

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

November 1 , 2004 ,
year

OPERATOR Matrix New Mexico Operating Company, LLC

CONTRACT AREA NE/4NE/4 Section 10, Township 13 South, Range 38 East, N.M.P.M.

COUNTY OR PARISH OF Lea STATE OF New Mexico

Well Name: Townsend #1-A

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT
WORTH, TEXAS, 76137-2791, APPROVED
FORM. A.A.P.L. NO. 610 - 1982 REVISED

Hearing Date: November 18, 2004
BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case Nos. 13357 Exhibit No. 5
Submitted by:
Matrix Production Company

EXHIBIT " C "

1 Attached to and made a part of that certain Operating Agreement dated November 1, 2004 by and between Matrix
2 New Mexico Operating Company, LLC, as Operator and Non-Operators.
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4

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6
7 **ACCOUNTING PROCEDURE**
8 **JOINT OPERATIONS**
9

10
11 **I. GENERAL PROVISIONS**
12

13
14 **1. Definitions**
15

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

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

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

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

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

23 "Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

33
34 **2. Statement and Billings**
35

36 Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the
37 preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all
38 charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material
39 and unusual charges and credits shall be separately identified and fully described in detail.
40

41 **3. Advances and Payments by Non-Operators**
42

43 A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated
44 cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month
45 for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from
46 the Non-Operators.

47
48 B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time,
49 the unpaid balance shall bear interest monthly at the prime rate in effect at Bank One of Texas, N.A. +2% on the first day of the month
50 in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which
51 the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the
52 collection of unpaid amounts.

53 **Operator may, at its option, choose to substitute other penalties described elsewhere in this Agreement for failure to pay bills**
54 **within the thirty (30) day time frame described above.**
55

56 **4. Adjustments**
57

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

2
3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts
4 and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of
5 such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and
6 the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the
7 Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of
8 inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph
9 unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of
10 Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators
11 approving such audit.

12
13 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

14
15 6. Approval By Non-Operators

16
17 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this
18 Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard
19 thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the
20 Non-Operators shall be controlling on all Non-Operators.

21
22
23 II. DIRECT CHARGES

24
25 Operator shall charge the Joint Account with the following items:

26
27 1. Ecological and Environmental

28
29 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy
30 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological
31 nature and pollution control procedures as required by applicable laws and regulations.

32
33 2. Rentals and Royalties

34
35 Lease rentals and royalties paid by Operator for the Joint Operations.

36
37 3. Labor

- 38
39 A. (1) Salaries and wages of Operator's field employees ^{and/or consultants} / directly employed on the Joint Property in the conduct of Joint Operations.
40
41 (2) Salaries of First level Supervisors in the field.
42
43 (3) Salaries and wages of Technical Employees ^{and/or consultants} / directly employed on the Joint Property if such charges are excluded from
44 the overhead rates.
45
46 (4) Salaries and wages of Technical Employees ^{and/or consultants} / either temporarily or permanently assigned to and directly employed in the
47 operation or the Joint Property if such charges are excluded from the overhead rates.

48
49 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose
50 salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B
51 may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to
52 the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's
53 cost experience.

54
55 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to
56 Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

57
58 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A of
59 this Section II.

60
61 4. Employee Benefits

62
63 Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase,
64 thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs
65 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of
66 Petroleum Accountants Societies.

1 5. **Material**

2
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall
4 be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent
5 with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6
7 6. **Transportation**

8
9 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

10
11 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the
12 Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available
13 or railway receiving point nearest the Joint Property unless agreed to by the Parties.

14
15 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
16 distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway
17 receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for
18 moving Material to other properties belonging to Operator, unless agreed to by the Parties.

19
20 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the
21 actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by
22 the Council of Petroleum Accountants Societies.

23
24 7. **Services**

25
26 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II
27 and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel
28 directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services
29 or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account
30 unless previously agreed to by the Parties.

31
32 8. **Equipment and Facilities Furnished By Operator**

33
34 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs
35 of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes,
36 depreciation, and interest on gross investment less accumulated depreciation not to exceed ten percent (10 %)
37 per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

38
39 B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of
40 the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor
41 Transport Association.

42
43 9. **Damages and Losses to Joint Property**

44
45 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by
46 fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct.
47 Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has
48 been received by Operator.

49
50 10. **Legal Expense**

51
52 Expense of handling, investigating and settling litigation or claims, / ~~discharging of liens,~~ ^{title and regulatory work,} payment of judgments and amounts paid
53 for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint
54 Property, except that no charge for services of Operator's legal staff or ~~fees or expense of outside attorneys~~ shall be made unless
55 previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III
56 unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

57
58 11. **Taxes**

59
60 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the
61 production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based
62 in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein,
63 charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's
64 working interest.

1 12. Insurance

2
3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint
4 Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability
5 under the respective state's laws, Operator may, at its election, include the risk under its self- insurance program and in that event,
6 Operator shall include a charge at Operator's cost not to exceed manual rates.
7

8 13. Abandonment and Reclamation

9
10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.
11

12 14. Communications

13
14 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave
15 facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator
16 owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.
17

18 15. Other Expenditures

19 **The cost of Operator's Field Offices not covered in Section III, or any**
20 **Any / other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct**
21 **benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.**
22

23
24 **III. OVERHEAD**
25

26 1. Overhead - Drilling and Producing Operations

27
28 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and
29 producing operations on either:
30

- 31 (x) Fixed Rate Basis, Paragraph 1A, or
32 () Percentage Basis, Paragraph 1B
33

34 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages
35 plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. ~~The cost~~
36 ~~and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or~~
37 ~~involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph~~
38 ~~of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.~~
39

40 ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and
41 contract services of technical personnel directly employed on the Joint Property:
42

- 43 () shall be covered by the overhead rates, or
44 (x) shall not be covered by the overhead rates.
45

46 iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and
47 contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of
48 the Joint Property:
49

- 50 () shall be covered by the overhead rates, or
51 (x) shall not be covered by the overhead rates.
52

53 A. Overhead - Fixed Rate Basis

54
55 (1) Operator shall charge the Joint Account at the following rates per well per month:
56

57 Drilling Well Rate \$ 7,454.00
58 (Prorated for less than a full month)
59

60 Producing Well Rate \$ 745.40
61

62 (2) Application of Overhead - Fixed Rate Basis shall be as follows:
63

64 (a) Drilling Well Rate

65
66 (1) Charges for drilling wells shall begin on the date / ^{location work begins} ~~the well is spudded~~ and terminate on the date the drilling
67 rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no
68
69
70

1 charge shall be made during suspension of drilling or completion operations for fifteen (15) or more
2 consecutive calendar days.

- 3
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days
5 or more shall be made at the drilling well rate. Such charges shall be applied for the period from date
6 workover operations, with rig or other units used in workover, commence through date of rig or other unit
7 release, except that no charge shall be made during suspension of operations for fifteen (15) or more
8 consecutive calendar days.

9
10 (b) Producing Well Rates

- 11
12 (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well
13 charge for the entire month.
- 14
15 ~~(2) Each active completion in a multi-completed well in which production is not commingled down hole shall~~
16 ~~be considered as a one well charge providing each completion is considered a separate well by the~~
17 ~~governing regulatory authority.~~
- 18
19 ~~(3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall~~
20 ~~be considered as a one well charge providing the gas well is directly connected to a permanent sales outlet.~~
- 21
22 (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on
23 any well. This one-well charge shall be made whether or not the well has produced except when drilling well
24 rate applies.
- 25
26 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease
27 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- 28
29 (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
30 this Accounting Procedure is attached by the percent increase or decrease published by COPAS.

31
32 ~~B. Overhead Percentage Basis~~

- 33
34 ~~(1) Operator shall charge the Joint Account at the following rates:~~

35
36 ~~(a) Development~~

37
38 ~~_____ Percent (____%) of the cost of development of the Joint Property exclusive of costs~~
39 ~~provided under Paragraph 10 of Section II and all salvage credits.~~

40
41 ~~(b) Operating~~

42
43 ~~_____ Percent (____%) of the cost of operating the Joint Property exclusive of costs provided~~
44 ~~under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for~~
45 ~~secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in~~
46 ~~and to the Joint Property.~~

- 47
48 ~~(2) Application of Overhead Percentage Basis shall be as follows:~~

49
50 ~~For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall~~
51 ~~include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving~~
52 ~~the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary~~
53 ~~expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed~~
54 ~~as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other~~
55 ~~project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All~~
56 ~~other costs shall be considered as operating.~~

57
58 ~~2. Overhead Major Construction~~

59
60 ~~To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and~~
61 ~~any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall~~
62 ~~either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates~~
63 ~~for any Major Construction project in excess of \$_____:~~

64
65 A. _____ % of first \$100,000 or total cost if less, plus

66
67 B. _____ % of costs in excess of \$100,000 but less than \$1,000,000, plus

68
69 C. _____ % of costs in excess of \$1,000,000.

1 ~~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~~
2 ~~not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.~~

3
4 ~~3. Catastrophe Overhead~~

5
6 ~~To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill,~~
7 ~~blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint~~
8 ~~Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate~~
9 ~~prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:~~

10
11 A. _____ % of total costs through \$100,000, plus

12
13 B. _____ % of total costs in excess of \$100,000 but less than \$1,000,000, plus

14
15 C. _____ % of total costs in excess of \$1,000,000.

16
17 ~~Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this~~
18 ~~Section III shall apply.~~

19
20 4. Amendment of Rates

21
22 The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto
23 if, in practice, the rates are found to be insufficient or excessive.

24
25
26 **IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS**

27
28 Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the
29 Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied
30 by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to
31 Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest
32 of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed
33 to by the Parties.

34
35 1. Purchases

36
37 Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found
38 to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received
39 by the Operator.

40
41 2. Transfers and Dispositions

42
43 Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless
44 otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

45
46 A. New Material (Condition A)

47
48 (1) Tubular Goods Other than Line Pipe

49
50 (a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload
51 base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis
52 to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the
53 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges
54 for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

55
56 (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation
57 cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a).
58 For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate
59 truck rate shall be used.

60
61 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas,
62 plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving
63 point nearest the Joint Property.

64
65 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the
66 supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of
67 tubing transferred, to the railway receiving point nearest the Joint Property.

1 (2) Line Pipe

- 2
- 3 (a) Line pipe movements (except size 24 inch OD and larger with walls $\frac{3}{4}$ inch and over) 30,000 pounds or more
4 shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges
5 shall be calculated from Lorain, Ohio.
- 6
- 7 (b) Line Pipe movements (except size 24 inch OD and larger with walls $\frac{3}{4}$ inch and over) less than 30,000 pounds
8 shall be priced at Eastern mill published carload base prices effective as of date of shipment, / plus the percent most
9 recently recommended by COPAS, plus transportation costs based on freight rates as set forth under provisions of
10 tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
- 11
- 12 (c) Line pipe 24 inch OD and over and $\frac{3}{4}$ inch wall and larger shall be priced f.o.b. the point of manufacture at current
13 new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
- 14
- 15 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at
16 quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- 17
- 18 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store
19 nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point
20 nearest the Joint Property.
- 21
- 22 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect
23 on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus
24 transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be
25 priced as provided above in Paragraph 2.A.(1) and (2).
- 26

27 B. Good Used Material (Condition B)

28
29 Material in sound and serviceable condition and suitable for reuse without reconditioning:

30
31 (1) Material moved to the Joint Property

32
33 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

34
35 (2) Material used on and moved from the Joint Property

36
37 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally
38 charged to the Joint Account as new Material or

39
40 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged
41 to the Joint Account as used Material

42
43 (3) Material not used on and moved from the Joint Property

44
45 At seventy-five percent (75%) of current new price as determined by Paragraph A.

46
47 The cost of reconditioning, if any, shall be absorbed by the transferring property.

48
49 C. Other Used Material

50
51 (1) Condition C

52
53 Material which is not in sound and serviceable condition and not suitable for its original function until after
54 reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost
55 of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning
56 does not exceed Condition B value.

57
58 (2) Condition D

59
60 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced
61 on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally
62 used by Operator without prior approval of Non-Operators.

63
64 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable
65 size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

66
67 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall
68 be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced
69 on a non upset basis.

1 (3) Condition E

2
3 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally
4 utilized by Operator without prior approval of Non-Operators.

5
6 D. Obsolete Material

7
8 Material which is serviceable and usable for its original function but condition and/or value of such Material is not
9 equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such
10 price should result in the Joint Account being charged with the value of the service rendered by such Material.

11
12 E. Pricing Conditions

13
14 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred
15 weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point.
16 The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same
17 percentage increase or decrease used to adjust overhead rates in Section III, Paragraph I.A.(3). Each year, the
18 rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year.
19 Such rate shall be published each year by the Council of Petroleum Accountants Societies.

20
21 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of
22 new Material.

23
24 3. Premium Prices

25
26 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual
27 causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's
28 actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided
29 notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each
30 Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish
31 in-kind all or part of his share of such Material suitable for use and acceptable to Operator.

32
33 4. Warranty of Material Furnished By Operator

34
35 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account
36 until adjustment has been received by Operator from the manufacturers or their agents.

37
38
39 V. INVENTORIES

40
41 The Operator shall maintain detailed records of Controllable Material.

42
43 1. Periodic Inventories, Notice and Representation

44
45 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to
46 take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be
47 represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept
48 the inventory taken by Operator.

49
50 2. Reconciliation and Adjustment of Inventories

51
52 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following
53 the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but,
54 Operator shall be held accountable only for shortages due to lack of reasonable diligence.

55
56 3. Special Inventories

57
58 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be
59 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
60 the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed
61 by such inventory.

62
63 4. Expense of Conducting Inventories

64
65 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

66
67 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories
68 required due to change of Operator shall be charged to the Joint Account.