Co.

LEASE NAME and WELL NO. Dryden Well No. 2

LOCATION Section 22-28N-8W COUNTY San Juan

FIELD Basin/Dakota STATE New Mexico

Authority Is Requested to Expend $ 275,691 (Koch's part)

for drilling and completing Dryden Well No. 1

KOCH Working Interest 87.5 KOCH Net Interest 76.5625%

Reason for Expenditure: Anticipate ultimate production of approximately 764 MMCF which will give a reasonable rate of return in excess of 20%.

Payout 3 years Based on

Particulars	Estimated Cost
Intangible drilling and completion costs	$223,800
Tangible drilling and completion costs	91,275
	$ 315,075

PARTICIPANTS

Operator:	Koch Exploration Company	W.I. 87.5%	$ 275,691
Partner:	Reserve Oil Company	W.I. 12.5%	$ 39,384
Partner:		W.I.	$
Partner:		W.I.	$
		1.0000	$ 315,075

Approvals - KOCH EXPLORATION COMPANY

Approved by _____
R. T. BICK, PRESIDENT

Approved by _____

Date Prepared _____

PARTNERS

Please indicate your approval by signing and returning one copy.

Company _____

By _____

Date _____

LEASE NAME AND WELL NO. Drydo[illegible]2 — NO. 605 — W.I. 87.5%

DIVISION Rky Mtn. — COUNTY San Juan — STATE New Mexico — LOCATION Sec. 22-T28N-R9W — FIELD OR AREA Basin/Dakota

T.D. 6800 FT. — OPERATOR Koch Exploration Company — DATE

DRILLING INTANGIBLES:

	Proposed	Dry Hole
LOCATION EXPENSE:		
DIG PITS $ 2000; FILL PITS $ 2000; ROADS-BRIDGES $ 3500		
DRCD.-GRADE $; SURV. LOCATION $ 500; DAMAGES $ 500		
STATE-MISC. FEES $; MISC. (LIST) $		
FEATURE TOTAL	$ 8500	$ 8500
RIG COSTS:		
DRILLING FT. AT $ /FT. $; DAY WORK $ 5500 X 15 days = $82,500		
BITS-REAMERS $ 4000; WATER $ 3500; MINT-MONT $ 30,000		
COMPRESSORS $ 6000; CABLE TOOLS $; FUEL-SUPPLIES $ 5,000		
BOILER CHG $; SWAB UNIT $ 5 days @ 1500 = $7500		
MISC. (LIST) $		
FEATURE TOTAL	$ 138,500	$ 131,000
CEMENT AND SERVICES:		
CEMENT AND SERVICE: SURFACE $ 3000; INTR. $ 3000; PROD $ 3000		
FLOATS $; CENTRALIZERS $; GUIDES $		
STAGE TOOLS $; SCRATCHERS $; PLUGGING $		
SQUEEZES $; MISC (LIST) $		
FEATURE TOTAL	$ 9,000	$ 6,000
DRILLING FLUIDS:		
MUD $ 2000; CHEMICALS $ 1000; OIL $		
MISC. (LIST) $ Water 3000		
FEATURE TOTAL	$ 6000	$ 6000
WELL SURVEYS AND TESTING:		
CORING $; CORE HEADS $ —; TEMP. SURV. $		
CALIPER SURV. $; ELEC. SURV. $ 3000; MUD LOG $		
D.S.T.S AT $; EA. $; RADIATION LOG $		
MISC. (LIST) $		
FEATURE TOTAL	$ 3000	$ 3000
SPECIAL SERVICES:		
PERFORATING $ 2500; PLUGS-RETAINERS $ 1000; ACID $ 2000		
FRAC. $ 40,000; MISC. TOOL RENTAL $ frac tanks 3000		
FEATURE TOTAL	$ 48,500	$ 0
LABOR AND SUPERVISION:		
CO. LABOR $; SUPV.-PERS. EXP. $ 1000; OVERHEAD $		
DIST EXP. $; CONTRACT LABOR $ 1000; COMMUNICATION $ 500		
FEATURE TOTAL	$ 2500	$ 2500
TRANSPORTATION:		
CO. CARS $ 500; AIR TRAVEL $		
TRUCKING (CASING, TUBING, CABLE TOOLS) $ 2500		
FEATURE TOTAL	$ 3000	$ 3000
OTHER COSTS:		
(ITEMIZE) Consulting Geologist 1800		
Casing Crews 3000		
FEATURE TOTAL	$ 4800	$ 4800
CONTINGENCY!	$	$
TOTAL INTANGIBLES	$ 223,800	$ 164,800

EQUIPMENT:

CASING AND TUBING (SIZE, WT., GRD., CPLG., NEW OR USED)

Ft.	Of	At $/Ft.	$	Proposed	Dry Hole
250	10-3/4 "	10.50	2,625		
2900	7"	7.00	20,300		
6800	4-1/2"	4.50	30,600		
6700	2-3/8"	2.50	16,750		
FEATURE TOTAL				$ 70,275	$ 22,925

	Proposed	Dry Hole
CASING HD. $ 1000; XMAS TREE OR PUMPING CONNECTION $ 2000	$	$
PUMPING UNIT $; ENGINE OR ELECTRIC MOTOR $	$	$
SUCKER RODS $		
PUMP $; POLISHED ROD $; FEATURE TOTAL	$ 3,000	$ 0
TANKS 2-300 AT $ 3500 EA. $ 7000; BUILD BATTERY $ 2000		
FLOWLINES FT. OF AT $ PER FT. $		
LAY FLOWLINES $; FENCING-PAINTING $ 1000; VALVES-FITTINGS $ 1000		
FEATURE TOTAL	$ 11,000	$ 0
SEPARATOR $; HTR. TRTR. $; DEHYDRATION EQUIP. $	$	$
METERING EQUIP. $	$	$
OTHER (ITEMIZE) Gas Package Unit $7000	$ 7,000	$ 0
TOTAL TANGIBLES	$ 91,275	$ 22,925
REMARKS		
TOTAL ESTIMATE	$ 315,075	$ 187,725
LESS CONTRIBUTIONS	$	$
NET WELL COST	$	$
Koch's 87.5% — KOCH NET COST	$ 275,691	$ 164,259

ESTIMATED BY David D. Friend — DATE 1-29-80 — APPROVED — DATE

APPROVED — DATE — APPROVED — DATE

AFE No. 605

KOCH INDUSTRIES, INC.

AUTHORIZATION FOR EXPENDITURE

LEASE NAME and WELL NO. Dryden Well No. 2

LOCATION Section 22-28N-8W COUNTY San Juan

FIELD Basin/Dakota STATE New Mexico

Authority Is Requested to Expend $ 275,691 (Koch's part)

for drilling and completing Dryden Well No. 1

KOCH Working Interest 87.5 KOCH Net Interest 76.5625%

Reason for Expenditure: Anticipate ultimate production of approximately 764 MMCF which will give a reasonable rate of return in excess of 20%.

Payout 3 years Based on

Particulars	Estimated Cost
Intangible drilling and completion costs	$223,800
Tangible drilling and completion costs	91,275
	$ 315,075

PARTICIPANTS

Operator:	Koch Exploration Company	W.I. 87.5%	$ 275,691
Partner:	Reserve Oil Company	W.I. 12.5%	$ 39,384
Partner:		W.I.	$
Partner:		W.I.	$
		1.0000	$ 315,075

Approvals - KOCH INDUSTRIES, INC.

Approved by J.J. Zisser

Approved by

Date Prepared January 29, 1980

PARTNERS

Please indicate your approval by signing and returning one copy.

Company GETTY RESERVE OIL, INC.

By

Date 5/22/80

DETAIL WELL ESTIMATE

CASE NO. _____ E NO. 605 OUR W. I. 87.5%

LEASE NAME AND WELL NO. Dryden No. 2 LOCATION Sec. 22-T28N-R8W

DISTRICT Rky Mtn. COUNTY San Juan STATE New Mexico FIELD OR AREA Basin/Dakota

EST. T. D. 6800 FT. OPERATOR Koch Exploration Company DATE _____

DRILLING INTANGIBLES:	PRODUCER	DRY HOLE
- LOCATION EXPENSE:		
DIG PITS $ 2000 FILL PITS $ 2000 ROADS-BRIDGES $ 3500		
DISCO.-GRADE $ _____ SURV. LOCATION $ 500 DAMAGES $ 500		
STATE-MISC. FEES $ _____ MISC. (LIST) $ _____		
FEATURE TOTAL	$ 8500	$ 8500
- RIG COSTS:		
DRILLING _____ FT. AT $ _____/FT. $ _____ DAY WORK $ 5500 X 15 days = $82,500		
BITS-REAMERS $ 4000 WATER $ 3500 MIRT-MORT $ 30,000		
COMPRESSORS $ 6000 CABLE TOOLS $ _____ FUEL-SUPPLIES $ 5,000		
BOILER CHG $ _____ SWAB UNIT $ 5 days @ 1500 = $7500		
MISC. (LIST) $ _____		
FEATURE TOTAL	$ 138,500	$ 131,000
- CEMENT AND SERVICES:		
CEMENT AND SERVICE: SURFACE $ 3000 INTR. $ 3000 PROD $ 3000		
FLOATS $ _____ CENTRALIZERS $ _____ GUIDES $ _____		
STAGE TOOLS $ _____ SCRATCHERS $ _____ PLUGGING $ _____		
SQUEEZES $ _____ MISC (LIST) $ _____		
FEATURE TOTAL	$ 9,000	$ 6,000
- DRILLING FLUIDS:		
MUD $ 2000 CHEMICALS $ 1000 OIL $ _____		
MISC. (LIST) $ Water 3000		
FEATURE TOTAL	$ 6000	$ 6000
- WELL SURVEYS AND TESTING:		
CORING $ _____ CORE HEADS $ _____ TEMP. SURV. $ _____		
CALIPER SURV. $ _____ ELEC. SURV. $ 3000 MUD LOG $ _____		
D. S. T.S _____ AT $ _____ EA. $ _____ RADIATION LOG $ _____		
MISC. (LIST) $ _____		
FEATURE TOTAL	$ 3000	$ 3000
- SPECIAL SERVICES:		
PERFORATING $ 2500 PLUGS-RETAINERS $ 1000 ACID $ 2000		
FRAC. $ 40,000 MISC. TOOL RENTAL $ frac tanks 3000		
FEATURE TOTAL	$ 48,500	$ 0
- LABOR AND SUPERVISION:		
CO. LABOR $ _____ SUPV.-PERS. EXP. $ 1000 OVERHEAD $ _____		
DIST EXP. $ _____ CONTRACT LABOR $ 1000 COMMUNICATION $ 500		
FEATURE TOTAL	$ 2500	$ 2500
- TRANSPORTATION:		
CO. CARS $ 500 AIR TRAVEL $ _____		
TRUCKING (CASING, TUBING, CABLE TOOLS) $ 2500		
FEATURE TOTAL	$ 3000	$ 3000
- OTHER COSTS:		
(ITEMIZE) Consulting Geologist 1800		
Casing Crews 3000		
FEATURE TOTAL	$ 4800	$ 4800
- CONTINGENCY	$ _____	$ _____
TOTAL INTANGIBLES	$ 223,800	$ 164,800

LL EQUIPMENT		
- CASING AND TUBING (SIZE, WT., GRD., CPLG., NEW OR USED)		
250 FT. OF 10-3/4 " AT $ 10.50 /FT. $ 2,625		
2900 FT. OF 7" AT $ 7.00 /FT. $ 20,300		
6800 FT. OF 4-1/2" AT $ 4.50 /FT. $ 30,600		
6700 FT. OF 2-3/8" AT $ 2.50 /FT. $ 16,750		
FEATURE TOTAL	$ 70,275	$ 22,925
- CASING HD. $ 1000 XMAS TREE OR PUMPING CONNECTION $ 2000	$ _____	$ _____
- PUMPING UNIT $ _____ ENGINE OR ELECTRIC MOTOR $ _____	$ _____	$ _____
- SUCKER RODS _____	$ _____	
PUMP $ _____ POLISHED ROD $ _____ FEATURE TOTAL	$ 3,000	$ 0
- TANKS 2-300 AT $ 3500 LA. $ 7000 BUILD BATTERY $ 2000		
FLOWLINES _____ FT. OF _____ AT $ _____ PER FT. $ _____		
LAY FLOWLINES $ _____ FENCING-PAINTING $ 1000 VALVES-FITTINGS $ 1000		
FEATURE TOTAL	$ 11,000	$ 0
- SEPARATOR $ _____ HTR. TRTR. $ _____ DEHYDRATION EQUIP. $ _____	$ _____	$ _____
- METERING EQUIP. $ _____	$ _____	$ _____
- OTHER (ITEMIZE) Gas Package Unit $7000	$ 7,000	$ 0
TOTAL TANGIBLES	$ 91,275	$ 22,925
TANKS		
TOTAL ESTIMATE	$ 315,075	$ 187,725
LESS CONTRIBUTIONS	$ _____	$ _____
NET WELL COST	$ _____	$ _____
Koch's 87.5% OUR NET COST	$ 275,691	$ 164,259

SIGNATURE BY David D. Friend DATE 1-29-80 APPROVED _____ DATE _____

APPROVED _____ DATE _____ APPROVED _____ DATE _____

CASE 7335: Application of C & E Operators, Inc. for amendment to Division Order No. R-5459, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Division Order No. R-5459 by amending the location of the Northwest-Southeast trending line as described in Exhibit A of said Order No. R-5459 pertaining to Township 30 North, Range 11 West, as follows: Section 6: West and South; Section 8: West and South; Sections 9, 10, and 11: South; and Section 13: West and South.

CASE 7336: Application of C & E Operators, Inc. for three triple completions, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks authority to triply complete the following wells in Township 30 North, Range 11 West, to produce gas from the Farmer-Fruitland Pool, the Aztec-Pictured Cliffs Pool, and the Blanco Mesaverde Pool through separate strings of tubing: Aztec Wells Nos. 8 in Unit N of Section 8 and 9 in Unit M of Section 9; and Fee Well No. 8 in Unit C of Section 8.

CASE 7337: Application of Beartooth Oil & Gas Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Ojito Gallup-Dakota and Blanco Mesaverde production in the wellbore of its Minel Federal Well No. 1 located in Unit E of Section 7, Township 25 North, Range 3 West. Applicant further seeks the establishment of an administrative procedure for approval of downhole commingling of Gallup-Dakota and Mesaverde production in the W/2 of Sections 6 and 7, Township 25 North, Range 3 West.

CASE 7338: Application of Beartooth Oil & Gas Company for downhole commingling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Fruitland and Farmington production in the wellbore of its Elledge Federal 34 Well No. 11 located in Unit D of Section 34, Township 29 North, Range 11 West.

CASE 7339: Application of Doyle Hartman for compulsory pooling, unorthodox well location, and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Jalmat Pool underlying the S/2 of Section 17, Township 24 South, Range 37 East, to be simultaneously dedicated to his Late Thomas Well No. 1 located in Unit M of said Section 17, and to two proposed wells, one to be drilled at an orthodox location in Unit J and the other at an unorthodox location 2310 feet from the South line and 330 feet from the West line, both in said Section 17. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells, and a charge for risk involved in drilling said wells.

CASE 7340: Application of Doyle Hartman for directional drilling and unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to directionally drill his City of Jal Well No. 1, the surface location of which is 1635 feet from the South line and 1210 feet from the West line of Section 20, Township 25 South, Range 37 East, Jalmat Pool, to top the Jalmat at a bottom hole location 660 feet from the South and West Lines at a vertical depth of 2800 feet and to bottom said well at an unorthodox location 330 feet from the South and West lines at a vertical depth of 3500 feet.

CASE 7317: (Continued from July 29, 1981, Examiner Hearing)

Application of Four Corners Gas Producers Association for designation of a tight formation, San Juan and Rio Arriba Counties, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Dakota formation underlying Townships 30 and 31 North, Ranges 2 thru 7 West, containing 270,260 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271.701-705.

CASE 7129: (Continued from August 12, 1981, Examiner Hearing)

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7169: (Continued from August 12, 1981, Examiner Hearing)

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the S/2 of Section 22, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WARDLE

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

August 6, 1981

Mr. Joe D. Ramey
Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Cases 7129 and 7169: Applications of Koch Exploration Company for Compulsory Pooling, San Juan County, New Mexico

Dear Mr. Ramey:

Koch Exploration Company requests that each of the above-referenced cases be continued from the examiner hearing scheduled for August 12, 1981, to the examiner hearing scheduled to be held on August 26, 1981.

Your attention to this request is appreciated.

Very truly yours,

William F. Carr

William F. Carr

WFC:lr

cc: Mr. Bob Buettner

Dockets Nos. 26-81 and 27-81 are tentatively set for August 26 and September 9, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 12, 1981

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:

ALLOWABLE: (1) Consideration of the allowable production of gas for September, 1981, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.

(2) Consideration of the allowable production of gas for September, 1981, for four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7319: Application of Consolidated Oil & Gas, Inc. for six 160-acre Mesaverde proration units, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of six non-standard gas proration units in the Blanco Mesaverde Pool, said units to comprise the NW/4 and SW/4 of Section 18, and the SW/4 and SE/4 of Section 7, both in Township 31 North, Range 12 West, and the NE/4 and SE/4 of Section 3, Township 31 North, Range 13 West, each unit to be dedicated to an existent well already drilled thereon.

CASE 7320: Application of Harvey E. Yates Company for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the Cisco-Canyon formation thru one well located in the NW/4 NE/4 of Section 13, Township 18 South, Range 28 East, Travis-Upper Pennsylvanian Pool.

CASE 7129: (Readvertised)

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7169: (Readvertised)

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the S/2 of Section 22, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7321: Application of Enserch Exploration, Inc. for special pool rules, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Peterson-Mississippian Pool including provisions for 80-acre spacing units and special well location requirements.

CASE 7322: Application of Coleman Oil & Gas, Inc. for downhole commingling and a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Gallegos-Gallup, Greenhorn, and Dakota production in the wellbore of its Navajo-Smith Well No. 1 located in Unit G of Section 24, Township 26 North, Range 12 West. Applicant further seeks approval of a 160-acre non-standard Basin Dakota proration unit comprising the NE/4 of said Section 24.

CASE 7323: Application of Clements Energy Inc. for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests underlying the E/2 of Section 32, Township 15 South, Range 27 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7200: Application of Estoril Producing Corporation for a dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Belco Fed. Well No. 1 located in Unit O of Section 15, Township 23 South, Range 34 East, to produce gas and gas liquids from the Strawn and Morrow formations, Antelope Ridge Field, thru parallel strings of tubing.

CASE 7201: Application of Layton Enterprises, Inc. for a unit agreement, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Todd Lower San Andres Unit Area, comprising 3256 acres, more or less, of Federal and State lands in Township 7 South, Ranges 35 and 36 East.

CASE 7202: Application of Layton Enterprises, Inc. for a waterflood project, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project by the injection of water into the San Andres formation thru 4 injection wells located in Sections 30, 31 and 32 of its Todd Lower San Andres Unit in Township 7 South, Range 36 East.

CASE 7203: Application of Southern Union Exploration Co. of Texas for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Susco Bough "C" Unit Area, comprising 2560 acres, more or less, of State lands in Township 10 South, Range 33 East.

CASE 7204: Application of Bass Enterprises Production Company for salt water disposal, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Delaware formation in the interval from 3820 feet to 3915 feet in its Federal Legg Well No. 1 in Unit B of Section 27, Township 22 South, Range 30 East, Quahada Ridge Field.

CASE 7205: Application of Supron Energy Corporation for a non-standard gas proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard Blanco Mesaverde gas proration unit comprising the NE/4 of Section 35, Township 31 North, Range 12 West, to be dedicated to a well to be drilled at a standard location thereon.

CASE 7183: (Continued from March 11, 1981, Examiner Hearing)

Application of Flag-Redfern Oil Company for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to drill its Osudo St. Com Well No. 2 at an unorthodox location 990 feet from the North and East lines of Section 18, Township 20 South, Range 36 East, North Osudo-Morrow Gas Pool.

CASE 7206: Application of Mobil Producing Inc. for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Devonian formation through perforations from 12,212 feet to 12,218 feet and the open hole interval from 12,240 feet to 12,355 feet in its Santa Fe Pacific Well No. 3 in Unit M of Section 26, Township 9 South, Range 36 East, Crossroads Field.

CASE 7207: Application of Mobil Producing Inc. for lease commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the commingling of Vacuum Grayburg-San Andres production from the State J and State II leases in Section 22, Township 17 South, Range 34 East.

CASE 7208: Application of Gulf Oil Corporation for the amendment of pool rules, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of the White City-Pennsylvanian Gas Pool Rules to provide for 320-acre spacing rather than 640 acres with well locations specified as being at least 1650 feet from the end boundary and 660 feet from the side boundary of the proration unit.

CASE 7129: (Continued from February 25, 1981, Examiner Hearing)

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7169: (Continued from February 25, 1981, Examiner Hearing)

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the S/2 of Section 22, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
25 March 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

CASE 7129 and CASE 7169

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

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

MR. NUTTER: We'll call now Case Number 7129, which is the application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

And also call Case Number 7169, which is the application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

MR. CARR: Mr. Nutter, Koch requests that these cases be continued to the Examiner Hearing on August the 5th, 1981.

MR. NUTTER: We have tentatively scheduled an Examiner Hearing for 9:00 o'clock a. m. August the 5th, 1981, at this same place, and Cases Numbers 7129 and 7169 will be continued to that hearing.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREPY CERTIFY that the foregoing 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.

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7139 & 7169 heard by me on 3/25 1981.

Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
25 February 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

CASE 7129

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant:

MR. NUTTER: Call Case Number 7129.

MR. PADILLA: Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

MR. NUTTER: Applicant has requested continuance of this case.

Case Number 7129 will be continued to the Examiner Hearing scheduled to be held at this same place at 9:00 o'clock a. m. March 25th, 1981.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing 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.

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7/29, heard by me on 4/25 1981.

, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
25 February 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

CASE 7129

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant:

MR. NUTTER: Call Case Number 7129.

MR. PADILLA: Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

MR. NUTTER: Applicant has requested continuance of this case.

Case Number 7129 will be continued to the Examiner Hearing scheduled to be held at this same place at 9:00 o'clock a. m. March 25th, 1981.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing 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.

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7129, heard by me on 4/25 19 81.

_____, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
11 February 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

CASE 7129

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

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

MR. STAMETS: Call next Case 7129.

MR. PADILLA: Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

MR. CARR: Mr. Examiner, Koch requests that this case be continued to the Examiner Hearing scheduled to be held February 25th.

MR. STAMETS: Okay. Case 7129 will be so continued.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing 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.

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7129, heard by me on 3-11 1981.

Richard L. Stamets, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
11 February 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. CASE 7129

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

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

MR. STAMETS: Call next Case 7129.

MR. PADILLA: Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

MR. CARR: Mr. Examiner, Koch requests that this case be continued to the Examiner Hearing scheduled to be held February 25th.

MR. STAMETS: Okay. Case 7129 will be so continued.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing 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.

_____

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

_____, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
28 January 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

CASE 7129

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

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

MR. NUTTER: We'll Call Case Number 7129.

MR. PADILLA: Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

MR. CARR: Mr. Examiner, Koch requests that this case be continued to the Examiner Hearing scheduled for February 11.

MR. NUTTER: Case Number 7129 will be continued to the Examiner Hearing scheduled to be held at this same place at 9:00 o'clock a. m. February 11, 1981.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing 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.

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 1129 heard by me on 1/28 1981.

Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
28 January 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

CASE 7129

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

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

MR. NUTTER: We'll Call Case Number 7129.

MR. PADILLA: Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

MR. CARR: Mr. Examiner, Koch requests that this case be continued to the Examiner Hearing scheduled for February 11.

MR. NUTTER: Case Number 7129 will be continued to the Examiner Hearing scheduled to be held at this same place at 9:00 o'clock a. m. February 11, 1981.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing 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.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7129 heard by me on 1/28 19.81.

Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WAROLE

JEFFERSON PLACE
SUITE I - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

February 20, 1981

Mr. Joe D. Ramey
Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Case 7129: Application of Koch Exploration Company for Compulsory Pooling, San Juan County, New Mexico

Dear Mr. Ramey:

Koch Exploration Company requests that the above-referenced case be continued to the examiner hearing scheduled for March 25, 1981.

Your attention to this request is appreciated.

Very truly yours,

William F. Carr

William F. Carr

WFC:lr

cc: Mr. Bob Buettner

CASE 7162: Application of McCulloch Oil & Gas Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the McKee formation underlying the E/2 of Section 25, Township 20 South, Range 38 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7163: Application of ARCO Oil and Gas Company for the extension of the vertical limits of the Langlie Mattix Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the vertical limits of the Jalmat Pool and the upward extension of the vertical limits of the Langlie Mattix Pool by 165 feet underlying the NE/4 SE/4 of Section 35, Township 23 South, Range 36 East.

CASE 7164: Application of ARCO Oil and Gas Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Devonian and Ellenburger formations, Custer Field, underlying the N/2 of Section 6, Township 25 South, Range 37 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7165: Application of ARCO Oil and Gas Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Langley-Ellenburger Pool underlying the N/2 of Section 33, Township 22 South, Range 36 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7166: Application of Inexco Oil Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Chosa Draw Unit Area, comprising 2,560 acres, more or less, of Federal and State lands in Townships 25 and 26 South, Range 25 East.

CASE 7167: Application of Inexco Oil Company for a unit agreement, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Made Well Anticline Unit Area, comprising 39,238 acres, more or less, of State, Federal, and fee lands in Townships 12, 13, and 14 South, Ranges 21 and 22 East.

CASE 7168: Application of Cavalcade Oil Corporation for an exception to Order No. R-3221, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221 to permit disposal of produced brine into an unlined surface pit located in Unit K or L of Section 33, Township 18 South, Range 30 East.

CASE 7129: (Continued from February 11, 1981, Examiner Hearing)

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7169: Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the S/2 of Section 22, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7170: Application of Threshold Development Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Atoka and Morrow formations for its Conoco 10A State Well No. 1Y in Unit F of Section 10, Township 19 South, Range 29 East.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
14 Jnauary, 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

CASE 7129

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant:

MR. STAMETS: Call next Case 7129.

MR. PADILLA: Application of Koch Exploration Company for a compulsory pooling, San Juan County, New Mexico.

MR. CARR: May it please the Examiner, my name is William F. Carr, with the lawfirm of Campbell, Byrd, and Black, Santa Fe, New Mexico, appearing on behalf of the applicant.

Since Koch had a witness who was unable to show, and we would request the case be continued until the Examiner Hearing two weeks from today.

MR. STAMETS: Okay, Case 7129 will be continued to the January 21st -- no, January 28th Examiner Hearing.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing 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.

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7129, heard by me on 1-14 1981.

Richard L. Stamets, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
14 Jnauary, 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico.

CASE 7129

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant:

MR. STAMETS: Call next Case 7129.

MR. PADILLA: Application of Koch Exploration Company for a compulsory pooling, San Juan County, New Mexico.

MR. CARR: May it please the Examiner, my name is William F. Carr, with the lawfirm of Campbell, Byrd, and Black, Santa Fe, New Mexico, appearing on behalf of the applicant.

Since Koch had a witness who was unable to show, and we would request the case be continued until the Examiner Hearing two weeks from today.

MR. STAMETS: Okay, Case 7129 will be continued to the January 21st -- no, January 28th Examiner Hearing.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing 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.

Sally W. Boyd C.S.R.

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

_____, Examiner
Oil Conservation Division

CASE 7151: Application of C & E Operators, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mesaverde formation underlying the N/2 of Section 9, Township 30 North, Range 11 West, to be dedicated to a well to be drilled at a standard location in the NE/4 and a well to be drilled at a previously approved unorthodox location in the NW/4 of said Section 9. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells, and a charge for risk involved in drilling said wells.

CASE 7152: Application of C & E Operators, Inc. for compulsory pooling and a non-standard proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mesaverde formation underlying a 158.54-acre non-standard gas proration unit comprising the SW/4 of Section 9, Township 30 North, Range 11 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7153: Application of C & E Operators, Inc. for compulsory pooling and a non-standard proration unit, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mesaverde formation underlying a 158.54-acre non-standard gas proration unit comprising the SW/4 of Section 8, Township 30 North, Range 11 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7129: (Continued from January 28, 1981, Examiner Hearing)

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6670: (Continued from January 14, 1981, Examiner Hearing)

In the matter of Case 6670 being reopened and pursuant to the provisions of Order No. R-6183 which order promulgated temporary special rules and regulations for the Red Hills-Devonian Gas Pool in Lea County, New Mexico, including a provision for 640-acre spacing units. Operators in said pool may appear and show cause why the pool should not be developed on 320-acre spacing units.

CASE 7154: Application of Mobil Producing Texas and New Mexico, Inc. for designation of a tight formation, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Mesaverde formation underlying portions of Townships 26 and 27 North, Ranges 2 and 3 West. containing 13,920 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271.701-705.

CASE 7134: (Continued and Readvertised)

Application of Read & Stevens, Inc. for an unorthodox gas well location and two non-standard gas proration units, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval of two 160-acre non-standard proration units in the Buffalo Valley-Pennsylvanian Gas Pool, the first being the NW/4 of Section 13, Township 15 South, Range 27 East, to be dedicated to its Langley "Com" Well No. 1 in Unit C, and the other being the NE/4 of said Section 13 to be dedicated to a well to be drilled at an unorthodox location 1315 feet from the North and East lines of the section.

CASE 7142: Application of Getty Oil Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Otero-Gallup and Basin-Dakota production in the wellbores of its Farming "E" Wells No. 1 in Unit I and No. 3 in Unit E of Section 2, Township 24 North, Range 6 West.

CASE 7143: Application of Morris R. Antweil for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a Morrow test well to be drilled 660 feet from the South and West lines of Section 28, Township 18 South, Range 25 East, the W/2 of said Section 28 to be dedicated to the well.

CASE 7144: Application of Morris R. Antweil for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying the NW/4 SE/4 and in the Wolfcamp thru Mississippian formations underlying the S/2 of Section 10, Township 13 South, Range 38 East, to be dedicated to an existing well located in the NW/4 SE/4 of said Section 10. 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7129: (Continued from January 14, 1981, Examiner Hearing)

Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6940: (Continued from January 14, 1981, Examiner Hearing)

Application of Adobe Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through the Wolfcamp formation underlying the NW/4 SE/4 for oil and the SE/4 for gas, Section 23, Township 20 South, Range 38 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7145: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, contracting vertical limits, and extending horizontal limits of certain pools in Chaves, Eddy, Lea, and Roosevelt Counties, New Mexico:

(a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the North Berry-Morrow Gas Pool. The discovery well is Getty Oil Company Getty 6 State Com Well No. 1 located in Unit K of Section 6, Township 21 South, Range 34 East, NMPM. Said pool would comprise:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 6: Lots 9, 10, 11, 12, 13, 14, 15, and 16

(b) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Santa Rosa production and designated as the Cooper-Santa Rosa Gas Pool. The discovery well is O. H. Berry J. L. Isbell Well No. 5Y located in Unit A of Section 15, Township 24 South, Range 36 East, NMPM. Said pool would comprise:

TOWNSHIP 24 SOUTH, RANGE 36 EAST, NMPM
Section 15: NE/4

(c) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Bone Springs production and designated as the South Corbin-Bone Springs Pool. The discovery well is Southland Royalty Company Federal 21 Com Well No. 1 located in Unit L of Section 21, Township 18 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 18 SOUTH, RANGE 33 EAST, NMPM
Section 21: SW/4

CASE 7125: Application of Western Oil Producers Inc. for the amendment of Order No. R-5399, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Division Order No. R-5399 to include production from all of the Pennsylvanian formations in its Amoco State Well No. 1 at an unorthodox location in Unit M of Section 28, Township 16 South, Range 33 East.

CASE 7126: Application of Franks Petroleum, Inc. for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox location 1980 feet from the North line and 1315 feet from the West line, Section 3, Township 21 South, Range 32 East, Hat Mesa-Morrow Gas Pool, the N/2 of said Section 3 to be dedicated to the well.

CASE 7127: Application of Ellwade Corporation for amendment of Order No. R-6399, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-6399 which approved a 129.52-acre non-standard gas proration unit comprising the W/2 of Section 33, Township 26 South, Range 30 East, for the Wolfcamp formation in the Ross Draw Area. Applicant seeks to have said order also apply to all formations of Pennsylvanian age.

CASE 6670: (Reopened and Readvertised)

In the matter of Case 6670 being reopened and pursuant to the provisions of Order No. R-6183 which order promulgated temporary special rules and regulations for the Red Hills-Devonian Gas Pool in Lea County, New Mexico, including a provision for 640-acre spacing units. Operators in said pool may appear and show cause why the pool should not be developed on 320-acre spacing units.

CASE 7128: Application of HNG Oil Company for pool creation, special pool rules, assignment of a discovery allowable, and dual completion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks creation of a new Wolfcamp oil pool for its San Simon 6 State Comm. Well No. 1 located 1980 feet from the North line and 660 feet from the East line of Section 6, Township 22 South, Range 35 East, with special rules therefor, including provisions for 160-acre spacing. Applicant further seeks a discovery allowable for said well and approval for its dual completion to produce oil from the Wolfcamp and gas from an undesignated Morrow pool thru parallel strings of tubing.

CASE 7129: Application of Koch Exploration Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, 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, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 7130: Application of Read & Stevens, Inc. for an unorthodox gas well location and two non-standard gas proration units, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval of two 160-acre non-standard proration units in the Buffalo Valley-Pennsylvanian Gas Pool, the first being the SE/4 of Section 12, Township 15 South, Range 27 East, to be dedicated to its Trobough "A" State Com. Well No. 1 in Unit J, and the other being the NE/4 of said Section 12 to be dedicated to a well to be drilled at an unorthodox location 1315 feet from the North and East lines of the section.

CASE 7131: Application of Read & Stevens, Inc. for an unorthodox gas well location and two non-standard gas proration units, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval of two 160-acre non-standard proration units in the Buffalo Valley-Pennsylvanian Gas Pool, the first being the SE/4 of Section 1, Township 15 South, Range 27 East, to be dedicated to its Trobough Com. Well No. 1 in Unit J, and the other being the NE/4 of said Section 1 to be dedicated to a well to be drilled at an unorthodox location 1315 feet from the North and East lines of the section.

CASE 7132: Application of Read & Stevens, Inc. for an unorthodox gas well location and two non-standard gas proration units, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval of two 160-acre non-standard proration units in the Buffalo Valley-Pennsylvanian Gas Pool, the first being the SE/4 of Section 13, Township 15 South, Range 27 East, to be dedicated to its Rose Well No. 1 located in Unit J, and the other being the SW/4 of said Section 13 to be dedicated to a well to be drilled at an unorthodox location 1315 feet from the South and West lines of the section.

CAMPBELL AND BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR

POST OFFICE BOX 2208
JEFFERSON PLACE
SANTA FE, NEW MEXICO 87501
TELEPHONE (505) 988-4421

December 31, 1980

Mr. Joe D. Ramey
Division Director
Oil Conservation Division
New Mexico Department of
Energy & Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Application of Koch Exploration Company for Compulsory Pooling, San Juan County, New Mexico

Dear Mr. Ramey:

Enclosed in triplicate is the application of Koch Exploration Company in the above-referenced matter.

The applicant requests that this matter be included on the docket for the examiner hearing scheduled to be held on January 14, 1981.

Very truly yours,

William F. Carr

WFC:lr

Enclosures

cc: Mr. Bob Buettner

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION OF KOCH EXPLORATION COMPANY FOR COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.

Case _____

APPLICATION

Comes now, KOCH EXPLORATION COMPANY, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests in the Dakota formation in and under the N/2 of Section 28, Township 28 North, Range 8 West, N.M.P.M., San Juan County, New Mexico, and in support thereof would show the Division:

1. Applicant is the owner of 87.5% of the working interest in and under the N/2 of Section 28, and applicant has the right to drill thereon.

2. Applicant proposes to dedicate the above-referenced pooled unit to a well to be drilled at an orthodox location in the N/2 of said Section 28.

3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the N/2 of said Section 28 except Rock Hill Oil Company, owner of a 12.5% working interest.

4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

WHEREFORE, Applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL AND BLACK, P.A.

By William F. Carr

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION OF KOCH EXPLORATION COMPANY FOR COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.

Case _____

APPLICATION

Comes now, KOCH EXPLORATION COMPANY, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests in the Dakota formation in and under the N/2 of Section 28, Township 28 North, Range 8 West, N.M.P.M., San Juan County, New Mexico, and in support thereof would show the Division:

1. Applicant is the owner of 87.5% of the working interest in and under the N/2 of Section 28, and applicant has the right to drill thereon.

2. Applicant proposes to dedicate the above-referenced pooled unit to a well to be drilled at an orthodox location in the N/2 of said Section 28.

3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the N/2 of said Section 28 except Rock Hill Oil Company, owner of a 12.5% working interest.

4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

WHEREFORE, Applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL AND BLACK, P.A.

By William F. Carr

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION OF KOCH EXPLORATION COMPANY FOR COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.

Case _____

APPLICATION

Comes now, KOCH EXPLORATION COMPANY, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests in the Dakota formation in and under the N/2 of Section 28, Township 28 North, Range 8 West, N.M.P.M., San Juan County, New Mexico, and in support thereof would show the Division:

1. Applicant is the owner of 87.5% of the working interest in and under the N/2 of Section 28, and applicant has the right to drill thereon.

2. Applicant proposes to dedicate the above-referenced pooled unit to a well to be drilled at an orthodox location in the N/2 of said Section 28.

3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the N/2 of said Section 28 except Rock Hill Oil Company, owner of a 12.5% working interest.

4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

WHEREFORE, Applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL AND BLACK, P.A.

By William F. Carr

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

Case No. 7129

Application of Koch Exploration Company for Compulsory Pooling, San Juan County, New Mexico.

Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, 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.

DRAFT

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

Con'd
1-28-81
3-25-81
to Feb

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

CASE NO. 7129

Order No. R- 6771

APPLICATION OF KOCH EXPLORATION COMPANY
FOR COMPULSORY POOLING, SAN JUAN COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on ~~January 14~~ August 26, 19 81, at Santa Fe, New Mexico, before Examiner Richard L. Stamets

NOW, on this _____ day of ~~January~~ September, 19 81, 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, Koch Exploration Company, seeks an order pooling all mineral interests in the Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West NMPM, Basin Dakota Pool, San Juan County, New Mexico.

(3) That the applicant has the right to drill ~~and proposes to drill~~ and has drilled a well at a standard location thereon.

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

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

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

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

(8) That any non-consenting working interest owner who 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 who 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 $ 1050 oe per month while drilling and $ 200 oe per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before _____, 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 Dakota formation underlying the N/2 of Section 28, Township 28 North, Range 8 West, NMPM, Basin-Dakota Pool, San Juan County, New Mexico, are hereby pooled to form a standard 320- acre gas spacing and proration unit to be dedicated to a well ~~or~~ drilled at a standard location thereon

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the ____ day of _____, 1981, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Dakota formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the _____ day of _____, 1981, 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 Koch Exploration Company is hereby designated the operator of the subject well and unit.

(3) That within 90 days after the effective date of this order ~~and within 90 days prior to commencing said well~~, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

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

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 45 days after entry of this order; ~~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 who 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 $ 1050 oe per month while drilling and $ 200 oe 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 interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

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