STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE AMENDED APPLICATION OF MEWBOURNE OIL COMPANY FOR APPROVAL OF A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO

CASE NO.: 14736

MOTION TO DISMISS

The Harvey E. Yates Company, Explorers Petroleum Corporation, Spiral, Inc., Jalapeno Corporation and Walking X Partnership V (collectively "HEYCO") move the Oil Conservation Division ("Division") for an order dismissing the Amended Application of Mewbourne Oil Company ("Mewbourne") in the above-referenced case because the compulsory pooling sought by the Application is not authorized by the Oil and Gas Act. As grounds therefor, HEYCO state:

I. THE POOLING STATUTE DOES NOT ALLOW FOR COMPULSORY POOLING OF CONTIGUOUS, COMPLETE SPACING UNITS.

1. Mewbourne in this case is asking the Division to order the compulsory pooling of all mineral interests from the base of the Second Bone Spring Carbonate to the base of the Bone Spring formation underlying the N/2 N/2 of Section 11, Township 18 South, Range 31 East, NMPM, Eddy County, NM to form a non-standard 160 acre spacing and proration unit to be dedicated to Mewbourne's proposed Tamano 11 Fed. Com. Well No. 1. The proposed well is a horizontal well that will traverse established 40 acre spacing units with a surface location in the NE/4 NE/4, and a terminus in the NW/4 NW/4, of Section 11.

2. Although Mewbourne owns sufficient acreage in the NW/4 NW/4 of Section 11 to form a 40 acre spacing unit to drill a Bone Springs well in accordance with the Division's well spacing requirements, Mewbourne seeks to

pool HEYCO's superior acreage in two established spacing units in which wells have previously been drilled into the target formation.

3. HEYCO owns or controls all of the acreage in Unit A (NE/4 NE/4) of Section 11, lands which are dedicated to the 40 acre spacing and proration unit for the Hudson 11 Federal No. 5 well. This acreage is subject to a joint operating agreement covering all of the lands in the E/2 E/2 of Section 11 dated March 16, 1987 from 3900 feet to the base of the Bone Springs formation. Additionally, HEYCO owns or controls all of the acreage in Unit B (NW/4 NE/4) of Section 11, lands which are dedicated to the 40 acre spacing unit for the Hudson 11 Federal No. 3 well. This acreage is subject to a joint operating agreement covering all of the lands in the W/2 NE/4 of Section 11 dated March 15, 1988 from the surface to the base of the Bone Springs formation. A copy of the joint operating agreements are attached as Exhibit "A."

4. The Division lacks statutory authority to create the unorthodox spacing and proration unit to include a combination of complete, contiguous spacing units. As previously ruled by the Commission in the *Cimarex* case, combining complete, contiguous spacing units is in the nature of unitization and is not properly considered the creation of a non-standard spacing unit. *See* Order No. R-13228-F (November 4, 2010). By definition, there may only be one well in each proration unit, which were previously established by the Division to prevent waste and protect correlative rights.

5. "The Oil Conservation Commission is a creature of statute, expressly defined, limited and empowered by the laws creating it." *Continental Oil Co. v. Oil Conservation Comm'n*, 70 N.M. 310, 318, 373 P.2d 809, 814 (1962); *see also Marbob v. Oil Conservation Comm'n*, 2009-NMSC-13, 46 N.M. 24, 206 P.3d 135 (2000). The Division has been granted the authority to order the compulsory pooling of separately owned tracts of land in order to form a spacing unit for a well but in doing so must strictly comply with the provisions of the pooling statute. Compulsory pooling under Section 70-2-17(C) of the Oil and Gas Act involves an extraordinary exercise of the police power of the state which results in a forced taking of property rights. NMSA 1978, §70-2-17(C). Because a pooling order affects constitutionally protected property rights, the pooling authority granted by the Oil and Gas Act must be exercised within the limits imposed by statute. Compulsory pooling under Section 70-2-17(C) of the Oil and Gas Act involves an extraordinary exercise of the police power of the state which results in a forced taking of property rights. NMSA 1978, §70-2-17(C). If a pooling order entered by the Division is not within the limits of the statutory pooling authority, then there is

a taking of HEYCO's property rights without just compensation to HEYCO in violation of the 5th Amendment of the U.S. Constitution and Article II, Section 20 of the New Mexico Constitution.

6. The Oil and Gas Act authorizes pooling in specific, limited circumstances where an operator which lacks sufficient acreage to meet the amount of acreage required by the spacing rules to form a spacing unit for a well to combine its acreage with that of other owners:

> When two or more separately owned tracts of land ***are embraced within a spacing or proration unit***, or where there are owners of royalty interests or undivided interest in oil and gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration unit, ***the owner or owners thereof may validly pool their interests and develop their lands as a unit. Where, however, such owner or owners have not agreed to pool their interests and where one such separate owner or owners, who has the right to drill***, has drilled or proposes to drill a well on said unit to a common source of supply, the division, to avoid the drilling of unnecessary wells or to protect correlative rights, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit.

NMSA 1978, §70-2-17(C).

7. Two basic principals follow from a plain reading of the unambiguous language of the Pooling Statute. First, the party seeking compulsory pooling must be a party who "has the right to drill." NMSA 1978, §70-2-17(C). As revealed by its Application, Mewbourne owns no interest, and therefore has no right to drill, a well through the N/2 NE/4 of Section 11. And, as discussed above, those lands are already dedicated to operating agreements which embrace the target formation and in which wells have been drilled.

8. Second, compulsory pooling of acreage is allowed to form a spacing unit or proration unit for a well in accordance with established spacing rules and not to create super-sized spacing units that combine the acreage of existing, complete contiguous spacing units. The statute repeatedly refers to the pooling of lands to form a "unit" and directs the Division to "pool all or any part of such lands or interest or both in the spacing or proration unit as a unit." It says nothing about combining lands for project areas which may cross existing, multiple spacing

units.[1] This statutory language is clear and unambiguously limits compulsory pooling to form a single spacing unit for a well and denies the power to pool multiple, separate and distinct contiguous spacing units to form a spacing unit.

9. In *Rutter & Wilbanks Corp. v. Oil Conservation Comm'n*, 87 N.M. 286, 532 P.2d 582 (1975), the New Mexico Supreme Court upheld the Division's authority to create a non-standard spacing unit under what is now NMSA 1978, §70-2-18(C). However, a "non-standard spacing unit" is a spacing unit which deviates in acreage or conformation from the standard units established by the Division's spacing rules. *See* Kramer 7 Martin, Williams & Meyers, MANUAL OF OIL AND GAS TERMS, §701 (2000); Order No. R-13228-F. The non-standard spacing unit in the *Rutter* case did not encompass multiple, existing spacing units but an oversized unit that was 27% larger than the standard 320 acre spacing unit. Section 70-2-18(C) cannot be read to authorize the creation of super units which combine complete, contiguous spacing units.

10. The Division's Rules mandate that a developmental oil well in a defined pool "shall be located on a spacing unit consisting of approximately 40 contiguous surface acres substantially in the form of a square that is a legal subdivision of the United States public land surveys. 19.15.15.9(A) NMAC. The authority granted by Section 70-2-18(C) to create a non-standard spacing unit was designed to address unique situations where insufficient acreage due to surveying problems or topography which created the need to establish a unit of unorthodox shape or size.[2] It is not a blanket authority to create special spacing orders for horizontal wells that traverse multiple, complete units.

11. In the *Cimarex* case, the Commission recognized the differences between statutory compulsory pooling and unitization. "Pooling" is generally understood to refer to the joining together of small tracts for the purpose of having sufficient acreage to form a spacing unit for the granting of a well permit under applicable spacing rules. Kramer and Martin, Williams & Meyers, THE LAW OF POOLING AND UNITIZATION, §1.02, (2000). "Unitization" refers to consolidation of

[1] The Division's Rules define a "spacing unit" as "the acreage allocated to a well under a well spacing order or rule." 19.15.30.13(C) NMAC. Spacing units have been established for a pool based on the acreage a vertical well in that pool was presumed to drain. *See* NMSA 1978, §70-2-17(B). By contrast a "proration unit" is defined as "the area in a pool that can be effectively and efficiently drained by one well" and "should be the same size and shape as a spacing unit." 19.15.2.7(5)(17).

[2] The Division can approve an application for a non-standard spacing unit after notice and hearing in only three circumstances where: (1) the unorthodox size or shape is necessitated by a variation in the legal subdivision of the Unites States public land surveys; (2) the non-standard spacing unit consists of a single quarter-quarter section or lot or quarter-quarter sections or lots joined by a common side; and (3) the unit lies wholly within a single quarter section if the well is completed in a pool where 40 acres is the standard spacing unit size.

mineral or leasehold interests covering all or part of a common source of supply to maximize production by efficiently draining the reservoir, utilizing the best engineering techniques that are economically feasible. *Id.* The Legislature has only authorized the Division to force the owner of mineral interest into a single spacing unit created by spacing order or rule that is force pooled under the Oil and Gas Act or where common development is statutorily unitized for enhanced recovery operations.

12. Mewbourne's Application seeks to combine multiple spacing units essentially accomplishing statutory unitization for primary production in violation of the limitations of the Pooling Statute Act and the Statutory Unitization Act. NMSA 1978, §§70-7-1 to 70-7-21. Under the Unitization statute, acreage may be combined for common development that embraces multiple units and are secondary and tertiary recovery purposes but there are two important limits on the power. First, at least 75% of the owners of acreage in the proposed unit must agree to the common development of their acreage through unitization. Second, the applicant must show that the plan of unitization is "fair and reasonable." *See* Order No. R-13228-F. The Division must determine that the participation formula allocates unitized hydrocarbon in a fair, reasonable and equitable basis and make its own determinations about the relative value of each tract and how production should be allocated. *Id.* (citing NMSA 1978, §70-7-6(B).

II. THE DIVISION CANNOT FORCE POOL LANDS ALREADY COMMITTED TO A PLAN OF DEVELOPMENT THAT EMBRACE EXISTING SPACING UNITS.

13. When the owners of separate tracts have previously agreed to a plan of development pursuant to a joint operating agreement, the Oil and Gas Act also requires the Division to adopt their plan of development agreed to by working interest owners as long as it has the effect of preventing waste and is fair to the royalty owners in the pool. *See* NMSA 1978, §70-2-17(E). HEYCO have already agreed to JOAs which include the target zone of a proposed project area of the proposed horizontal well. Therefore, the Division has no authority to force pool acreage to form a project area which embraces the acreage previously committed to joint development which is adequate to form a spacing unit for a well in the target formation. In those circumstances, the Division has no discretion but mandates that the joint plan of development "***shall be adopted*** by the Division" under the Act if it is fair to royalty owners and prevents waste. *Id.* (emphasis added).

14. If Mewbourne's Application were granted, the Division would violate the correlative rights of interest owners in the spacing units it is combining by forcing their mineral interests into a four spacing unit production unit and then allocating the production on a straight acreage basis without consideration of the relative value of each tract. Even though Mewbourne's proposed horizontal well would be producing from another formation underlying the two 40 acre proration units, such formation is a part of the minerals interests owned or leased by HEYCO in the two 40 acre proration units as "behind the pipe reserves." The granting of Mewbourne's proposed horizontal well would impair their correlative rights.

15. The JOAs cover formations from 3900 feet under the surface of the earth to the base of the Bone Springs formation in the NE/4 NE/4 and the surface to the base of the Bones Springs formation in the NW/4 NE/4. The working interest owners under the JOAs have contractually agreed to a plan for the development of the acreage subject to the JOAs and the Division previously approved the drilling of two wells subject to each JOA. An order authorizing Mewbourne (a non-JOA operator) to produce these reserves is an unconstitutional impairment of the working interest owners' obligations under each JOA as well as other contracts in which their reserves have been committed. *See* N.M Const., Article II, Bill of Rights, §19; *Temple Baptist Church, Inc. v. City of Albuquerque*, 98 N.M. 138, 147, 646 P.2d 565, 574 (1982).

III. THE PARTY SEEKING COMPULSORY POOLING MUST JUSTIFY A RISK CHARGE AND NONE IS JUSTIFIED IN THIS CASE.

16. The Division should not provide for any risk charge in any pooling order entered in this case. The Commission has recognized that under New Mexico law a cotenant has "the right to produced minerals from the co-owned property without the consent of the non-joining owner by allowing a cotenant who produced oil from co-owned premises to recover its development cost out of the share of production allocable to a non-joining cotenant in the absence of either an agreement or a pooling order." NMOC Order No. R-12093-A, ¶18 (citing *Bellet v. Grynberg*, 114 N.M. 690, 845 P. 2d 784 (1992). Under New Mexico law, a cotenant can always drill at its own risk and has no right to recover any costs beyond its actual operating costs incurred in drilling a well. The Legislature's allowance of a risk charge up to 200% under the compulsory pooling statute should not be used as basis for imposing a risk charge in this case.

17. In accordance with the common law rule that an operator can recover the cost of drilling a well from its co-tenants, the Legislature has mandated that

compulsory pooling orders "***shall*** include a reasonable charge for supervision." By contrast, the authority to include a charge for risk is purely discretionary, stating that the order "***may include*** a charge for the risk of drilling ... which ***shall not exceed two hundred percent***..." NMSA 1978, § 70-2-17(C) (emphasis added). The Commission's rule that automatically establishes a risk charge of 200% and places the burden on the party opposing pooling to present geologic or technical evidence in support of a lower charge amounts to a mandatory charge is violation of the Section 70-2-17(C).

18. Where an area has a long history of productive drilling and an operator has enjoyed a high level of success rate, even a 100% risk charge has been deemed excessive by the courts. *See Windsor Gas Corp. v. Railroad Comm'n.*, 529 S.W.2d 834 (Tex. Civ. App. 1975) (refusing to order compulsory pooling because the operator had not made a reasonable offer to pool since its offer included a 100% risk charge). Moreover, courts have routinely upheld the decision of agencies not to include any charge for the risk of drilling in a compulsory pooling order. *See Texas Oil & Gas Corp. v. Rein*, 534 P.2d 1280, 1282 (Okla. 1974); *Ranola Oil Co. v. Corporation Comm'n*, 460 P.2d 415, 417 (Okla. 1969); *Wakefield v. State*, 306 P.2d 305, 308 (Okla. 1957). Here the zone targeted by Mewbourne has not only demonstrated a high rate of success but Mewbourne has stated that horizontal drilling "exposes you to more of the reservoir at greatly reduced risk. *See* Midland Reporter Telegram, "Mewbourne Oil Founder Sees Industry Experiencing Technological Revolution" (October 5, 2011), available at http://www.mywesttexas.com/business/oil/article_5a917e9f-8d12-5c68-bb72-b076cf393c1b.html. Therefore, the burden should be on Mewbourne to support the imposition of the 200% statutory maximum risk charge sought by its Application.

CONCLUSION

The Commission previously ruled in the *Cimarex* case that the Division lacks authority to create a non-standard spacing unit out of multiple standard 40-acre, existing, complete, spacing units created pursuant to the rules of the Oil Conservation Division, compulsory pool the interests and allocate production on a straight acreage basis. There is an even stronger case prohibiting compulsory pooling where the existing spacing units have been created pursuant to an agreed plan of development in a JOA which the pooling statute mandates must be followed by the Division. Since Mewbourne's Application seeks to create a super spacing unit that amounts to unitization in excess of the authority granted to the

Division under the Oil and Gas Act and the Statutory Unitization Act, the Application must be dismissed.

Respectfully Submitted,

MODRALL, SPERLING, ROEHL,
HARRIS & SISK, P.A.

By: _____

Earl E. DeBrine, Jr.
Post Office Box 2168
Albuquerque, New Mexico 87103-2168
Telephone: (505) 848-1800
Facsimile: (505) 848-9710
Email: edebrine@modrall.com

ATTORNEYS FOR HARVEY E. YATES COMPANY, EXPLORERS PETROLEUM CORPORATION, SPIRAL, INC., JALAPENO CORPORATION AND WALKING X PARTNERSHIP V

and

Patrick A. Fort
6725 Ophelia Ave. NE
Albuquerque, New Mexico 87109-6935
Telephone: (505) 828-0323
Email: patrickfort@msn.com

ATTORNEY FOR JALAPENO CORPORATION

CERTIFICATE OF SERVICE

I certify that on November 3, 2011, I served a copy of the foregoing documents by facsimile and U.S. Mail to the following:

Gabrielle A. Gerholt
Assistant General Counsel
Energy, Minerals and Natural
Resources Department
1220 S. St. Francis Drive
Santa Fe, NM 87505
Fax: (505) 476-3451

J. Scott Hall
Attorney for Applicant
Montgomery & Andrews, P.A.
P.O. Box 2307
Santa Fe, NM 87504-2307
Fax: (505) 982-4289

MODRALL, SPERLING, ROEHL, HARRIS
& SISK, P.A.

By: _____
Earl E. DeBrine, Jr.

W1575497.DOC

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

MODEL FORM OPERATING AGREEMENT

SOUTH MESQUITE WORKING INTEREST UNIT

HUDSON "11" FEDERAL # 2

OPERATING AGREEMENT

DATED

March 16, 19 87,

OPERATOR HARVEY E. YATES COMPANY

CONTRACT AREA Township 18 South, Range 31 East, N.M.P.M.

Section 11: E/2 E/2

COUNTY OR PARISH OF Eddy STATE OF New Mexico

CONTRACT NO. 8703029-J

EXHIBIT

A

South Mesquite Prospect
(Hudson "11" Federal #2 & #3)
(A-J "11" Federal #1 & #2)
Revised January 1, 1991

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT
DATED MARCH 16, 1987
BETWEEN HARVEY E. YATES COMPANY, AS OPERATOR
AND ATLANTIC RICHFIELD COMPANY, ET AL, AS NON-OPERATORS

---

1. LANDS SUBJECT TO CONTRACT:

Township 18 South, Range 31 East, N.M.P.M.

Section 11: E/2 E/2

Eddy County, New Mexico
containing 160.00 acres, more or less

2. RESTRICTIONS AS TO DEPTH, FORMATION AND SUBSTANCES:

This joint operating agreement covers depths from 3,900 feet below the surface of the earth down to the Base of the Bone Spring formation, and is restricted to oil, gas, casinghead gas, and associated hydrocarbons.

3. PERCENTAGE INTERESTS OF THE PARTIES TO THIS AGREEMENT:

Working Interest Owner	Acres Contributed	Working Interest
James H. Yates, Inc.	0.056000	0.000350%
Colkelan Corporation	0.056000	0.000350%
Explorers Petroleum Corp.	3.951000	2.469375%
EXBY, Ltd.	2.000000	1.250000%
HEYCO Employees Ltd.	2.056000	1.285000%
Spiral, Inc.	5.951000	3.719375%
Yates Energy Corporation	25.256775	15.785484%
Harvey E. Yates Company	40.673225	25.420766%
Atlantic Richfield Company	80.000000	50.000000%
	160.000000	100.000000%

*Overriding Interest Owners Under LC 062052	*ORRI
Margaret Baish Masters	2.000000%
Betty Baish Strohmeyer	0.250000%
Karen Elizabeth Charles	0.083334%
Katherine Mary Scott	0.083333%
Mary Elizabeth Baish	0.083333%
San Diego Trust & Savings Bank, Trustee U/A dtd 5-26-83 for Ralph A. Shugart	1.250000%
Mary Jane Shugart Johnson	1.250000%
William A. Hudson	3.187500%
Edward R. Hudson, Jr. & William A. Hudson II, Trustees U/W Edward R. Hudson, decd.	3.187500%
Moore & Shelton, Ltd.	1.125000%
*TOTAL ORRI OF RECORD:	12.500000%

*See Article XV. for explanation of 1.0% ORRI reserved by HEYCO.

Overriding Interest Owners Under LC-029388-B	ORRI
Doris Paton	3.750000%
Hattie E. Paton, Indiv. & as Exec. of Estate of E. A. Paton, dec'd	3.750000%
TOTAL ORRI OF RECORD:	7.500000%

4. OIL & GAS LEASES AND/OR OIL & GAS INTERESTS SUBJECT TO THIS AGREEMEMT:

a) Oil and Gas Lease dated December 1, 1949, by and between The United States of America, as Lessor, and Hudson & Hudson, Inc., as Lessee, bearing Serial No. LC 062052, insofar as said lease covers the following described lands in Eddy County, New Mexico:

Township 18 South, Range 31 East, N.M.P.M.

Section 11: E/2 NE/4

containing 80.0 acres, more or less, from 3,900 feet beneath the surface down to the base of the Bone Spring formation.

b) Oil and Gas Lease dated December 1, 1969, by and between the United States of America, as Lessor, and Atlantic Richfield Company, as Lessee, bearing Serial No. LC 029388(b), insofar as said lease covers the following described lands in Eddy County, New Mexico:

Township 18 South, Range 31 East, N.M.P.M.

Section 11: E/2 SE/4

containing 80.0 acres, more or less, from 3,900 feet beneath the surface to the base of the Bone Spring formation.

5. ADDRESSES OF PARTIES FOR NOTICE PURPOSES:

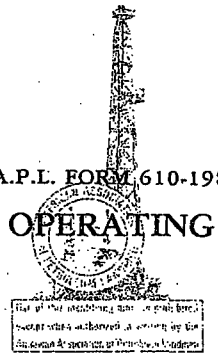
ATLANTIC RICHFIELD COMPANY
P. O. Box 1610
Midland, Texas 79702
Attention: Land Manager

HARVEY E. YATES COMPANY
HEYCO EMPLOYEES LTD.
SPIRAL, INC.
EXPLORERS PETROLEUM CORP.
EXBY, LTD.
P. O. Box 1933
Roswell, New Mexico 88202

YATES ENERGY CORPORATION
1010 SunWest Centre
Roswell, New Mexico 88201

JAMES H. YATES, INC.
COLKELAN CORPORATION
906 S. St. Francis Dr.
Suite C
Santa Fe, New Mexico 87501

exahd112/EL



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

MODEL FORM OPERATING AGREEMENT

SOUTHWEST MESQUITE WORKING INTEREST AREA

HUDSON "11" FEDERAL #4

OPERATING AGREEMENT

DATED

March 15, , 19 88 ,

OPERATOR HARVEY E. YATES COMPANY

CONTRACT AREA Township 18 South, Range 31 East, N.M.P.M.

Section 11: W/2 NE/4

COUNTY OR PARISH OF Eddy STATE OF New Mexico

CONTRACT NO. 8803062-5

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT
DATED MARCH 15, 1988
BETWEEN HARVEY E. YATES COMPANY, AS OPERATOR
AND THE OTHER PARTIES SIGNATORY THERETO, AS NON-OPERATORS

---

1. LANDS SUBJECT TO CONTRACT:

Township 18 South, Range 31 East, N.M.P.M.

Section 11: W/2 NE/4
Eddy County, New Mexico
containing 80.00 acres, more or less

2. RESTRICTIONS AS TO DEPTH, FORMATION AND SUBSTANCES:

This joint operating agreement covers depths from the surface of the earth down to the Base of the Bone Spring formation, and is restricted to oil, gas, casinghead gas, and associated hydrocarbons.

3. PERCENTAGE INTERESTS OF THE PARTIES TO THIS AGREEMENT:

Working Interest Owner	BWH Working Interest	WI AWH of Test Well & Subsequent Wells
Explorers Petroleum Corporation	.04188750	.04188750
EXBY, Ltd.	.01250000	.01250000
Laurelind Corporation	.02000000	.02000000
HEYCO Employees Ltd.	.02570000	.02570000
Spiral, Inc.	.04438750	.05038750
James H. Yates, Inc.	.00070000	.00070000
Colkelan Corporation	.00070000	.00070000
Flag-Redfern Oil Company	.25000000	.20000000
**Yates Energy Corporation	.31570969	.31570969
Harvey E. Yates Company	.28841531	.33241531
	1.00000000	1.00000000

Overriding Interest Owners Under LC 062052	*ORRI
Margaret Baish Masters	.02000000
Betty Baish Strohmeyer	.00250000
Karen Elizabeth Charles	.00083334
Katherine Mary Scott	.00083333
Mary Elizabeth Baish	.00083333
San Diego Trust & Savings Bank, Trustee U/A dtd 5-26-83 for Ralph A. Shugart	.01250000
Mary Jane Shugart Johnston	.01250000
William A. Hudson	.03187500
Edward R. Hudson, Jr. & William A. Hudson II, Trustees U/W Edward R. Hudson, decd.	.03187500
Moore & Shelton, Ltd.	.01125000
*TOTAL ORRI OF RECORD:	.12500000

*See Article XV. for explanation of 1.0% ORRI reserved by HEYCO.

4. OIL & GAS LEASE SUBJECT TO THIS AGREEMENT:

a) Oil and Gas Lease dated December 1, 1949, by and between

The United States of America, as Lessor, and Hudson & Hudson, Inc., as Lessee, bearing Serial No. LC 062052, insofar as said lease covers the following described lands in Eddy County, New Mexico:

Township 18 South, Range 31 East, N.M.P.M.

Section 11: W/2 NE/4

containing 80.0 acres, more or less

5. ADDRESSES OF PARTIES FOR NOTICE PURPOSES:

YATES ENERGY CORPORATION
1010 SunWest Centre
Roswell, New Mexico 88201

JAMES H. YATES, INC.
COLKELAN CORPORATION
906 S. St. Francis Dr., Suite C
Santa Fe, New Mexico 87501

FLAG-REDFERN OIL COMPANY
P. O. Box 11050
Midland, Texas 79702
Attn: John O'Brien

HARVEY E. YATES COMPANY
HEYCO EMPLOYEES LTD.
SPIRAL, INC.
EXPLORERS PETROLEUM CORP.
EXBY, LTD.
P. O. Box 1933
Roswell, New Mexico 88202

LAURELIND CORPORATION
P. O. Box 2143
Roswell, New Mexico 88202
Attn: Abby Yates

EXAHD114/EL