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

IN THE MATTER OF THE APPLICATION OF MERIDIAN OIL INC. FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, SAN JUAN COUNTY, NEW MEXICO - PROPOSED SEYMOUR WELL NO. 7A

CASE NO. 11434

APPLICATION TO THE OIL CONSERVATION COMMISSION FOR DE NOVO HEARING ON AND DENIAL OF MERIDIAN'S APPLICATION AND FOR PARTIAL WITHDRAWAL OF DIVISION ORDER OF FEBRUARY 22, 1996

Doyle and Margaret Hartman, d/b/a Doyle Hartman, Oil Operator ("Hartman"), by their undersigned attorneys, and pursuant to Rule 1220 of the OCD Rules and Regulations and NMSA 1978 § 70-2-13 (1995 Repl.), hereby move for a de novo hearing before the Oil Conservation Commission for the purpose of considering and denying the application of Meridian Oil Inc. ("Meridian") for compulsory pooling and an unorthodox gas well location for its proposed Seymour Well No. 7A in San Juan County, New Mexico ("No. 7A Well").

Hartman requests that the Commission deny Meridian's application in its entirety on grounds that the Division has no authority or jurisdiction to reform the parties' valid pooling agreement or force pool the interests at issue. NMSA 1978 § 70-2-17(C) (1995 Repl.). Hartman also requests that the Commission withdraw that part of the Order of the Division issued February 22, 1996, Order No. R-10545, which found that the Division has the authority and jurisdiction under NMSA 1978 § 70-2-17(E) (1995 Repl.) to both (a) modify an existing operating agreement between private parties and (b) force

pool interest owners of a proration unit, for purposes of a proposed second well on that unit, where the interest owners have already entered into a valid, binding agreement voluntarily pooling their interests. A copy of the Order is attached as Exhibit A.

As grounds for this Application, Hartman states as follows:

FACTS SUPPORTING THIS APPLICATION

1. On November 8, 1995, Meridian filed its Application for compulsory pooling and an unorthodox gas well location. The matter was assigned Case No. 11434. The application sought an order pooling all mineral interests in the Blanco Mesaverde gas pool underlying the E/2 of Section 23, T31 N, R9 W, NMPM, San Juan County, New Mexico. Meridian sought the formation of a standard 320-acre spacing and proration unit, which unit was to be dedicated to Meridian's proposed No. 7A Well to be drilled at an unorthodox gas well location, to test for production from the Mesaverde formation.

2. Meridian, Hartman and Four-Star Oil and Gas Company ("Four-Star") are working interest owners in the E/2 of Section 23. Meridian is the designated operator. Hartman and Four-Star are nonoperating working interest owners.

3. All mineral interests in the Blanco Mesaverde gas pool underlying the E/2 of Section 23 are already voluntarily pooled. The E/2 of Section 23 is comprised of two federal leases, one dated May 1, 1948 leased to John C. Dawson (Lease No. SF078505), and the other dated May 1, 1948 leased to Claude A. Teel (Lease No. NM03601). On March 30, 1953, the then owners of leasehold interests in the E/2 of Section 23 (through whom Meridian, Hartman and Four-Star take their interests in the

tract) entered into a Communitization Agreement as to the E/2 of Section 23. Under the Communitization Agreement, all interest owners pooled their interests in the two separately owned tracts insofar as the Mesaverde formation underlying those lands. A copy of that agreement is attached hereto as Exhibit B.

4. On April 10, 1953, the interest owners in the E/2 of Section 23 entered into an Operating Agreement for the economical and joint operation of the Communitized tract, which agreement designated Southern Union Gas Company as the operator. A copy of that agreement is attached hereto as Exhibit C. There are no other effective communitization or operating agreements governing the Mesaverde interval as to the E/2 of Section 23.

5. By virtue of the Communitization Agreement and Operating Agreement, the interest owners in the E/2 of Section 23 unanimously agreed to pool their interests as to an entire 320-acre standard Mesaverde proration unit. Under the Communitization Agreement, the parties voluntarily agreed that only one well would be required for the unit absent unanimous agreement on a second well. The only well provided for under that Operating Agreement was drilled in 1953 and is known as the Seymour No. 7 well. The 320-acre proration unit is presently dedicated to the Seymour No. 7 well, which has produced since it was drilled in 1953.

6. Because of the original unanimous agreement of the parties to require the drilling of only one well, neither the Operating Agreement nor the Communitization Agreement provide for the imposition of a penalty for non-consent owners. A second well

is not required to be drilled under the Communitization Agreement unless unanimously approved by all parties. There is consequently no need for a non-consent penalty provision in the Operating Agreement.

7. Prior to November 14, 1974, the established well spacing program for the Mesaverde Formation in San Juan County, including E/2 of Section 23, allowed only one well per 320-acre proration unit. On November 14, 1974, the Oil Conservation Commission issued Order No. R-1670-T. That Order provides, in pertinent part, as follows:

> (1) That the Special Rules for the Blanco Mesaverde and Pool in San Juan and Rio Arriba Counties, New Mexico, as promulgated by Order No. R-1670, as amended, is hereby amended to permit the optional drilling of a second well on each proration unit . . . (Emphasis added).

A copy of Order No. R-1670-T is attached as Exhibit D.

8. For almost 20 years, during a portion of which time there existed very favorable gas pricing, Meridian and its predecessors in interest took no action in response to Order No. R-1670-T. By letters dated January 27 and April 12, 1993, Meridian (a) admitted to Hartman and Four-Star that the 1953 Operating Agreement did not contain any required subsequent well provisions, (b) sought agreement of Hartman and Four-Star for the drilling of a second well on the unit (on terms favorable to Meridian), and (c) proposed an amended Joint Operating Agreement for the drilling of an infill Blanco Mesaverde well in the E/2 of Section 23. A copy of that correspondence is attached as

Exhibit E. Meridian renewed its request by letter dated October 31, 1995.

9. Neither Hartman nor Four-Star have agreed to Meridian's proposal. The Operating Agreement does not require that an interest owner shall be penalized for not immediately agreeing to a second well on the unit. The Communitization Agreement guarantees there will not be a mandatory requirement to drill a second well.

10. Despite the obvious economic concerns on the part of Hartman and Four-Star pertaining to the immediate drilling of a second well, Meridian has failed to furnish any economic justification for the immediate drilling of a second well. Given the current restricted Eastern outlet for San Juan Basin gas and the oversupply of gas into the California market, the combination of which are responsible for the existing unfavorable San Juan net-back wellhead gas pricing, the immediate drilling of the proposed Seymour 7A well would cause, rather than prevent, waste. Such drilling would result in the development of deliverability that would permit the production of natural gas from a gas well in excess of the reasonable market demand. Such drilling would result in economic waste by syphoning off funds from more viable oil and gas prospects. This would reduce in the short term the total reserves that can be developed and produced. NMSA 1978 § 70-2-3 (1995 Repl.). There is no reason for the immediate drilling of this well under current pricing constraints, particularly where, as here, there is no documented risk of drainage or waste. Moreover, Meridian has requested the imposition of a risk factor which would effectively deprive Hartman of its interest in the property given the current economics of the proposed No. 7A well.

11. In response to Meridian's November 8 application, both Hartman and Four-Star moved to dismiss Meridian's application on the grounds that the OCD lacks jurisdiction under NMSA 1978 §70-2-17 to force pool interest owners in a proration unit where those interest owners have already entered into a valid, binding Communitization Agreement pooling their interests. Under the Communitization Agreement and the Operating Agreement, the interest owners in the E/2 of Section 23 have already pooled their interests in the Mesaverde Formation, which is the target formation for the proposed Seymour 7A well. The Communitization Agreement requires the drilling of only one well, the No. 7 Well.

12. Hartman does not contend that Meridian is precluded from immediately drilling the proposed No. 7A well. Instead, Hartman contends that any new drilling as to the already communitized 320-acre tract must be preformed under the terms and provisions of the Communitization Agreement and the Operating Agreement. Neither agreement authorizes the imposition of a risk factor if Meridian fails to obtain unanimous agreement for such drilling.

13. Meridian's application was set for hearing and heard on January 11, 1996. Michael Stogner was the hearing examiner for the OCD. The hearing examiner took evidence on land and ownership matters only, and heard argument on the motions to dismiss filed by Hartman and Four-Star. The hearing examiner also heard evidence on the issue of whether Meridian made a reasonable effort to obtain voluntary joinder of all working interest owners for further development in the E/2 of Section 23.

14. On February 22, 1996, the Division entered Order No. R-10545, finding in pertinent part as follows:

> Pursuant to Section 70-2-17.E. of said Act [New Mexico Oil & Gas Act] the Division may modify the 1953 Operating Agreement to the extent necessary to prevent waste. The Division therefore has jurisdiction over this matter.

15. The Division also found that Meridian had "failed to make reasonable efforts to adequately obtain voluntary joinder" and dismissed Meridian's application on those grounds. Hartman does not contest this portion of the Order.

16. The Division did not hear evidence, nor did it make any finding of fact, as to whether the proposed No. 7A well was or was not necessary to prevent waste.

17. Although Hartman was a party of record in Case No. 11434 and appeared through counsel and participated in the hearing, and notwithstanding that the Order of the Division was signed and filed February 22, 1996, notice of an order being issued was not provided to Hartman or Hartman's counsel by the Division until March 4, 1996. Even then, a copy of the Order was provided to Hartman's counsel only after Hartman's counsel learned of the issuance of the Order from William F. Carr, counsel for Four-Star, and called the OCD and requested a copy of the Order.

ARGUMENT AND AUTHORITY

1. The Division Has No Authority to Force Pool Interests Which Are Already Pooled by Private Agreement.

18. An administrative agency or body has only such authority as is granted by the Legislature. Vermijo Club v. French, 43 N.M. 45, 95 P.2d 90 (1938); In re

Proposed Revocation of Food & Drink Purveyor's Permit, 102 N.M. 63, 691 P.2d 64 (Ct. App. 1984).

19. The New Mexico legislature has expressly defined and limited the power of the Division to force pool tracts of land to those circumstances where the owner or owners have not already agreed to pool their interests. NMSA 1978 § 70-2-17(C) provides as follows:

> When two or more separately owned tracts of land are embraced within a spacing or proration unit, . . . the owner or owners thereof may validly pool their interest and develop their land 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, or to prevent waste, shall pool all or any part of lands or interest or both in the spacing or proration unit as a unit. (Emphasis added).

Section 70-2-17(C) governs the issues presented by Meridian's application and requires denial of the application.

20. The OCD lacks jurisdiction to force pool the already pooled interests in the Mesaverde formation underlying the E/2 of Section 23. Section 70-2-17(C) does not authorize force pooling where, as here, the interest owners in a tract have already pooled their interests under the terms of the Communitization Agreement and Operating Agreement. The Communitization Agreement and Operating Agreement control the

means by which the property is pooled and define the manner in which the parties have agreed to economically develop the property. There is no statutory authority in the New Mexico Oil and Gas Act which authorizes the Division to force pool Hartman's interest which has already been pooled under a valid, binding agreement.

21. There is no statutory authority which authorizes the Division to supersede or reform the private pooling and communitization agreement. Only a court of competent jurisdiction could hear and adjudicate such a claim. Any modification or reformation here would benefit only one of the parties to that agreement (Meridian) and cover only a single proration unit within a pool.

22. The Division's reliance on NMSA 1978 § 70-2-17(E) is misplaced. That statute provides as follows:

> Whenever it appears that the owners in any pool have agreed upon a plan for the spacing of wells, or upon a plan or method of distribution of any allowable fixed by the Division for the pool, or upon any other plan for the development or operation of such pool, which plan, in the judgment of the Division, has the affect of preventing waste as prohibited by this Act and is fair to the royalty owners in such pool, then such plan shall be adopted by the Division with respect to such pool; however, the Division, upon hearing and after notice, may subsequently modify any such plan to the extent necessary to prevent waste as prohibited by this Act. (Emphasis added).

23. The Division's interpretation and application of § 70-2-17(E) under these facts is legally erroneous and inconsistent with the OCD's own definitions. Section

70-2-17(E) does not apply to or govern Meridian's application. Instead, it applies to a pool-wide development plan, (i.e., a pool-wide plan for the spacing of wells). Section 70-2-17(E) has no application to pooling agreements by interest owners in one proration unit which is only a part of an entire pool.

24. The OCD defines pool as follows:

> POOL means any underground reservoir containing a common accumulation of crude petroleum oil or natural gas or both. Each zone of a general structure, which zone is completely separated from any other zone in the structure, is covered by the word "pool" as used herein. "Pool" is synonymous with the "common source of supply" and with "common reservoir."

"Pool" in this case does not refer to or mean a single proration unit producing from a pool.

25. Section 70-2-17(E) applies to and authorizes the approval or modification of a pool plan such as is embodied in Order No. R-1670-T, which applies on a pool-wide basis to all proration units in the Mesaverde pool. The Division, under these facts, has no authority to apply Section 70-2-17E to a single proration unit in a pool. Application of the statute to a single proporation unit in order to negate or reform a private, valid and binding agreement between the interest owners in a single proration unit constitutes an action in excess of the Division's jurisdiction and authority. Continental Oil Co. v. Oil Conservation Commission, 70 N.M. 310, 373 P.2d 809 (1962).

26. Order No. R-1670-T does not authorize the Division to modify an existing, valid operating agreement between private parties. That Order permits the

optional drilling of a second well on a 320-acre proration unit but does not require the immediate drilling of a second well. It does not even suggest that the drilling a second well is desirable. Order No. R-1670-T does nothing more than authorize interest owners to drill a second well on the proration unit if they agree to do so under terms acceptable to the parties.

2. The Order of February 22 is Inconsistent with Established OCD Precedent and Gives Meridian Preferential Treatment.

27. The Division's finding that it has authority to modify the existing pooling agreements between the interest owners of the E/2 of Section 23 is inconsistent with and contrary to prior Division orders issued in identical cases. A case directly on point is NMOCD Order No. R-8013 in Case No. 8606, the Application of Doyle Hartman for Simultaneous Dedication and Compulsory Pooling related to Hartman's proposed E.E. Jack Well No. 5, a Jalmat infill gas well, which application was filed and heard in 1995 at a time of very favorable gas pricing. A copy of the Division's Order is attached hereto as Exhibit F. In that case, Hartman sought compulsory pooling as to a 160-acre unit area which was already covered by a binding and existing operating agreement between the working interest owners. The Division denied the application for compulsory pooling as follows:

> Because of a lack of evidence to the contrary, it appears that the "Agreements" are current binding operating agreements for the subject proration unit, having provisions governing those issues to be addressed in compulsory pooling cases obviating the need for such a hearing in this case.

28. The OCD issued a ruling contrary to that embodied in the February 22 Order in Case No. 11294, involving an application by Santa Fe Energy Resources to force pool the interest of Phillips Petroleum Company. There, the Division dismissed the application based upon the objection of Phillips that the section at issue had already been voluntarily committed to a spacing unit and could not be made subject to a compulsory pooling case without violating NMSA 1978 § 70-2-17. A copy of the Order and Objection are attached as Exhibit G.

29. The Division, in entering its finding that it has jurisdiction to consider Meridian's application, has exceeded the authority granted it under NMSA 1978 § 70-2-17, and has given Meridian preferential treatment inconsistent with and contrary to the treatment given other applicants by the Division on this same issue.

30. Resolution of this issue in favor of Hartman and this application for de novo hearing will resolve the dispute between Hartman and Meridian, obviate the need for any future Division proceedings, prevent waste, and conserve valuable administrative resources.

WHEREFORE Hartman respectfully requests that the Commission set this matter for de novo hearing, and withdraw that portion of the Order of the Division of February 22, 1996 which finds that the Division has jurisdiction and authority to modify the Communitization Agreement and Operating Agreement pursuant to NMSA 1978 § 70-2-17(E). The Commission should enter its Order holding that the Division (a) lacks jurisdiction and the authority under § 70-2-17(E) to modify a valid, binding agreement

between interest owners in a proration unit to voluntarily pool their interests, and (b) lacks jurisdiction or authority under § 70-2-17(E) to force pool Hartman's interest in the E/2 of Section 23 for the purpose of approving the No. 7A Well. Finally, Hartman requests that the Commission order that no further proceedings be held on any future application Meridian may file to force pool the interest owners of the E/2 of Section 23 as to the Mesaverde interval.

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.

By _____
J.E. GALLEGOS
MICHAEL J. CONDON
460 St. Michael's Drive, Bldg. 300
Santa Fe, New Mexico 87505
(505) 983-6686

Attorneys for Hartman

CERTIFICATE OF SERVICE

I hereby certify that I have caused a true and correct copy of the foregoing to be hand-delivered on this 11th day of March, 1996 to the following:

Tom Kellahin
117 N. Guadalupe
Santa Fe, NM 87501

William F. Carr
Post Office Box 2208
Santa Fe, NM 87504-2208

_____
MICHAEL J. CONDON

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

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

CASE NO. 11434
ORDER NO. R-10545

APPLICATION OF MERIDIAN OIL, INC. FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 11, 1996, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 22nd day of February, 1996, the Division Director, having considered the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Meridian Oil, Inc. ("Meridian"), seeks an order pooling all mineral interests in the Blanco-Mesaverde Pool underlying an existing 313.63-acre gas spacing and proration unit comprising Lots 1, 2, 7, 8, 9, 10, 15, and 16 (the E/2 equivalent) of Section 23, Township 31 North, Range 9 West, NMPM, San Juan County, New Mexico, for the drilling and completion of its proposed Seymour Well No. 7-A to be drilled at an unorthodox infill gas well location 1,615 feet from the South line and 2,200 feet from the East line (Unit J) of said Section 23.

(3) Said unit is currently dedicated to Meridian's Seymour Well No. 7 (**API No. 30-045-10597**), located at a standard gas well location 1,170 feet from the North line and 970 feet from the East line (Lot 1/Unit A) of said Section 23.

mgc

EXHIBIT "A"

(4) By New Mexico Oil Conservation Commission ("Commission") Order No. 799, dated February 25, 1949, the Blanco-Mesaverde Pool was created, defined, and 320-acre spacing was established therefor. By Order No. R-128-C, issued on December 16, 1954 the Commission instituted gas prorationing in the Blanco-Mesaverde Pool to be made effective March 1, 1955. By Order No. R-1670-T, dated November 14, 1974, the rules governing the Blanco-Mesaverde Pool were amended to permit the optional "infill drilling" of an additional well on each 320-acre gas spacing and proration unit within the Blanco-Mesaverde Pool.

(5) Prior to the hearing Doyle Hartman and Margaret Hartman, doing business as Doyle Hartman, Oil Operator ("Hartman"), who own a 12.500% working interest in the subject acreage, filed a motion to dismiss this case. By letter dated January 8, 1996 the Division denied Hartman's request and this matter remained on the Division's docket for the immediate hearing.

(6) At the time of the hearing Hartman and Four Star Oil & Gas Company ("Four Star") again requested that this matter be dismissed on the grounds that the subject acreage is currently subject to an Operating Agreement and a Communitization Agreement that have been in effect since 1953 and that Meridian failed to undertake reasonable efforts to obtain voluntary joinder of their respective interests in drilling the proposed infill well.

(7) Meridian was allowed to present testimony on land and ownership matters in this case, which indicates that:

(a) the E/2 equivalent of said Section 23 consists of two separate Federal oil and gas leases, each dated May 1, 1948, with:

(i) tract 1 comprising the NE/4 equivalent of said Section 23 issued to John C. Dawson; and,

(ii) tract 2 comprising the SE/4 equivalent of said Section 23 issued to Claude A. Teel;

(b) on March 30, 1953 a communitization agreement was made for the E/2 equivalent of said Section 23 between Southern Union Gas Company, Meridian's predecessor in interest and as operator of the Seymour Well No. 7, and Skelly Oil Company, Four Star's predecessor in interest;

(c) on April 10, 1953, the working interest owners in the E/2 equivalent of said Section 23 entered into an operating agreement which:

(i) provided for the drilling of the Seymour Well No. 7 in Unit "A" of said Section 23;

(ii) designated Southern Union Gas Company operator of the unit;

(iii) governs operations in the Mesaverde formation in the E/2 equivalent of said Section 23; and,

(iv) binds the successors and assigns of the original parties; and,

(d) on November 10, 1953 Southern Union Gas Company spudded the Seymour Well No. 7 and completed it as a producing Mesaverde gas well to which the E/2 equivalent of said Section 23 was dedicated.

(8) By letters dated January 27 and April 12, 1993 Meridian advised all working interest owners within this 320-acre unit that the 1953 Operating Agreement did not contain any subsequent well provisions and therefore proposed a new Joint Operating Agreement for the drilling of an "infill" Blanco-Mesaverde well in the SE/4 equivalent of said Section 23.

(9) Meridian by letter dated October 31, 1995 renewed its request for a voluntary agreement of the working interests for the drilling of the proposed infill well. Eight days later by letter dated November 8, 1995 Meridian filed with the Division its application to force pool this acreage for the Seymour Well No. 7-A.

(10) *It is both Four Star's and Hartman's position that pursuant to Section 70-2-17.C of the New Mexico Oil & Gas Act of N.M.S.A. 1978 the owners of Mesaverde rights in the E/2 equivalent of said Section 23 have a voluntary agreement in place and that the Division may not force pool this acreage.*

FINDING: Pursuant to Section 70-2-17.E. of said Act the Division may modify the 1953 Operating Agreement to the extent necessary to prevent waste. The Division therefore has jurisdiction over this matter.

(11) Meridian, however, failed to make reasonable efforts to adequately obtain voluntary joinder of all working interests for further development of this acreage prior to filing its application, see Finding Paragraph (9), above; therefore, this case should be dismissed at this time.

IT IS THEREFORE ORDERED THAT:

Case No. 11434 is hereby dismissed.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

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GALLEGOS LAW FIRM P.C.

EXHIBIT "B"

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

Township 31 North, Range 9 West, N.M.P.M.
San Juan County, New Mexico

Section 23: E½

containing 320 acres, more or less,

and this agreement shall extend to and include only the Mesaverde formation underlying said lands and the dry gas and associated liquid hydrocarbons (hereinafter referred to as "communitized substances") producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit A designating the operator of the communitized area and showing the acreage, percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and four (4) executed copies of a designation of successor operator shall be filed with the Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations. Operator, in operations hereunder, shall not discriminate against any employee or applicant for employment because of race, creed, color or national origin and an identical provision shall be incorporated in all subcontracts.

5. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all

communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payment of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

7. There shall be no obligation on the lessees to offset any dry gas well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement shall be effective as of the date hereof. upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior, or his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are produced from the communitized area in paying quantities; provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto.

11. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

12. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferree or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart,

ratification or consent hereto with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

Secretary

SOUTHERN UNION GAS COMPANY

By

President

OPERATOR

John C. Dawson

Lucille P. Dawson

Lucille P. Dawson, his wife

Claude A. Teel

Mary Nell Teel

Mary Nell Teel, his wife

ATTEST:

Asst Secretary

SKELLY OIL COMPANY

By

President

LESSEES AND WORKING INTEREST OWNERS

Geo. S. A. McAdams

Geo. S. A. McAdams, his wife

A. W. Rutter

Rutter, his wife

R. N. Ernest

Ernest, his wife

ATTEST:

Secretary

ALBUQUERQUE ASSOCIATED OIL COMPANY

By

President

RATIFYING OVERRIDING ROYALTY OWNERS

STATE OF TEXAS }
COUNTY OF HARRIS } SS

On this 3rd day of June, 19 53, before me personally appeared John C. Dawson and Lucylle R. Dawson, his wife, known to me to be the person(s) who executed the above and foregoing instrument and acknowledged to me that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 3rd day of June, 19 53.

E. D. Story, Jr.
Notary Public in and for
Harris County, Texas

My Commission Expires:
E. D. STORY, JR.
Notary Public in and for Harris County, Texas
My Commission Expires June 1, 1955

STATE OF TEXAS }
COUNTY OF DALLAS } SS

On this 7th day of April, 19 53, before me appeared J. C. Reid, to me personally known, who, being by me duly sworn, did say that he is the Vice President of SOUTHERN UNION GAS COMPANY and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. C. Reid acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 7th day of April, 19 53.

Mary Jane Watkins
Notary Public in and for
Dallas County, Texas

My Commission Expires:
June 1, 1953

STATE OF _____ }
SS
COUNTY OF _____ }

On this 27 day of April, 1953, before me personally appeared Claude A. Teel and Mary Nell Teel, his wife, known to me to be the person(s) who executed the above and foregoing instrument and acknowledged to me that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 27 day of April, 1953.

August E. Bosch
Notary Public in and for
Bernalillo County, New Mexico

My Commission Expires:
July 3, 1956

STATE OF Oklahoma }
SS
COUNTY OF Tulsa }

On this 21st day of May, 1953, before me appeared E. L. Clark, to me personally known, who, being by me duly sworn, did say that he is the Vice President of SKELLY OIL COMPANY and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said E. L. Clark acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 21st day of May, 1953.

Hazel M. Brady
Notary Public in and for
Tulsa County, Oklahoma

My Commission Expires:
HAZEL M. BRADY
Notary Public, Tulsa County, Oklahoma
My Commission Expires January 21, 1957

THE STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO)

On this 27th day of April, 1953, before me personally appeared Georgia McAdams, to me known to be the person who executed the foregoing instrument in behalf of C. A. McAdams, and acknowledged that she executed the same as a free act and deed of said C. A. McAdams.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My commission expires:
My Commission Expires September 27, 1953

Notary Public in and for Bernalillo County, New Mexico.

THE STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO)

On this 27th day of April, 1953, before me personally appeared Georgia McAdams, wife of C. A. McAdams, to me known to be the person described in and who executed the foregoing instrument, and acknowledged to me that she executed the same as her free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My commission expires:
My Commission Expires September 27, 1953

Notary Public in and for Bernalillo County, New Mexico.

STATE OF _____ }
COUNTY OF _____ } SS

On this _____ day of _____, 1953, before me personally appeared C. A. McAdams and Lenzie McAdams, his wife, known to me to be the person(s) who executed the above and foregoing instrument and acknowledged to me that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have set my hand and seal of office on this _____ day of _____, 1953.

_____
Notary Public in and for

My Commission Expires: _____ County, _____

_____

STATE OF _____ }
COUNTY OF _____ } SS

On this _____ day of _____, 1953, before me personally appeared A. W. Rutter and _____ Rutter, his wife, known to me to be the person(s) who executed the above and foregoing instrument and acknowledged to me that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have set my hand and seal of office on this _____ day of _____, 1953.

_____
Notary Public in and for

My Commission Expires: _____ County, _____

_____

STATE OF _____ }
COUNTY OF _____ } SS

On this _____ day of _____, 19 53, before me personally appeared R. H. Ernest and _____ Ernest, his wife, known to me to be the person(s) who executed the above and foregoing instrument and acknowledged to me that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have set my hand and seal of office on this _____ day of _____, 19 53.

My Commission Expires: _____

_____
Notary Public in and for
_____ County, _____

STATE OF New Mexico }
COUNTY OF Bernalillo } SS

On this 27th day of April, 19 53, before me appeared Dudley Connell, to me personally known, who, being by me duly sworn, did say that he is the _____ President of ALBUQUERQUE ASSOCIATED OIL COMPANY and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said Dudley Connell acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 27 day of April, 19 53.

My Commission Expires:
12-29-56

Myrtle A. Downes
Notary Public in and for
Bernalillo County, New Mexico

Exhibit A to Communitization Agreement
dated March 30, 1953, embracing: E½ of Section 23,
Township 31 North, Range 9 West, N.M.P.M., San Juan County, New Mexico

Operator of Communitized Area: Southern Union Gas Company.

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lessor: United States of America

Lessee of Record: John C. Dawson

Serial No. of Lease: Santa Fe 078505

Date of Lease: May 1, 1948

Description of Lands Committed: Township 31 North, Range 9 West, N.M.P.M.
Section 23: NE¼

Number of Acres: 160

Working Interest and Percentage: John C. Dawson 84½ %

O.R.R.I. and Percentage:
C. A. McAdams 3/4 of 1%
A. W. Rutter 1/4 of 1%
R. H. Ernest 1/4 of 1%
Albuquerque Associated Oil Co. 1 - 3/4 %

Tract No. 2

Lessor: United States of America

Lessee of Record: Claude A. Teel

Serial No. of Lease: NM-03601

Date of Lease: May 1, 1948

Description of Lands Committed: Township 31 North, Range 9 West, N.M.P.M.
Section 23: SE¼

Number of Acres: 160

Working Interest and Percentage: Skelly Oil Company 81½ %

O.R.R.I. and Percentage:
Claude A. Teel 1 %
(This interest is subject to CFR 192.83)
Albuquerque Associated Oil Co. 5 %

Recapitulation

Tract Number	No. of Acres Committed	Percentage of Interest In Communitized Area
1	160	50%
	160	50%

FR #61
Seymour #7

OPERATING AGREEMENT

THIS AGREEMENT, made and entered into on this 10th day of April 1953, by and between SOUTHERN UNION GAS COMPANY, a Delaware corporation authorized to do business in the State of New Mexico, and having its principal office in Dallas, Texas (hereinafter called "Southern Union" or "Operator"), and SKELLY OIL COMPANY

(hereinafter called "Non-operator", whether one or more),

RECEIVED
1953 NOV 27 PM 12 33
ECOS LAW FIRM P.

W I T N E S S E T H T H A T :

WHEREAS, under date of March 30, 1953, a certain communitization (or pooling) agreement was made and entered into providing for the communitization, pooling and consolidation of certain oil and gas leases therein described so as to form a drilling unit (hereinafter referred to as "unit"), embracing the following described land in San Juan County, New Mexico:

Township 31 North, Range 9 West, N.M.P.M.

Section 23: E½

to which agreement reference is here made for all purposes; and

WHEREAS, the parties hereto desire to provide for the economical and joint operation of said unit for the production of gas and associated liquid hydrocarbons producible from Mesaverde formation, subject to and in accordance with the terms and provisions of this agreement:

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and promises herein contained, the parties hereto agree as follows:

I.

OPERATOR

Section 1. Southern Union Gas Company is hereby designated as Operator of

EXHIBIT "C"

5-A

the above described unit and, subject to the terms and conditions of this agreement, shall have full control of and shall conduct and manage all operations on said unit for the joint account of the parties hereto. Southern Union may resign as Operator at any time by giving notice to each Non-operator in writing sixty (60) days in advance of the effective date of such resignation and, in such event, the working interest owners of said unit shall immediately select a successor.

Section 2. In the event Southern Union shall sell or otherwise dispose of all of its interest in said unit, the right of operation herein conferred shall not run with the transfer or assignment of such interest or inure to the benefit of Southern Union's assignee, but Non-operator and Southern Union's assignee shall immediately select a new Operator.

Section 3. The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all employees, in connection with operations hereunder, shall be determined by Operator. All employees and contractors used in operations hereunder shall be employees and contractors of Operator and shall never be considered the employees or contractors of Non-operator.

II.

PERCENTAGE OF INTEREST

It is agreed that for purposes of this agreement the interest of each party hereto in said unit is as follows:

NAME	INTEREST
SOUTHERN UNION GAS COMPANY	50%
SKELLY OIL COMPANY	50%

III.

DRILLING OPERATIONS

Section 1. Subject to all other applicable provisions of this agreement, Operator, on or before sixty (60) days from approval of the above described communitization agreement by the United States Geological Survey shall commence, or cause to be commenced, operations for the drilling of a well for the joint account of the parties hereto, at the following location:

Township 31 North, Range 9 West, N.M.P.M.

Section 23: NE¼NE¼

and cause said well to be diligently drilled without unnecessary delay and in a good workmanlike manner to a sufficient depth to test the Mesaverde formation, unless the parties hereto mutually agree to discontinue drilling operations at a lesser depth. It is understood and agreed that the commencement date for said well shall be extended for a reasonable period when necessary to perfect title to the lands committed to the unit.

~~Section 2. Upon request of Operator, each Non-operator shall furnish and deliver to Operator its proportionate share of casing and other equipment, except drilling equipment normally furnished by a drilling contractor, which will be required to complete and equip said well.~~

Section 3. Prior to commencement of drilling operations, as provided in Section 1 hereof, Operator shall furnish each Non-operator an estimate of the costs expected to be incurred in drilling and equipping said well.

Section 4. All costs and expenses incurred in connection with the drilling, completing, testing, equipping, and if a dry hole, the plugging and abandoning, of said well shall be borne by the parties hereto in the proportions set out under Article II hereof.

IV.

LOSS OR FAILURE OF TITLE

In the event of the loss or failure of the title, in whole or in part, of

any party hereto to any lease, or to any interest therein, the interest of such party in and to the production obtained from the unit shall be reduced in proportion to such loss or failure of title as of the date such loss or failure of title is finally determined; provided, that such revision of ownership interest shall not be retroactive as to operating costs and expenses incurred or as to revenues or production obtained prior to such date; and provided, further, that each party hereto whose title has been lost or has failed, as aforesaid, shall indemnify and hold the other parties hereto harmless from and against any and all loss, cost, damage and expense which may result from, or arise because of, the delivery to such party of production obtained hereunder or the payment of proceeds derived from the sale of any such production, prior to the date loss or failure of title is finally determined.

V.

TERM OF AGREEMENT

This agreement shall remain in full force and effect, unless sooner terminated by the mutual agreement of the parties hereto, as long as the communitization (or pooling) agreement hereinabove described shall remain in force and effect.

VI.

COSTS AND EXPENSES

Section 1. Unless Operator elects to require Non-operator to advance its share of the costs and expenses, as hereinafter provided, Operator shall initially advance and pay all costs and expenses for the drilling of the well provided for under Article III hereof as well as operation expenses of said unit and shall charge each Non-operator with its pro rata part thereof on the basis of its proportionate interest in the unit as set out under Article II hereof.

Section 2. All such costs, expenses, credits and related matters, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A" and made a part hereof for all purposes.

Section 3. In the event that Operator elects to require any Non-operator

to advance its proportionate share of the above mentioned costs and expenses, Operator shall submit an itemized estimate of such costs and expenses for the succeeding calendar month to such Non-operator, showing therein the proportionate part of the estimated costs and expenses chargeable to such Non-operator. Within fifteen (15) days after receipt of said estimate, such Non-operator shall pay to the Operator its proportionate share of the estimated costs and expenses. If payment of the estimated costs and expenses is not made when due, the unpaid balance thereof shall bear interest at the rate of six per cent (6%) per annum from the due date until paid. Adjustments between estimated and actual costs and expenses shall be made by Operator at the close of each calendar month and the account of the respective parties adjusted accordingly.

Section 4. Operator shall make no single expenditure in excess of One Thousand Dollars ($1,000.00) without first obtaining the consent thereto of each Non-operator. The approval of the drilling of the well provided for hereinabove, however, shall include all expenditures for the drilling, completing, testing and equipping of such well, including the necessary lines and separators.

VII.

DISPOSAL OF PRODUCTION

Each Non-operator shall own its proportionate share of all gas, casinghead gas and other hydrocarbon substances produced and saved from the unit, and shall be entitled to take all or any part thereof in kind, but if any Non-operator takes all or any part of its proportionate part of such production in kind, it shall bear any extra expense incurred by Operator in making such delivery in kind. In case of sales of production, each Non-operator shall collect direct from the purchaser or purchasers of such production for its proportionate part thereof.

VIII.

INSURANCE

Section 1. Operator, or Operator's contractors or subcontractors, shall carry for the benefit of the joint account insurance to cover drilling operations

5-E

on the unit as follows:

KIND	POLICY FORM	MINIMUM LIMITS OF LIABILITY
Workmen's Compensation	Statutory	Statutory
Contractor's Public Liability	Comprehensive (including coverage under all sections of policy)	B.I. ($ 50,000 each person $100,000 each accident $100,000 aggregate P.D. ($ 10,000 each accident $ 50,000 aggregate
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. ($ 50,000 each person $100,000 each accident P.D. ($ 10,000 each accident

Section 2. With respect to producing operations conducted hereunder on the unit by the Operator for the joint account of the parties hereto, Operator shall maintain in effect at all times while operations are so conducted hereunder the following insurance coverage:

KIND	POLICY FORM	MINIMUM LIMITS OF LIABILITY
Workmen's Compensation	Statutory	Statutory
Contractor's Public Liability	Comprehensive (including coverage under all sections of policy)	B.I. ($100,000 each person $300,000 each accident $300,000 aggregate P.D. ($100,000 each accident $100,000 aggregate
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. ($100,000 each person $300,000 each accident P.D. ($ 10,000 each accident

Operator will, upon request, furnish to Non-operator certificate(s) evidencing such insurance.

IX.

ABANDONMENT OF WELL

No well on the unit which is capable of producing gas and/or condensate from the formations covered by this agreement shall be abandoned without the mutual consent of the parties hereto. If any of the parties desire to abandon such well, such party or parties shall so notify the other party or parties in writing and the latter shall have ten (10) days after receipt of such notice in which to elect whether to agree to such abandonment. If all parties hereto agree to such abandonment, such well shall be abandoned and plugged by Operator at the expense of the joint account, and as much as possible of the casing and

other physical equipment in and on said well shall be salvaged for the benefit of the joint account. If any party or parties do not agree to said abandonment, such party or parties shall purchase the interest(s) of the party or parties desiring to abandon said well in the physical equipment therein and thereon; and, within twenty-five (25) days after the receipt of notice by the party or parties not electing to abandon, the party or parties desiring to abandon shall execute and deliver to the other party or parties an assignment, without warranty of title, of its or their interest in said well and physical equipment, and in the working interest and gas leasehold estate, insofar as it covers the formation(s) covered by this agreement, in said unit. In exchange for said assignment, the purchasing party or parties shall pay to the assigning party or parties the salvage value of the latter's interest in the salvable casing and other physical equipment in and on said well, such value to be determined in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A".

X.

TAXES

The Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws of the State of New Mexico, or which may be made subject to taxation under future laws, and shall pay for the benefit of the joint account all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill each Non-operator for its proportionate share of such tax payments provided by the Accounting Procedure, attached hereto as Exhibit "A".

XI.

OPTION TO PURCHASE

Section 1. In the event that any party hereto receives a bona fide offer

which it is willing to accept for the purchase of its interest in the unit, or any part thereof, from a person, firm or corporation ready, able and willing to purchase such interest or part thereof, the party hereto receiving such offer shall immediately give written notice thereof to each of the other parties hereto, including in such notice the name and address of such offeror, the price offered and all other pertinent terms and conditions of the offer. The other parties hereto, for a period of seven (7) days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or leases, or part thereof, covered by the offer, at the price and according to the terms and conditions specified therein.

Section 2. If the other parties hereto fail to exercise their right and option by giving written notice of acceptance within seven (7) days after receipt of the above mentioned notice, the party which received the offer shall accept it and complete the sale to the offeror in accordance with its offer within sixty (60) days after the expiration of said seven (7) day period; provided, that if the party which received the offer fails to accept it or to complete the sale within said period of sixty (60) days, the preferred right and option of the other parties hereto under this Article XI shall be considered as revived, and the party which received the offer shall not complete such sale to the offeror unless and until the offer again has been presented to the other parties hereto, as hereinabove provided, and the other parties again have failed to elect to purchase on the terms and conditions of the offer. All offers, except as hereinafter specifically excepted, at any time made to any party hereto for the purchase of its interest in the pooled unit, or a part thereof, shall be subject to all the terms and conditions of this Article XI.

Section 3. It is expressly agreed that the foregoing provisions of this Article XI shall not apply to a transfer by a corporate party hereto made in connection with a merger, consolidation or reorganization involving such party and its parent subsidiary or an affiliated company, nor the transfer by any party to a wholly owned subsidiary or to any other person, firm or corporation having an identity of interest or an option agreement covering any of the land

and leases subject to this agreement.

XII.

RELATION OF PARTIES

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, it being the express purpose and intention of the parties hereto that their ownership in said unit shall be as tenants in common; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any one or more of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations, as set out in this agreement.

XIII.

ACCESS TO PREMISES, LOGS AND REPORTS

Operator shall keep accurate logs of the well drilled on said unit, which logs shall be available at all reasonable times for inspection by any Non-operator. Upon request by any Non-operator, Operator shall furnish to such Non-operator a copy of said logs, samples of cores and cuttings of formations encountered, and monthly progress reports relative to the development and operation of said unit, together with any other information which may be reasonably requested pertaining to such well. Each Non-operator shall have access to said unit and to all books and records pertaining to operations hereunder for the purpose of inspection at all reasonable times.

XIV.

SURRENDER, EXPIRATION, ABANDONMENT OR RELEASE OF LEASE

No lease or leases subject to this agreement shall be surrendered, let to expire, abandoned or released, in whole or in part, unless the parties mutually consent thereto in writing. In the event that less than all the parties hereto should elect to surrender, let expire, abandon or release all or any part of a lease or leases subject to this agreement and the other party or parties do not consent or agree, the party so electing shall notify the other party or parties not less than sixty (60) days in advance of such surrender, expiration, abandon-

ment or release and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party or parties all of its rights, title and interest in and to said lease or leases, the well or wells located thereon, and the casing and other physical equipment in or on said well or wells. If the party or parties not so electing fail(s) to request such assignment within such sixty (60) day period, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases, or any part thereof. In the event such assignment is so requested, the party or parties to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the salvable casing and other physical equipment in or on the unit, said value to be determined in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A". After the delivery of any such assignment, the party making the assignment shall be released from and discharged of all the duties and obligations thereafter accruing or arising hereunder, in connection with the operation and development of the unit, with respect to the assigned lease or leases.

XV.

LAWS AND REGULATIONS

This agreement shall be subject to all valid and applicable State and Federal laws, rules, regulations and orders, and the operations conducted hereunder shall be performed in accordance with said laws, rules, regulations and orders. In the event this agreement or any provision hereof is, or the operations contemplated hereby are found to be, inconsistant with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly, and as so modified, shall continue in full force and effect.

XVI.

FORCE MAJEURE

Section 1. In the event that any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make payments of amounts due hereunder, upon such

party's giving notice and reasonably full particulars of such force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, the obligations of the party giving said notice, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure as far as possible shall be remedied with all reasonable dispatch.

Section 2. The term "force majeure" as employed herein shall mean an act of God, strike, lockout or other industrial disturbance, act of the public enemy, war, blockade, riot, lightning, fire, storm, flood, explosion, governmental restraint and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension.

Section 3. The settlement of strikes, lockouts and other labor difficulty shall be entirely within the discretion of the party having the difficulty. The above 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 acceding to the demands of opponents therein when such course is inadvisable in the discretion of the party having the difficulty.

XVII.

NOTICES

Except as herein otherwise expressly provided, all notices, reports and other communications required or permitted hereunder shall be deemed to have been properly given or delivered when delivered personally or when sent by registered mail or telegraph, with all postage or charges fully prepaid, and addressed to the parties hereto, respectively, as follows:

To Non-operator:

Skelly Oil Company
~~Box 1088, Station A~~
~~Albuquerque, New Mexico~~
Skelly Building,
Tulsa, Okla.

To Operator:

Southern Union Gas Company
1104 Burt Building
Dallas 1, Texas

The date of service by mail shall be the date on which such written notice or other communication is deposited in the United States post office, addressed as above provided. Each party hereto shall have the right to change its address for all purposes of this Article XVII by notifying the other parties hereto thereof in writing.

XVIII.

ROYALTY, OVERRIDING ROYALTIES, PRODUCTION PAYMENTS, ETC.

Section 1. The provisions of this agreement are based on the assumption that the respective leases or operating rights owned by the parties hereto and made subject hereto provide for a royalty of 1/8th of the value of gas and associated liquid hydrocarbons produced, saved and sold. In the event any lease or leases subject hereto provide for a royalty on such products in excess of the current market value at the well of 1/8th of that produced, saved and sold, there shall be charged against the interest of the party owning such lease, leases or operating rights, the amount of such royalties in excess of the said 1/8th. The amount of cost and expense allocable to the leasehold interests hereunder shall not be affected by any such charge or by the existence of any such excess royalty.

Section 2. All overriding royalties, production payments, carried working interests and net profit obligations to which any party's interest in the unit is subject shall be borne and paid by such party in accordance with the provisions of the assignment or other instrument creating or pertaining to such obligation(s).

XIX.

EFFECT OF AGREEMENT

The terms, covenants and conditions of this agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; and said terms, covenants and conditions shall be covenants running with the land and leasehold estates covered hereby and with each transfer or assignment of said land or leasehold estates.

XX.

OPERATOR'S LIEN

Operator shall have an express contract lien, which is hereby granted, upon the interest of each Non-operator in said unit, in the oil, gas or other minerals produced from such unit and in the materials and equipment located thereon, to secure the payment by each Non-operator of its proportionate part of the costs and expenses incurred or paid by Operator hereunder, and interest, if any, accrued on such part. Such lien may be enforced and foreclosed as any other contract lien. Moreover, Operator may to the full extent of any indebtedness owed by it to any such Non-operator, offset such debt against sums owing to Operator hereunder by such Non-operator.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

SOUTHERN UNION GAS COMPANY

ATTEST:

Secretary

By
Vice President

OPERATOR

SKELLY OIL COMPANY

ATTEST:

Secretary

By
Vice President

NON-OPERATOR

37-111

STATE OF Texas }
COUNTY OF Dallas } SS

On this 14th day of April, 1953, before me appeared J. C. Reik, to me personally known, who, being by me duly sworn did say that he is the Vice President of Southern Union Gas Company and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. C. Reik acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 14th day of April, 1953.

My Commission Expires:
June 1, 1953

Notary Public in and for
Dallas County, Texas

STATE OF Okla. }
COUNTY OF Tulsa } SS

On this 21st day of May, 1953, before me appeared G. L. Cashmere, to me personally known, who, being by me duly sworn, did say that he is the Vice President of Shelby Oil Company and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said G. L. Cashmere acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 21st day of May, 1953.

My Commission Expires:
NOTARY PUBLIC, Tulsa County, Oklahoma
My Commission Expires January 21, 1957

Notary Public in and for
Tulsa County, Okla.

COPIES

EXHIBIT "A"

Attached to and made a part of Operating Agreement between Supron Energy Corporation and Northwest Pipeline Corporation dated April 10, 1953, covering the E/2 of Section 23, T-31-N, R-9-W, N.M.P.M., San Juan County, New Mexico

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.

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II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**

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

2. **Labor**

   A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

   (2) Salaries of First Level Supervisors in the field.

   (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

   B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

   C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

   D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. **Employee Benefits**

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

4. **Material**

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

5. **Transportation**

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

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

   B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

   C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. **Services**

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

7. **Equipment and Facilities Furnished by Operator**

   A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

   B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 25%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. **Damages and Losses to Joint Property**

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

9. **Legal Expense**

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

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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:

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

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

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

A. **Overhead - Fixed Rate Basis**

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

Drilling Well Rate $ 850.00
Producing Well Rate $ 140.00

(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 $ 25,000 :

A. 5 % of total costs if such costs are more than $ 25,000 but less than $ 100,000 ; plus
B. 2 % of total costs in excess of $ 100,000 but less than $1,000,000; plus
C. 1 % 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.

AMENDMENT OF OPERATING AGREEMENT

This Amendment is made and entered into as of December 1, 1987 by and between Unicon Producing Company, Operator and Atlantic Richfield Company and Northwest Pipeline Corporation, Non-Operators.

WHEREAS, that certain Operating Agreement originally between Southern Union Gas Company and Skelly Oil Company dated April 10, 1953, covering the E/2 of Section 23-31N-9W, NMPM, San Juan County, New Mexico, contains no Gas Balancing Agreement.

WHEREAS, it is the desire of the present parties to said Operating Agreement to amend the Operating Agreement so as to provide for a Gas Balancing Agreement.

NOW, THEREFORE, in consideration of One Dollar and other good and valuable consideration each paid to the other, the receipt and sufficiency of which is hereby acknowledged by all the parties, Operator and Non-Operators hereby amend said Operating Agreement dated April 10, 1953, as follows:

> The Gas Balancing Agreement attached to this Amendment shall be attached to and made a part of that certain Operating Agreement between Southern Union Gas Company and Skelly Oil Company, dated April 10, 1953, as Exhibit "E".

The parties hereto have executed this Amendment as of the date first above written.

This Amendment may be executed in any number of counterparts, each of which should be considered an original for all purposes.

OPERATOR

UNICON PRODUCING COMPANY

By: _____
L. Charles Scholz
Director - U. S. Land Operations
Union Texas Exploration Corporation,
Managing Partner

NON-OPERATORS

ATLANTIC RICHFIELD COMPANY

By: _____

NORTHWEST PIPELINE CORPORATION

By: _____

Approved as to Form
O.U.C.

EXHIBIT "E"

GAS BALANCING AGREEMENT

Attached to and made a part of that certain Operating Agreement dated APRIL 10, 1953, between SOUTHERN UNION GAS COMPANY, OPERATOR, AND SKELLY OIL COMPANY, AS NON-OPERATOR (Covering the E/2 of Section 23-31N-9W, San Juan County, New Mexico)

The parties to the Operating Agreement to which this Gas Balancing Agreement is attached own the working or operating interests in the gas rights underlying the Contract Area covered by such Agreement and are entitled to share in the percentages as stated in the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party shall take its share of gas produced from the Contract Area and market or otherwise dispose of same. In the event a party hereto does not take in kind or market its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which, at any time while this Agreement is in effect, fails to take the share of gas attributable to the interest of such party, the terms of this Gas Balancing Agreement shall automatically become effective.

The Operator has the duty to control gas production and the responsibility of administering the provisions of this Gas Balancing Agreement. The Operator shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance pursuant to the provisions hereof.

1.

During any period or periods when any party hereto does not take, has no market for, or the market of a party is not sufficient to take that party's full share of the gas produced from any well located on the Contract Area, or such party's purchaser is unable to take its share of gas produced from any such well located on the Contract Area, (such a party being herein referred to as an "underproduced party") the other party or parties shall be entitled, but not required, to produce from said well on the Contract Area (and take or deliver to a purchaser), each month, all or a part of that portion of the allowable gas production assigned to such well by the regulatory body having jurisdiction; provided, however, that, with respect to gas produced from a well classified as a gas well by the applicable regulatory body ("gas well gas"), no party may, without the express written approval of the underproduced party, take or market gas well gas in quantities in excess of 150% of such party's share of the gas allowable assigned by the regulatory body having jurisdiction to such well or 150% of such party's share of the then current deliverability of the well including associated production equipment flowing at the then current pipeline pressure, whichever is the lesser quantity of gas well gas. Those parties which are capable of taking and/or marketing quantities of gas allocable to an underproduced party, in the absence of any other agreement between them, shall each take a share of the gas attributed to the underproduced party or parties in the direct proportion that their respective interests bear to the total interest of all parties taking gas who are also considered overproduced. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by primary separation equipment in accordance with their respective interests and subject to the terms of the above-described Operating Agreement, whether or not such parties are actually taking and/or marketing gas at such time.

Each party unable to market its share of the gas produced or unable to take its full share of the gas produced shall be considered underproduced and shall be credited with gas in storage equal to its share of the gas produced under this Agreement, less that portion of the gas actually marketed or taken by such party, gas used in operations, vented, or lost. Each party taking gas shall furnish or cause to be furnished to the Operator a monthly written statement of gas volumes taken and the identity of its gas purchaser, if any. Operator shall not be required to adjust its gas accounting statements reflecting a different gas purchaser until the first day of the month following the month in which such notice was provided to the Operator. The Operator will maintain appropriate accounting on a monthly and cumulative basis of the quantities of gas each party is entitled to receive and the quantities of gas taken and/or marketed by each of the parties to their respective gas purchasers. For the sole purpose of implementing the terms of this Agreement and adjusting gas imbalances which may occur, each party disposing of gas from the Contract Area in any month, to the extent required, shall furnish or cause to be furnished to the Operator by the last day of each calendar month succeeding the producing calendar month a statement showing the total volume of gas marketed by such party or taken in kind for its own account during the producing calendar month and the identity of its gas purchaser, if any. Within ninety (90) days after the end of each producing calendar month, the Operator shall furnish each party a statement showing the status of the overproduced and underproduced accounts of all parties. To determine respective volumes of gas taken by separate gas pipelines connected to the well, measurement of gas for over and under production shall be accomplished by use of sales meters, and lease measurement shall be in accordance with AGA requirements. With respect to gas purchased from or transported for more than one party by or through one pipeline connected to the well, each party selling to or transporting through such one pipeline shall furnish or cause its gas purchaser or transporter to furnish to Operator monthly volume statements showing the split of ownership through its sales or pipeline inlet meter during the preceding calendar month. All gas volumes under this paragraph will be identified by the appropriate category under the NGPA or any other law or regulation in effect including deregulated gas, as appropriate. Each party to this Agreement agrees that it will not utilize any information obtained hereunder for any purpose other than implementing the terms of this Gas Balancing Agreement.

Any underproduced party shall endeavor to bring its taking of gas into balance. After written notice to the Operator, any party may at any time begin taking or delivering to its purchaser its full share of the gas produced from said Contract Area (less any used in operations, vented, or lost). To allow for the recovery of gas in storage and to balance the gas account of the parties in accordance with their respective interests, a party with gas in storage shall be entitled to take or deliver to a purchaser its full share of gas produced from said Contract Area (less any used in operations, vented, or lost) plus an amount up to an additional fifty percent (50%) of the monthly quantity of gas attributable to the overproduced party or parties. If more than one underproduced party is entitled to take additional gas, they shall divide the additional gas in proportion to their respective underproduced accounts. The first gas made up shall be assumed to be the first gas underproduced.

4.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser up to 100% of the entire well stream to meet the deliverability tests required by its purchaser, provided that such tests are reasonable in light of overall industry standards. Each party shall, at all times, use its best efforts to regulate its takes and deliveries from said Contract Area so that said Contract Area will not be shut-in for overproducing the allowable assigned thereto by the regulatory body having jurisdiction. Additionally, each party shall communicate, as necessary, the contents of this agreement to its respective gas purchaser and shall monitor its deliveries to its gas purchaser so as to ensure to the greatest extent practicable that its gas purchaser does not take gas in excess of the quantities provided for herein.

5.

At all times while gas is produced from the Contract Area, each party shall pay or cause to be paid all royalty due and payable on its share of gas production as if each party were taking or delivering to a purchaser its share of production. Each party agrees to hold each other party harmless from any and all claims for royalty payments asserted by its royalty owners. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments, and similar interests.

6.

Each party producing and taking or delivering gas to its purchaser shall pay, or cause to be paid, all production and severance taxes due on all volumes of gas actually taken or sold by such party.

7.

If, at the permanent termination of production of gas from a well located on the Contract Area, an imbalance exists between the parties, a monetary settlement of the imbalance between the parties relative to such well shall be made within a reasonable length of time after production permanently ceases. The amount of the monetary settlement will be limited to the proceeds actually received by the overproduced party or parties at the time of overproduction, less production and severance taxes paid on such overproduction. If the overproduced party or parties did not sell its gas, such gas will be valued in the same manner used for royalty and severance tax purposes when produced. That portion of the monies collected by the overproduced party or parties which is subject to refund by orders of the FERC may be withheld by the overproduced party or parties until such prices are fully approved by the FERC, unless the underproduced party or parties furnish a corporate undertaking agreeing to hold the overproduced party or parties harmless from financial loss due to refund orders by the FERC.

In order to administer this provision, Operator shall request each overproduced party to furnish Operator a monthly statement of revenue and volume for each month during which the overproduction occurred. Within a reasonable time after the permanent termination of production of gas from a well located on the Contract Area, Operator shall invoice each overproduced party for its proportionate share of said overproduction based on said statements and shall distribute the amounts collected from the overproduced parties to each underproduced party proportionate to the relative volumes of underproduction attributable to each such underproduced party based on the weighted average price received by each overproduced party during the period that the underproduction occurred. Each party shall retain all producer's records of volumes taken or sold and revenues or values accruing thereto for the full term of this Gas Balancing Agreement. Operator agrees that it will not utilize any information obtained hereunder for any purpose other than implementing the terms of this Gas Balancing Agreement.

8.

This Agreement shall remain in force and effect as long as the Operating Agreement, to which it is attached, remains in force and effect, and thereafter until the gas balance accounts between the parties are settled in full, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

9.

Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in operations on the Contract Area as its share thereof is set forth in the Operating Agreement to which this Agreement is attached.

10.

The provisions of this Agreement shall be applied to each well and to each producing formation in each well separately as if each well and each producing formation in each such well was a separate well and covered by separate but identical agreements.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION COMMISSION OF NEW MEXICO FOR THE PURPOSE OF CONSIDERING:

CASE NO. 5264
Order No. R-1670-T

APPLICATION OF EL PASO NATURAL GAS COMPANY FOR THE AMENDMENT OF ORDER NO. R-1670, BLANCO MESAVERDE POOL, SAN JUAN AND RIO ARRIBA COUNTIES, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 13 and August 14, 1974, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 14th day of November, 1974, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the Blanco Mesaverde Pool, located in San Juan and Rio Arriba Counties, New Mexico, was created by Commission Order No. 799, dated February 25, 1949.

(3) That the Blanco Mesaverde Pool is governed by special rules and regulations, promulgated by the Commission in Order No. R-1670, as amended, which provide for 320-acre proration units and well locations in the NE/4 and SW/4 of each governmental section, and for the assignment of allowable to each proration unit in the pool based on the amount of acreage in the unit and the deliverability of the unit well.

EXHIBIT "D"

(4) That the applicant, El Paso Natural Gas Company, seeks an order amending said Order No. R-1670 to permit the optional drilling of an additional well on each 320-acre proration unit in the Blanco Mesaverde Pool; to determine the deliverability of each proration unit upon which an additional well is drilled by adding the deliverabilities of the two wells; to permit the production of the allowable assigned to a proration unit containing two wells from both wells in any proportion; to consider both wells on a proration unit as one well for purposes of balancing underproduction or over-production; to report the production of each well on the unit as well as the total unit production; and to compare the unit production against the unit allowable for determining whether a unit should be classified marginal or non-marginal.

(5) That the Blanco Mesaverde Pool has been developed for approximately 20 years on 320-acre proration units.

(6) That to change the unit size now in said pool would disturb the equities under many of the existing proration units.

(7) That the proration unit size in the Blanco Mesaverde Pool should continue to be 320 acres.

(8) That Section 65-3-10, New Mexico Statutes Annotated, 1953 Compilation, empowers the Commission to prevent waste of hydrocarbons and to protect the correlative rights of the owners of each interest in said hydrocarbons.

(9) That Section 65-3-5, New Mexico Statutes Annotated, 1953 Compilation, confers jurisdiction on the Commission over all matters relating to the conversion of oil and gas.

(10) That "waste" is defined by Section 65-3-3, New Mexico Statutes Annotated, 1953 Compilation.

(11) That the evidence reveals that the Blanco Mesaverde Pool is not a homogeneous, uniform reservoir.

(12) That the producing formation of the Blanco Mesaverde Pool is comprised of various overlapping, interconnecting, and lenticular sands of relatively low permeability, many of which are not being efficiently drained by existing wells in the pool but which could be more efficiently and economically drained and developed by the drilling of additional wells pursuant to the rule changes proposed by the applicant.

(13) That infill drilling will substantially increase recoverable reserves from the Blanco Mesaverde Pool.

(14) That infill drilling will result in greater ultimate recovery of the reserves under the various proration units in the pool.

(15) That infill drilling in the Blanco Mesaverde Pool will result in more efficient use of reservoir energy and will tend to ensure greater ultimate recovery of gas from the pool, thereby preventing waste.

(16) That if infill drilling is implemented in the Blanco Mesaverde Pool, each operator will be afforded the opportunity to produce, without waste, his just and equitable share of the gas from the Pool, and his correlative rights, as defined by Section 65-3-29, New Mexico Statutes Annotated, 1953 Compilation, therefore, will not be impaired.

(17) That both wells on a proration unit should be produced so long as it is economically feasible to do so.

(18) That the application should be approved.

IT IS THEREFORE ORDERED:

(1) That the Special Rules for the Blanco Mesaverde Pool in San Juan and Rio Arriba Counties, New Mexico, as promulgated by Order No. R-1670, as amended, are hereby amended to permit the optional drilling of a second well on each proration unit; to provide that the deliverability of a proration unit containing two wells shall be the sum of the deliverabilities of each of the wells; to provide that the unit allowable may be produced from both of the wells in any proportion; to consider both wells on the proration unit as one well for purposes of balancing underproduction or overproduction; to provide for the reporting of production from each well individually and to require the reporting of total production from the unit; and to compare the unit production against the unit allowable in determining whether a unit should be classified marginal or non-marginal.

(2) That Rule 2 of the Special Rules for the Blanco Mesaverde Pool, as promulgated by Order No. R-1670, as amended, is hereby amended to read in its entirety as follows:

"RULE 2 (A). The initial well drilled on a proration unit shall be located 990 feet from the outer boundary of either the Northeast or Southwest quarter of the section, subject to a variation of 200 feet for topographic conditions. Further tolerance shall be allowed by the Commission only in cases of extremely rough terrain where compliance would necessarily increase drilling costs.

"RULE 2 (B). The second well drilled on a proration unit shall be located in the quarter section of the unit not containing a well, and shall be located with respect to the unit boundaries as described in Rule 2 (A) above.

"The plats (Form C-102) accompanying the Application for Permit to Drill (OCC Form C-101 or Federal Form 9-331-C) for the second well on a proration unit shall have outlined thereon the boundaries of the unit and shall show the location of the first well on the unit as well as the proposed new well.

"RULE 2 (C). In the event a second well is drilled on any proration unit, both wells shall be produced for so long as it is economically feasible to do so."

(3) That the Special Rules for the Blanco Mesaverde Pool as promulgated by Order No. R-1670, as amended, are hereby amended by the addition of the following Special Rule 9:

RULE 9 (A). The product obtained by multiplying each proration unit's acreage factor by the calculated deliverability (expressed as MCF per day) for the well(s) on the unit shall be known as the AD Factor for the unit. The acreage factor shall be determined to the second decimal place by dividing the acreage within the proration unit by 320, subject to the acreage tolerances provided in Rule 5 (A). The AD Factor shall be computed to the nearest whole number.

RULE 9 (B). The monthly allowable to be assigned to each marginal proration unit shall be equal to its latest available monthly production.

RULE 9 (C). The pool allowable remaining each month after deducting the total allowable assigned to marginal proration units shall be allocated among the non-marginal units entitled to an allowable in the following manner:

1. Seventy-five percent (75%) of the pool allowable remaining to be allocated to non-marginal units shall be allocated among such units in the proportion that each unit's "AD Factor" bears to the total "AD Factor" for all non-marginal units in the pool.

2. Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal units shall be allocated among such units in the proportion that each unit's acreage factor bears to the total acreage factor for all non-marginal units in the pool.

RULE 9 (D). The current deliverability tests, taken in accordance with the "Gas Well Testing Procedures-San Juan Basin, New Mexico," shall be used in calculating allowables for the proration units in the pool for the 12-month period beginning April 1 of the following year.

RULE 9 (E). When calculating the allowable for a proration unit containing two wells, in accordance with Rule 9 of these rules, the deliverability of both wells shall be added in calculating the AD Factor and the unit allowable may be produced from both wells.

(4) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 10 (C):

RULE 10 (C). The calculated deliverability at the "deliverability pressure" shall be determined in accordance with the provisions of the current "Gas Well Testing Rules and Procedures - San Juan Basin, New Mexico."

No well shall be eligible for reclassification to "Exempt Marginal" status unless it is located on a marginal proration unit.

(5) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 12:

RULE 12. The full production of gas from each well, including drilling gas, shall be charged against the proration unit's allowable regardless of the disposition of the gas; provided, however, that gas used in maintaining the producing ability of the well shall not be charged against the allowable.

(6) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 14:

RULE 14 (A). Underproduction: Any non-marginal proration unit which has an underproduced status as of the end of a gas proration period shall be allowed to carry such underproduction forward into the next gas proration period and may produce such underproduction in addition to the allowable assigned during such succeeding period. Any allowable carried forward into a gas proration period and remaining unproduced at the end of such gas proration period shall be cancelled.

RULE 14 (B). Production during any one month of a gas proration period in excess of the allowable assigned to a proration unit for such month shall be applied against the underproduction carried into such period in determining the amount of allowable, if any, to be cancelled.

(7) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 15:

RULE 15 (A). Overproduction: Any proration unit which has an overproduced status as of the end of a gas proration period shall carry such overproduction forward into the next gas proration period. Said overproduction shall be made up during the succeeding gas proration period. Any unit which has not made up the overproduction carried into a gas proration period by the end of said period shall not be produced until such overproduction is made up.

RULE 15 (B). If, during any month, it is discovered that a proration unit is overproduced in an amount exceeding six times its average monthly allowable for the preceding twelve months (or, in the case of a newly connected well, six times its average monthly allowable for the months available), it shall not be produced that month nor each succeeding month until it is overproduced in an amount six times or less its average monthly allowable, as determined hereinabove.

RULE 15 (C). Allowable assigned to a proration unit during any one month of a gas proration period in excess of the production for the same month shall be applied against the overproduction chargeable to such unit in determining the amount of overproduction which must be made up pursuant to the provisions of Rules 15 (A) or 15 (B) above.

RULE 15 (D). The Secretary-Director of the Commission shall have authority to permit a well which is subject to shut-in, pursuant to Rules 15 (A) or 15 (B) above, to produce up to 500 MCF of gas per month upon proper showing to the Secretary-Director that complete shut-in would cause undue hardship, provided however, such permission shall be rescinded for any well produced in excess of the monthly rate authorized by the Secretary-Director.

RULE 15 (E). The Commission may allow overproduction to be made up at a lesser rate than permitted under Rules 15 (A), 15 (B), or 15 (D) above upon a showing at public hearing that the same is necessary to avoid material damage to the well.

RULE 15 (F). Any allowable accruing to a proration unit at the end of a gas proration period due to the cancellation of underage in the pool and the redistribution thereof shall be applied against the unit's overproduction.

RULE 15 (G). The Secretary-Director of the Commission shall have authority to grant a pool-wide moratorium of up to three months on the shutting in of gas wells in a pool during periods of high-demand emergency upon proper showing that such emergency exists, and that a significant number of the wells in the pool are subject to shut-in pursuant to the provisions of Rules 15 (A) or 15 (B) above. No moratorium beyond the aforementioned three months shall be granted except after notice and hearing.

(8) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Section E:

E. CLASSIFICATION OF UNITS

RULE 16 (A). The proration period (as defined in Rule 13) shall be divided into four classification periods of three months each, commencing on April 1, July 1, October 1, and January 1. After the production data is available for the last month of each classification period, any unit which had an underproduced status at the beginning of the proration period shall be classified marginal if its highest single month's production during the classification period is less than its average

monthly allowable during said classification period; provided however, that the operator of any unit so classified, or other interested party, shall have 15 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Commission that the unit is not of marginal character and should not be so classified.

RULE 16 (B). The Secretary-Director may reclassify a marginal or non-marginal proration unit at any time the unit's production data, deliverability data, or other evidence as to the unit's producing ability justifies such reclassification.

RULE 17. A proration unit which is classified as marginal shall not be permitted to accumulate underproduction, and any underproduction accrued to the unit prior to its classification as marginal shall be cancelled.

RULE 18. If, at the end of a proration period, a marginal proration unit has produced more than the total allowable for the period, assigned to a non-marginal unit of like deliverability and acreage, the marginal unit shall be reclassified non-marginal and its allowable and net status adjusted accordingly. (If the unit has been classified as marginal for one proration period only, or a portion of one proration period only, any underproduction cancelled as the result of such classification shall be reinstated upon reclassification back to non-marginal status. All uncompensated-for overproduction accruing to the unit while marginal shall be chargeable upon reclassification to non-marginal.)

RULE 19. A proration unit containing a well which has been reworked or recompleted shall be classified non-marginal as of the date of reconnection of the well to a pipeline until such time as production data, deliverability data, or other evidence as to the unit's producing ability indicates that the unit should be classified marginal.

RULE 20. All proration units not classified marginal shall be classified non-marginal.

(9) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 21 (A):

RULE 21 (A). The monthly gas production from each well shall be metered separately and the gas production therefrom shall be reported to the Commission on Form C-115 in accordance with Rule 1115 of the Commission's Rules and Regulations, so as to reach the Commission on or before the 24th day of the month next succeeding the month in which the gas reported was produced. The operator shall show on such report what disposition has been made of the gas produced. The sum of the production from both wells on the proration unit shall also be reported for multiple-well units.

(10) That said Special Rules for the Blanco Mesaverde Pool are hereby amended by the addition of the following Special Rule 23:

RULE 23. Failure to comply with the provisions of this order or the rules contained herein shall result in the cancellation of allowable assigned to the affected proration unit. No further allowable shall be assigned to the affected unit until all rules and regulations are complied with. The Secretary-Director shall notify the operator of the unit and the purchaser, in writing, of the date of allowable cancellation and the reason therefor.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

I. R. TRUJILLO, Chairman

ALEX J. ARMIJO, Member

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

S E A L

dr/

EXHIBIT "A"

HORIZONTAL LIMITS OF THE BLINEBRY OIL AND GAS POOL LEA COUNTY, NEW MEXICO

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM

Sec. 32: SE/4
Sec. 33: NE/4 & S/2
Sec. 34: NW/4 & S/2
Sec. 35: S/2
Sec. 36: W/2

TOWNSHIP 21 SOUTH, RANGE 36 EAST, NMPM

Sec. 24: E/2
Sec. 25: NE/4 & S/2
Sec. 36: N/2 & SW/4

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM

Sec. 1: Lots 4, 5, 9 through 16, and S/2
Secs. 2 through 4: All
Sec. 8: NE/4
Secs. 9 through 17: All
Sec. 18: SE/4
Secs. 19 through 30: All
Sec. 31: N/2
Sec. 32: E/2
Secs. 33 through 36: All

TOWNSHIP 22 SOUTH, RANGE 36 EAST, NMPM

Sec. 1: E/2
Sec. 12: NE/4

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM

Secs. 1 through 4: All
Sec. 5: N/2
Sec. 6: N/2
Sec. 8: N/2 & SE/4
Secs. 9 through 15: All
Sec. 16: N/2 & SE/4
Secs. 22 through 25: All
Sec. 26: NE/4 NE/4 and NE/4 SE/4
Sec. 35: NE/4
Sec. 36: N/2 & SE/4

TOWNSHIP 22 SOUTH, RANGE 38 EAST, NMPM

Sec. 6: NW/4 & S/2
Sec. 7: W/2
Sec. 18: W/2
Sec. 19: All
Sec. 20: NW/4 & S/2
Secs. 29 through 32: All
Sec. 33: NW/4

TOWNSHIP 23 SOUTH, RANGE 38 EAST, NMPM

Sec. 5: NW/4
Sec. 6: N/2

MERIDIAN OIL

January 27, 1993

Doyle Hartman
P.O. Box 10426
Midland, TX 79702

Williams Production Company
P.O. Box 58900
Salt Lake City, Ut 84158-0900

Texaco Exploration & Producing Inc.
P.O. Box 46555
Denver, CO 80201-6555

RE: Seymour #7A Well
Mesaverde Formation
425' FSL, 790' FEL
Section 23-31N-9W
San Juan Co., New Mexico

Gentlemen:

Meridian Oil Inc. proposes that the referenced Mesaverde well be drilled as an infill well to the Seymour #7 well. The Seymour #7 well is operated under an Operating Agreement dated April 10, 1953 which does not contain any subsequent well provisions. In this regard we have enclosed a new Joint Operating Agreement (JOA) in which we propose to include the operations of the proposed well in addition to the Seymour #7 well. Also enclosed for your consideration is our Authority for Expenditure (AFE) in the amount of $569,600. I have also enclosed a 9 section land plat showing the proposed well location. This property is already communitized under agreement #CA 14-08-001-917 dated March 30, 1953.

If you agree with our proposal, please execute the JOA and return two executed signature pages with acknowledgements, as well as an executed AFE and a copy of this letter to the attention of the undersigned. Please don't hesitate to call if you have any questions.

Very truly,

Alan Alexander
Senior Land Advisor

AA:kaw

NM-9435

The undersigned agrees to participate in the drilling of the Seymour #7A well and pay our proportionate share of actual well costs this _____ day of _____, 1993.

BY: _____

TITLE: _____

COMPANY: _____

MERIDIAN OIL INC.
Farmington Region
Post Office Box 4289
Farmington, New Mexico 87499
(505) 326-9700

AUTHORITY FOR EXPENDITURE

AFE No: Date: 11/11/92

Lease/Well Name: Seymour #7A DP No.:

Field Prospect: Blanco Mesaverde Region: Farmington

Location: SE/4 Sec. 23, T31N, R09W County: San Juan State: New Mexico

AFE Type: Drill (01) Original X Supplement Addendum API Well Type

Operator: Meridian Oil Inc.

Objective Formation: Blanco/MV Authorized Total Depth(Feet): 5900'

Project Description: Drill, complete, and equip a Mesaverde infill well.

Estimated Start Date: 1st Qtr 1993 Prepared By: J. D. Falconi
Estimated Completion Date: 1st Qtr 1993

GROSS WELL COST DATA

	Drilling		Workover/	Construction/	
	Dry Hole	Suspended	Completion	Facility	Total
Days:		10	6	4	20
This AFE:		$225,100	$207,700	$136,800	$569,600
Prior AFE's:					
Total Costs:	$	$225,100	$207,700	$136,800	$569,600

JOINT INTEREST OWNERS

Company:	Working Interest Percent	Dry Hole $	Completed $
MERIDIAN OIL INC:	37.500000%		$213,600
Others:	62.500000%		$356,000
AFE TOTAL:	100.00000%	$	$569,600

MERIDIAN OIL APPROVAL

Recommended: [signature] Date: 11/18/92 Recommended: [signature] Date: 11/25/92

Recommended: [signature] Date: 11/19/92 Approved: [signature] Date: 11/30/92

Title: VP Regional Operations

PARTNER APPROVAL

Company Name: _____

Authorized By: _____ Date: _____

Title: _____

MERIDIAN OIL - DRILLING WELL COST ESTIMATE

Well Name:	Seymour #7A	By: E. R. Bauer	10/28/92
Location:	SE/4-23-31-09	Approved By: ERB J.A.H	
Cty, State:	San Juan County, NM	AFE Type:	01 Development
Field:	Blanco Mesaverde	Proposed TD:	5900 '
Formation:	Mesaverde	Inter. TD:	3550 '
		Total Days:	10

ACCT	AFE NOMENCLATURE	SUSPENDED
248	INTANGIBLE DRILLING COST	
-02	Environmental Studies	1,500
-03	Location and Roads Construction	15,000
-05	Move In, Move Out	0
-06	Contractor Fees - Footage-- 5900 ft@ $ 10.50	62,000
-07	Contractor Fees - Daywork-- 2 days@ $ 4200	8,400
-09	Drilling Fluids	
-10	Gas and Air Drilling	7,400
-16	Water	
-17	Bits	
-18	Primary Cementing--- 2 stage cement * Standard Cementing Program	20,000
-20	Mud Logging	
-21	Wireline Logging---- Int.TD-TD: DIL/LDT/TEMP *surface-Int TD: CNL/GR	15,000
-22	Coring and Analysis	0
-24	BOP and Wellhead Rentals	
-25	Drill and Workstring Rentals	
-28	Other Rentals	2,000
-29	Trucking and Transportation	2,500
-33	Tubular Inspection	6,800
-37	Swabbing and Coiled Tubing	0
-43	Consultants	0
-45	Roustabout and Contract Labor	1,000
-46	Miscellaneous	2,000
-72	Company Supervision and Overhead	7,500
	TOTAL INTANGIBLE DRILLING COST	151,100
-80	Casing (COPAS Price) 200 ft 9 5/8" - 36.0# HC80 LTC $22.85 /ft 3550 ft 7" - 20.0# K55 LTC @ $12.34 /ft 2500 ft 4 1/2"-10.5# K55 STC $6.72 /ft	65,200
-84	Casing/Liner Equipment	4,300
-86	Wellhead Equipment	4,500
	TOTAL TANGIBLE DRILLING COST	74,000
	TOTAL DRILLING COST ESTIMATE	225,100

Meridian Oil, Inc.
Completion/Workover Cost Estimate

Well Name:	Seymour #7A	Prepared By:	JBK
Location:	SE/4 Section 23, 31N-9W	Date:	11/10/92
Well Type:	Mesaverde Infill	Approved By:	
AFE Type:	Development Drilling - 01	Date:	11/10

Intangible Costs

Estimated Days: 6

Account Number			Estimated Cost
03	Construction and Maintenance		3,000
04	Surface Restoration		2,000
05	Move-in, Move-out		7,500
07	Daywork and Completion Rig ($4,100/day)		24,600
	Drilling Fluid Systems		
09	Liquids		
10	Gas and Air Drilling		6,600
11	Processing and Maintenace Equipment		
12	Fluids and Chemicals / Special		
16	Fresh Water	7200 bbls @ about $1.80/bbl	13,000
17	Bits (bits, scraper)		1,000
18	Primary Cement		
19	Remedial Cement		
21	Open Hole Logging Services		
23	Fuel/Electricity		500
24	BOP Rental/Testing Surface		
25	Drill/Workstring Rentals-Subsurface		500
27	Tank Rentals and Transportation	12 x400 bbl tanks	7,200
28	Other Rental		2,500
29	Transportation		1,000
30	Disposal Service (Offsite)		
33	Tubular Inspection		
34	Cased Hole Services (Logs/Perforating)		10,000
36	Production Testing		
37	Swabbing and/or Coiled Tubing	0 days at $750/day	0
38	Stimulation		7,500
39	Fracturing		75,000
40	Casing Crews and Laydown		
43	Consultants ($750/day)		4,500
45	Contract Labor		
49	Packer Rental (2 RBP's)		1,800
72	Company Supervision and Overhead		
	Contingency (5%)		8,400
	Total Intangibles		**176,600**

Tangible Costs

80	Casing		
81	Tubing and Tiebacks (2-3/8" 4.7# J-55 EUE)	5600 ft @ $4.25/ft	23,800
82	Packers, Bridge Plugs and Screens		
84	Casing/Liner Equipment		
85	Tubing Equipment		800
86	Wellhead - Equipment and Tree		6,500
	Total Tangibles		**31,100**
	Total Completion Cost		**207,700**

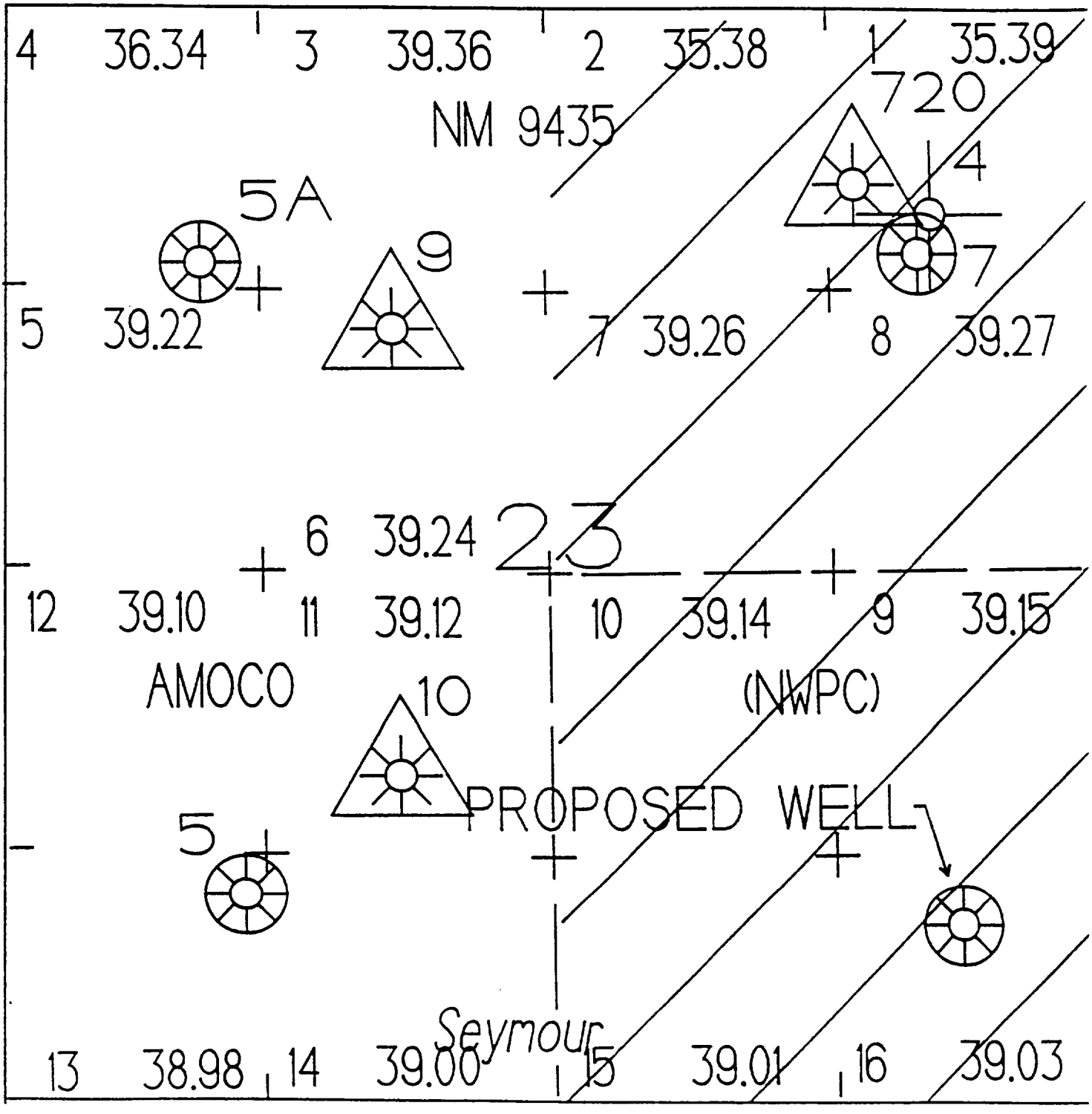
Meridian Oil, Inc.
Facilities Cost Estimate

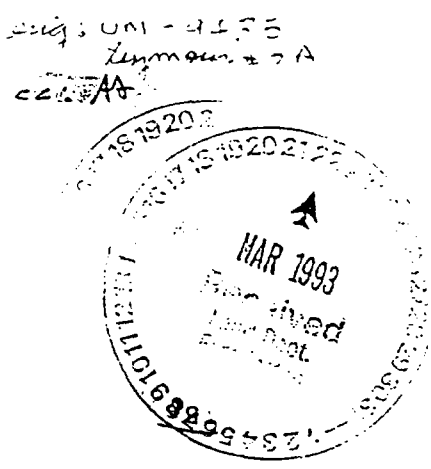
Name:	Seymour #7A	Preparer:	Jay Knaebel
Loc.:	SE/4 Section 23, 31N-9W	Date:	11/10/92
Type:	Mesaverde Infill	Approved:	
AFE:	Development Drilling - 01	Date:	

Tangible Facility Costs

Acct #		Est. Cost	Act. Cost
2	Contract Labor	12,000	
8	Location, Roads and Canals		
27	Separators Fired	13,000	
28	Gas Sweetening Equipment		
29	Pumping Unit	25,000	
31	Prime Mover	12,000	
32	Tanks and Pits (fiberglass pits and 2x300 bbl tanks)	9,000	
33	Metering Equipment and Telemetry	7,500	
34	Flow lines	3,000	
36	Buildings		
39	Piping Valves and Fittings	6,000	
44	Eng/Lab/Tech Services		
47	Compressor Rental		
48	Equipment Rental		
49	Cathodic Protection	7,000	
50	Right of Way, Survey, Archy	1,000	
51	Minor Pipelines	6,000	
53	Surface Pumps		
54	Electrical Accessories and Utility Hookup		
55	Misc. Facility Expense	1,000	
57	Pulling Unit Costs	1,800	
73	Freight/Transportation	2,000	
81	Tubing		
82	Rods (7/8" rods) 5600 feet	5,400	
83	Downhole Pumps	2,500	
85	Other Subsurface Artificial Lift Equipment	1,000	
86	Artificial Lift Wellhead Equipment	2,000	
96	Dehydration Unit	13,000	
	Contingency Cost (5%)	6,600	
	Total Facilities	**$136,800**	

SEYMOUR # 7A
SECTION 23-31N-9W





March 19, 1993

NM-744529, NM-750381 (TPI)
SAN JUAN COUNTY, NEW MEXICO
E/2-SECTION 23-31N-9W
OPERATING AGREEMENT - SEYMOUR #7A

Meridian Oil Inc.
P.O. Box 4289
Farmington, New Mexico 87499-4289

Attention: Mr. Alan Alexander

Gentlemen:

Upon review of Meridian's proposed Operating Agreement for the captioned well, Texaco respectfully requests the following revisions to said agreement:

(1) Article III.D. - Do not delete lines 37-39
(2) Article VI.A. - Insert depth of proposed well
(3) Exhibit "A" - Include oil and gas leases subject to O/A
(4) COPAS-Article III.1.iii. - "shall" be covered by overhead rates should be inserted instead of "shall not"
(5) Exhibit "D", Page 3 - Delete paragraph regarding the furnishing of Certificates of Insurance
(6) Exhibit "E" - Meridian's form is being reviewed (requested changes may follow)

Thank you for your consideration of the above revisions. Should you have any questions regarding same, please advise.

Yours very truly,

TEXACO EXPLORATION AND PRODUCTION INC.

Chuck Snure
West Region Landman

CAS:bw

MERIDIAN OIL

April 12, 1993

Doyle Hartman
P.O. Box 10426
Midland, TX 79702

Williams Production Company
P.O. Box 58900
Salt Lake City, UT 84158-0900

Texaco Exploration & Producing Inc.
P.O. Box 46555
Denver, CO 80201-6555

RE: **Seymour #7A Well**
Mesaverde Formation
425' FSL, 790' FEL
Section 23-T31N-R9W
San Juan County, New Mexico

Gentlemen:

Under cover dated January 27, 1993, Meridian Oil Inc. forwarded for your execution a Letter Agreement, Joint Operating Agreement (JOA), and an Authority for Expenditure (AFE) covering the captioned well. As of this date, according to our records, Meridian has not received (except for Texaco's partial comments on the JOA) the executed Letter Agreement, two signature pages to the JOA, and AFE. If you agree with our proposal, please execute and return same as soon as possible.

If you have any questions in this regard or need any additional information, please contact the undersigned.

Very truly yours,

Alan Alexander
Senior Land Advisor

AA:ll
ID:aaapr/3
NM-9435

MERIDIAN OIL

September 2, 1993

Texaco Inc.
Attn: Chuck Snure
P.O. Box 2100
Denver, CO 80201-2100

Williams Production Company
Attn: Mr. Vern Hansen
P.O. Box 58900
Salt Lake City, UT 84158-0900

RE: Seymour #7A Well
Mesaverde Formation
425'FSL, 790' FEL
Section 23-T31N-R9W
San Juan County, New Mexico

Gentlemen:

Under cover dated April 12, 1993, Meridian Oil Inc. forwarded for your execution a Letter Agreement, Joint Operating Agreement (JOA), and an Authority for Expenditure (AFE) on the captioned well. As of this date, according to our records, Meridian has not received your approval or executed documents. If you agree with our proposal, please execute same and return as soon as possible.

If you have any questions in this regard, please contact the undersigned.

Very truly yours,

Alan Alexander
Senior Land Advisor

AA:ll
NM-9435

MERIDIAN OIL

September 2, 1993

FEDERAL EXPRESS

Mr. Allen Smith
3811 Turtle Creek Blvd.
Suite 730
Dallas, TX 75219

RE: Seymour #7A Well
Mesaverde Formation
425'FSL, 790' FEL
Section 23-T31N-R9W
San Juan County, New Mexico

Dear Mr. Smith:

Under cover dated April 12, 1993, Meridian Oil Inc. forwarded a Letter Agreement, Joint Operating Agreement (JOA), and an Authority for Expenditure (AFE) on the captioned well to Doyle Hartman in Midland. As of this date, according to our records, Meridian has not received your approval or executed documents. Carolyn Sebastian of Mr. Hartman's office has requested that Meridian forward same for your handling. If you agree with our proposal, please execute and return a Letter Agreement, two signature pages to the JOA and an AFE.

If you have any questions in this regard, please contact the undersigned at (505) 326-9757.

Very truly yours,

Alan Alexander
Senior Land Advisor

AA:ll
Enclosure
NM-9435

R H Koerner
Division Manager
Texaco Exploration & Production Inc.

September 30, 1993

Meridian Oil Inc.
Attn: Mr. Alan Alexander
P. O. Box 4289
Farmington, NM 87499-4289

Re: Seymour #7A
Proposed Mesaverde Completion
San Juan County, NM

Dear Mr. Alexander:

The subject well does not meet Texaco's minimum economics.

If you have any questions, please do not hesitate to contact us.

Very truly yours,

R. H. Koerner

By: _____
S. R. Meck
Account Manager
(303) 793-4468

SRM:msk

cc: C. A. Snure - Denver

MERIDIAN OIL
A Subsidiary of BURLINGTON RESOURCES

Certified, Return Receipt Requested

October 31, 1995

Four Star Oil & Gas Company
Attn: Mr. Chuck Snure
P.O. Box 46555
Denver, CO 80201

Mr. Doyle Hartman
P. O. Box 10426
Midland, TX 79702

Williams Production Company
Attn: Mr. Vern Hansen
One Williams Center
P.O. Box 3102
Tulsa, OK 74101

RE: SEYMOUR #7A WELL
(MESAVERDE NEW DRILL)
SE/4 SE/4 SECTION 23, T31N, R9W
SAN JUAN COUNTY, NEW MEXICO

Gentlemen:

By letter dated January 27, 1993, a proposal for a Mesaverde new drill was sent to you. To date, according to our records, Williams Production Company is the only owner that has approved the drilling of said well. This well has not yet been drilled and we would like to proceed with the drilling of this well in late December, 1995 or the first quarter of 1996.

Enclosed for your execution is an updated Joint Operating Agreement (JOA) and Authority for Expenditure (AFE) for the captioned well. The JOA will supersede the previous JOA that was forwarded to you for your approval and execution with the January 27, 1993, letter. Meridian, again, respectfully requests that Four Star Oil & Gas Company and Doyle Hartman elect to either participate or go non-consent (per Article XV.C of the JOA) in the well. We are asking that Williams re-execute the JOA in as much as a significant delay has occurred in the drilling of this well. If we do not receive an election to participate or non-consent, we will begin force pooling proceedings in December, 1995.

Also enclosed, for your information and files, is a nine-section land plat. If the JOA and AFE meets with your approval, please return one (1) copy of this letter, AFE and signature page of JOA to me as soon as possible.

If you have any questions in this regard, please don't hesitate to call the undersigned at (505) 326-9757.

Very truly yours,

Alan Alexander
Senior Land Advisor

AA/cj
xc: NM-9435
Tom Kellahin

The undersigned hereby approves this _____ day of _____ 1995, the drilling of the Seymour #7A well.

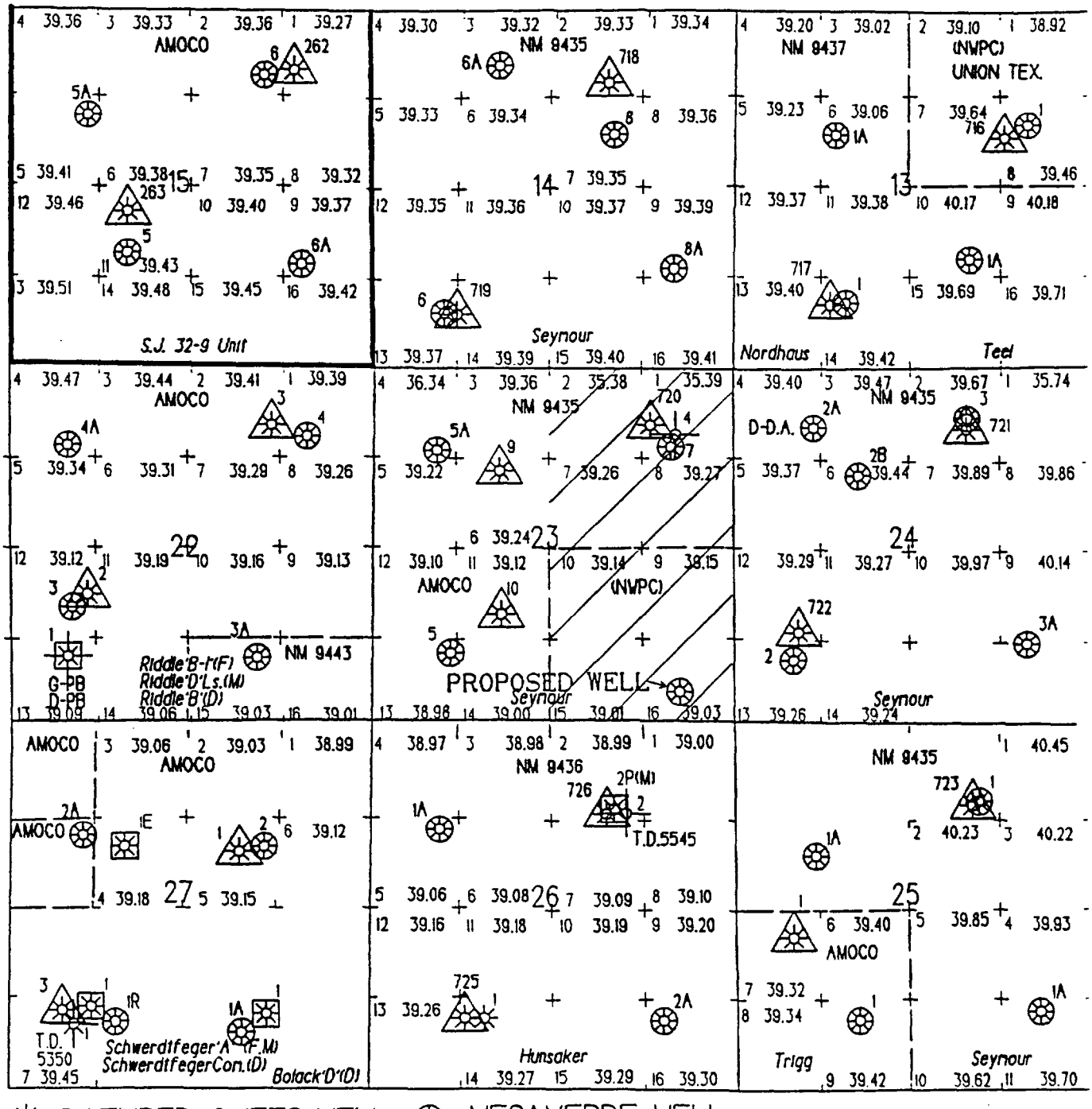
NAME: _____

TITLE: _____

COMPANY: _____

P.O. Box 4289, Farmington, New Mexico 87499-4289, Telephone 505-326-9700, Fax 505-326-9833
3535 East 30th St., 87402-8891

SEYMOUR # 7A WELL
425'FSL, 790'FEL
SECTION 23-31N-9W



✲ PICTURED CLIFFS WELL ⊛ MESAVERDE WELL

▲ FRUITLAND COAL WELL ⊠ DAKOTA WELL

PROPOSED SPACING

MERIDIAN OIL INC.
Farmington Region
Post Office Box 4289
Farmington, New Mexico, 87499
(505) 326-9700

AUTHORITY FOR EXPENDITURE

AFE No.: _____ Property Number: 071252300 Date: 8/18/95

Lease/Well Name: Seymour 7A DP Number: 25791A

Field Prospect: Blanco Mesaverde Operator: Meridian Oil Inc. Region: Farmington

Location: Unit P, SE/4, SE/4, 23-031N-009W County: San Juan State: NM

AFE Type: Type 01-Cap. New Drill Original: X Supplement: ___ Addendum: ___ API Well Type: _____

Objective Formation: Mesaverde Authorized Total Depth (Feet): _____

Project Description: Mesaverde New Drill

Estimated Start Date: 1st Qtr 1996

Prepared By: N. Keeler

Estimated Completion Date: 1st Qtr 1996

GROSS WELL DATA

	Drilling		Workover/	Construction	
	Dry Hole	Suspended	Completion	Facility	Total
Days:		9	7	0	16
This AFE:		$214,819	$247,034	$63,000	$524,853
Prior AFE's:					$0
TOTAL COSTS:	$0	$214,819	$247,034	$0	$524,853

JOINT INTEREST OWNERS

Company:	Working Interest Percent	Dry Hole $	Completed $
Meridian Oil Inc.	37.50%	0	$196,820
Trust:	0.00%	0	$0
Others:	62.50%	0	$328,033
AFE TOTAL:	100.00%	$0	$524,853

MERIDIAN OIL INC. APPROVAL

Approved: _____ 8/18/95
Title: Production Engineer Date: _____

Approved: _____
Title: Geologist Date: 8/21

Approved: _____
Title: Reservoir Engineer Date: 8/28/95

Approved: _____
Title: Land Date: 8/28/95

PARTNER APPROVAL

Company Name: _____ Date: _____

Authorized By: _____ Title: _____

MERIDIAN OIL - DRILLING WELL COST ESTIMATE

Well Name: Seymour #7A
Location: 23-31N-9W
Cty, State: San Juan, NM
Field: Blanco MV
Formation: MV
Proposed TD: 5630 ' Area Team: 4/5
Comments:

Prepared By: F.A. Seidel
Date: 8/17/95
Approved By:
AFE Type: 01
Total Days: 9
Inter. TD: 3228 ' Est Cst/Ft $38.16

DRLG-248	INTANGIBLE DRILLING COST						COST
02	Location/Roads - Pre-Construction						$1,500
03	Location/Roads - Construction & Maintenance						$14,000
04	Location/Roads - Surface & Restoration						$0
05	Move in/Move out						$0
06	Contractor Fees - Footage	5630	ft @	$ 12	per ft.		$67,560
07	Contractor Fees - Daywork	2	days @	$ 5200	per day		$10,400
08	Fire & Safety Equip						$0
09	Drilling Fluid Systems - Liquids						$0
10	Gas & Air Drilling	9	days @	$ 1550	avg per day		$13,950
11	Drilling Fluid Systems - Processing Equip						$0
12	Speciality Fluids & Chemicals						$0
14	Salt/Brine Water						$0
15	Onsite Fluid Disposal Services						$0
16	Fresh Water						$2,500
17	Bits						$0
18	Primary Cementing						$17,500
19	Remedial Cementing						$0
20	Mud Logging						$3,500
21	Wireline Logging - Open Hole		2 Logging Runs at Inter and TD				$16,500
22	Coring & Analysis						$0
23	Fuel/Electricity						$1,600
24	BOP & Wellhead Rentals (Surface)						$0
25	Drill/Work String Rentals						$0
26	Fishing Tool Rentals						$0
27	Tank Rentals						$0
28	Other Rentals						$1,000
29	Transportation						$2,500
30	Offsite Disposal Services						$0
31	Drill Stem Tests						$0
32	Directional Services						$0
33	Tubular Inspection & Repair						$1,500
34	Cased Hole Services						$0
36	Production Testing						$0
37	Swabbing, Coiled Tubing, & Snubbing						$0
38	Stimulation						$0
39	Fracturing						$0
40	Casing Crews & Laydown						$0
41	Gravel Pack/Sand Control						$0
43	Consultants						$3,600
44	Engineering/Lab/Technical Contract Services						$0
45	Roustabout Labor						$1,000
46	Miscellaneous						$0
48	Communication Systems						$0
49	Packer Rental						$0
50	Pumping Charges - Other						$0
62	Environmental Compliance (Assessment)						$500
63	Environmental Compliance (Remediation)						$0
72	Company Supervision & Overhead						$3,600
	TOTAL INTANGIBLE DRILLING COST						$162,710

TANGIBLE DRILLING COST

80	Casing (COPAS Price)							
	250 FT	9 5/8 "	36.0 #	K55	$	$15.68	/ft	$3,920
	3228 FT	7 "	20 #	K55	$	$9.01	/ft	$29,084
	2552 FT	4 1/2 "	10.5 #	K55	$	$4.90	/ft	$12,505
	FT	"	#		$		/ft	$0
81	Tubing (COPAS Price)							
	FT	"	#		$		/ft	$0
	FT	"	#		$		/ft	$0
	FT	"	#		$		/ft	$0
82	Packers, Screens, & Bridge Plugs							$0
84	Casing/Liner Equipment							$3,600
85	Tubing Equipment							$0
86	Wellhead Equip & Xmas Tree							$3,000
	TOTAL TANGIBLE DRILLING COST							$52,109

TOTAL DRILLING COST ESTIMATE **$214,819**

Meridian Oil Inc.
Completion Estimate

Well Name:	Seymour #7A	Prepared By:	TJM
Location:	SE/4 Section 23, T31N-R9W	Date:	8/11/95
AFE Type:	Development Drilling / 01	Approved By:	ME-L
Formation:	Mesaverde	Date:	8/11/95

Intangible Costs

Estimated Days: 7

Account Number		Mesaverde Cost		Total Estimated Cost
249				
02	Location, Roads or Canals			0
03	Construction and Maintenance	1,650		1,650
04	Surface Restoration	1,500		1,500
05	Move-in, Move-out	8,000		8,000
06	Fees of Contractor - Footage			0
07	Fees of Contractor - Daywork	29,400		29,400
08	Fire and Safety Equip.			0
09	Drilling Fluid System - Liquids			0
10	Gas and Air Drilling	10,750		10,750
11	Processing and Maintenance Equipment			0
12	Specialty Fluids and Chemicals	5,500		5,500
14	Salt/Brine Water			0
15	Onsite Disposal Svc.			0
16	Fresh Water	8,800		8,800
17	Bits	1,200		1,200
18	Primary Cement & Svc's			0
19	Remedial Cementing			0
20	Mud Logging			0
21	Wireline Logging-Open Hole			0
22	Coring and Analysis			0
23	Fuel/Electricity	2,520		2,520
24	BOP & Wellhead Rentals(Surface)			0
25	Drill Work String Rentals (Surface)	500		500
26	Fishing Tool Rentals			0
27	Tank Rentals	3,150		3,150
28	Other Rental	2,000		2,000
29	Transportation	500		500
30	Offsite Disposal Service			0
31	Drill Stem Tests			0
32	Directional Svc.			0
33	Tubular Inspection			0
34	Cased Hole Services	8,000		8,000
36	Production Testing			0
37	Swabbing & Coiled Tubing			0
38	Stimulation	2,000		2,000
39	Fracturing	115,000		115,000
40	Casing Crews and Laydown			0
41	Gravel Pack/Sand Control			0
42	BOP Testing			0
43	Consultants	3,150		3,150
44	Technical Contract Svc.			0
45	Roustabout Labor	250		250
46	Miscellaneous			0
48	Communication Systems			0
49	Packer Rental	5,000		5,000
50	Pumping Charges			0
60	Oper. Owned Equip/Facilities			0
62	Env. Compliance-Assessment			0
63	Env. Compliance (Remediation)			0
65	Company Vehicles			0
68	Direct Labor			0
69	Benefits			0
70	Payroll Taxes and Insurance			0
72	Overhead (Contingency 5%)	11,764		11,764
74	Employee Expense			0
79	Employee Meals			0
	Total Intangibles	220,634	0	220,634

Tangible Costs

80	Casing			0
81	Tubing and Tiebacks	18,600		18,600
82	Packers and Bridge Plugs			0
84	Casing/Liner Equipment			0
85	Tubing Equipment	1,100		1,100
86	Wellhead Equipment & Tree	6,700		6,700
	Total Tangibles	26,400	0	26,400
	Total Completion Cost	247,034	0	247,034

Meridian Oil Inc.
Facilities Estimate

Well Name: SEYMOUR 7A
Location: SW/4, SEC. 23, R31N, T09W
AFE Type: NEW DRILL
Formation: MESA VERDE

Prepared By: G. L. OSBORNE 920
Date: 8/15/95
Approved By:
Date:

Tangible Costs

Account Number	Estimated Days:	Cost	Facilities Cost	Total Estimated Cost
247				
02	Labor-Contract, Roustabout, Consultants		8,000	8,000
03	Company Vehicles			0
08	Location, Roads & Canals			0
12	Overhead			0
17	Damages, Property Losses			0
20	Equip. Coating and Insulation			0
26	SWD Filtering			0
27	Separators		18,000	18,000
	Evaporator			0
29	Pumping Units			0
31	Prime Mover			0
32	Tanks		8,500	8,500
33	Metering Equipment			0
34	Flow Line			0
36	Building			0
39	Flowlines, Piping, Valves & Fittings		7,500	7,500
43	Safety			0
44	Technical Contract Svc.			0
47	Rental Compressors & Maintenance			0
48	Rental Equipment			0
49	Cathodic Protection		12,000	12,000
50	Right Of Way			0
51	Minor Pipelines			0
53	Surface Pumps (chemical)			0
54	Electrical Accessories			0
55	Miscellaneous-Facility Expense		1,000	1,000
57	Pulling Unit Costs			0
60	Oper. Owned Equip/Facilities			0
62	Env. Compliance-Assessment			0
63	Env. Compliance (Remediation)			0
68	Direct Labor			0
69	Benefits			0
70	Payroll Taxes and Insurance			0
72	Overhead (Contingency 5%)		3,000	3,000
81	Tubing			0
82	Rods			0
83	Downhole Pumps			0
84	Alternative Artificial Lift Equip.			0
86	Convent Artificial Lift Wellhead Equip.		5,000	5,000
88	Communication Systems			0
95	Employee Meals			0
96	Gas Dehydrator			0
	Total Facility Cost	**0**	**63,000**	**63,000**

Texaco Exploration
and Production Inc
Denver Division

P O Box 2100
Denver CO 80201
4601 DTC Boulevard
Denver CO 80237

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

November 21 ,1995

Meridian Oil, Inc.
P.O. Box 4289
Farmington, New Mexico 87499-4289

Attention: Mr. Alan Alexander

NM744529, NM750381
E/2-Section 23-31N-9W
San Juan County, New Mexico
Proposed Seymour #7A Well

Dear Alan,

Four Star Oil and Gas Company is in receipt of Meridian's application for compulsory pooling dated November 8, 1995 (received November 13, 1995) covering the captioned well. Additionally, Four Star Oil and Gas Company is in receipt of Meridian's proposal dated October 31, 1995 (received November 6, 1995) for the drilling of said well.

As you are aware, Meridian originally proposed this well on January 27, 1993. Texaco responded on March 19, 1993 with requested changes to the proposed Operating Agreement as presented by Meridian. Meridian, following up with their letter of April 12, 1993, asked for a response from all parties and only mentioned the fact that Texaco had requested changes to the Operating Agreement. The requested changes to the Operating Agreement were never addressed. Once again, on September 2, 1993, Meridian requested a response from all parties. Texaco responded on September 30, 1993 indicating that at that time, this well did not meet Texaco's economic requirements. Please note that our files do not indicate Meridian attempted to discuss a farmout, trade or sale pursuant to Texaco's decision not to participate in the drilling of said well.

Four Star Oil and Gas Company (successor in interest to Texaco) has recently received Meridian's "new" proposal dated October 31, 1995. Once again, it should be noted that none of the changes to the Operating Agreement originally requested by Texaco in 1993 have been addressed.

Although Four Star Oil and Gas Company appreciates the fact that Meridian wishes to drill this well in a timely manner, you should be aware that Four Star Oil and Gas Company is currently evaluating this new proposal and that Four Star Oil and Gas Company intends to respond in a timely manner. However, the fact that Meridian has chosen to initiate compulsory pooling

proceedings immediately after sending out their new proposal without attempting to contact all parties (except for the proposal dated October 31, 1995), only works to undermine the cooperation needed for all parties involved. In fact, it appears that pursuant to that certain Operating Agreement dated April 10, 1953 governing all operations on this property (E/2 of Section 23-31N-9W, San Juan County, New Mexico as to the Mesaverde formation), Meridian is precluded from force pooling any party subject to said agreement. Unless amended, modified or terminated by the mutual consent of all parties and as long as the Communitization Agreement covering this property remains in force and effect, the 1953 Operating Agreement shall continue to govern all operations on this property.

Four Star Oil and Gas Company does not recognize Meridian's application for compulsory pooling as being valid. Please feel free to furnish Four Star Oil and Gas Company with documentation in support of your position should you not be in agreement with the aforementioned facts.

Yours very truly,

Chuck Snure

Chuck Snure
Rocky Mountain Business Unit

CAS:bw

cc: William J. LeMay, Director
Oil Conservation Division
2040 S. Pacheco
Santa Fe, New Mexico 87505

W. Thomas Kellahin
Kellahin and Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504-2265

Williams Production Company
P.O. Box 58900
Salt Lake City, Utah 84158-0900

Doyle Hartman
3811 Turtle Creek Blvd., Suite 730
Dallas, Texas 75219

MERIDIAN OIL
A Subsidiary of BURLINGTON RESOURCES

December 1, 1995

Four Star Oil & Gas Company
Attn: Chuck Snure
P. O.. Box 46555
Denver, CO 80201

RE: Seymour #7A Well
SE SE Sec. 23, T31N, R9W
San Juan County, New Mexico

Dear Chuck:

In your letter dated November 21,1995, you addressed two main issues concerning the drilling of the referenced well. The first issue relates to our original proposal to drill the Seymour #7A well under a new joint operating agreement submitted to the working interest owners under cover letter dated January 27, 1993. As you were aware, Meridian was at that time considering your suggested changes to the Operating Agreement. In your letter dated March 19, 1993, which suggested certain changes (numbered 1 thru 6), you also indicated you were considering other changes (refer to item number 6) and you would advise Meridian as to same at a later date. Since both Meridian and Williams Production Company had executed the agreement with no changes and Mr. Hartman would not respond in any fashion, we were waiting on both Texaco and Hartman before responding to any changes. In your letter dated September 30, 1995, you informed Meridian that our project did not meet Texaco's economic guidelines and I assumed that meant Texaco did not wish to join in the drilling of this infill well. Since Texaco was not going to join in this well (i.e. not execute the JOA) the requested changes by Texaco became moot.

The second point raised in your letter concerned the April 10, 1953, joint operating agreement. This agreement covered the drilling and operation of the Seymour #7 well. Meridian supports Four Star's position that the 1953 agreement originally did cover all operations for a single well on the dedicated spacing unit. This fact changed on November 14, 1974 (refer to NMOCD Order R-1670-T) when the State of New Mexico changed the spacing rules for the Blanco Mesaverde Pool by allowing the drilling of infill wells. Since the spacing unit is no longer solely dedicated to the Seymour #7 well and the 1953 agreement never contemplated nor allows the drilling of an infill well, a new agreement is necessary. Meridian proposed to amend this agreement by offering a new joint operating agreement. You will notice that the joint operating agreement forwarded under cover letter dated October 31, 1995, does allow for an owner to non-consent the initial well (Seymour #7A) and if Four Star would like to non-consent or join in this well under the agreement, we would once again be willing to consider changes to the proposed agreement. Meridian would in fact encourage Four Star's execution (joinder or non-consent) of the agreement since that is preferable to an election under a force pooling order. Although not our normal procedure, if Four Star is interested in selling or farming out its interest we would consider such a proposal.

P.O. Box 4289, Farmington, New Mexico 87499-4289, Telephone 505-326-9700, Fax 505-326-9833
3535 East 30th St., 87402-8891

If you have any further questions concerning the drilling of this well, please don't hesitate to contact the undersigned at (505) 326-9760.

Very truly yours,

Senior Land Advisor

AA/cj
NM-9435

xc: Tom Kellahin

WILLIAMS PRODUCTION COMPANY
ONE OF THE WILLIAMS COMPANIES, INC.

PROD-0-014-96

JANUARY 11, 1996

Meridian Oil Inc.
ATTN: Alan Alexander
P.O. Box 4289
Farmington, NM 87499-4289

Re: Seymour #7A Well
SE/4SE/4 Sec. 23, T31N, R9W
San Juan County, New Mexico

Dear Mr. Alexander,

To Follow up our telephone conversation, Williams Production Company agrees with Meridian that the April 10, 1953 operating agreement for the Seymour #7 well does not cover subsequent drilling operations and a new Joint Operating Agreement is needed for the drilling of the Seymour #7A well. Williams Also agrees that if all Working Interest Owners will not execute a new Joint Operating Agreement for the drilling of the Seymour #7A well then Meridian should force pool the non-joining parties.

Sincerely,

Vern Hansen

Vern Hansen
Senior Landman

cc: Darrell Gillen

file: Seymour #7A

One Williams Center • P. O. Box 3102 • Tulsa, Oklahoma 74101
(918) 588-4592

Jack L.

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. 8606
Order No. R-8013

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

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on July 2, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this 20th day of August, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Doyle Hartman, seeks an order pooling all mineral interests from the surface to the base of the Jalmat Gas Pool underlying the NW/4 of Section 8, Township 24 South, Range 37 East, NMPM, Lea County, New Mexico, forming a previously approved 160-acre non-standard spacing and proration unit in the Jalmat Gas Pool.

(3) The applicant proposes to simultaneously dedicate said gas proration unit to his existing E. E. Jack Well No. 1 located 1980 feet from the North line and 660 feet from the West line (Unit E) of said Section 8 and his proposed E. E. Jack Well No. 5 to be drilled at a standard location within said unit.

(4) Marilyn A. Tarlton, interest owner in the subject proration unit and trustee of the surviving trustor's trust of the Lortscher Family Trust, dated November 26, 1980, has not agreed to the drilling of said E. E. Jack Well No. 5.

0130508

OCT 2 3 1985

EXHIBIT "F"

(5) Evidence was presented showing that an operating agreement entitled, "Operating Agreement", dated January 16, 1951, covering the subject unit area, was entered into by and between Howard Hogan, operator, and Charles T. Scott, Harold S. Russell, Herbert J. Schmitz, and F. D. Lortscher, non-operators.

(6) Said operating agreement was modified December 15, 1954, by an agreement entitled, "Modification of Operating Agreement" and was entered into by and between R. Olsen, operator, and the same non-operators in Finding No. (5) above;

(7) The applicant, Doyle Hartman, controls 66.667 percent of the subject proration unit, including the titles of Howard Hogan, R. Olsen, Herbert J. Schmitz, and Charles T. Scott, Jr.

(8) Marilyn A. Tarlton controls the title of F. D. Lortscher, which is 20 percent of the subject proration unit.

(9) Ms. Tarlton contends that the applicant, other interest owners, and herself are governed by the operating agreements in Findings Nos. (5) and (6) above, hereafter referred to as the "Agreements."

(10) The "Agreements" have provisions for the drilling of additional wells on the subject proration unit, including provisions for non-consent drilling risk penalties, drilling supervision charges, and production supervision charges.

(11) The applicant failed to provide evidence to refute that the "Agreements" are not binding and do not govern the operation of the subject proration unit.

(12) Because of a lack of evidence to the contrary, it appears that the "Agreements" are current binding operating agreements for the subject proration unit, having provisions governing those issues to be addressed in compulsory pooling cases obviating the need for such a hearing in this case.

(13) The compulsory pooling portion of this application should be denied.

(14) The simultaneous dedication portion of this application should be approved, provided the proposed new well is drilled under the provisions of the "Agreements."

IT IS THEREFORE ORDERED THAT:

(1) The portion of the application of Doyle Hartman seeking an order pooling all mineral interests from the surface to the base of the Jalmat Gas Pool underlying the NW/4 of Section 8, Township 24 South, Range 37 East, NMPM, Lea County, New Mexico, is hereby denied.

(2) The previously approved 160-acre non-standard gas proration unit, comprising the NW/4 of said Section 8, shall be simultaneously dedicated to the proposed E. E. Jack Well No. 5 and the applicant's E. E. Jack Well No. 1 located in Unit E of said Section 8 provided the E. E. Jack Well No. 5 is drilled under the terms of the "Agreements."

(3) 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

R. L. STAMETS
Director

S E A L

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

IN THE MATTER OF THE APPLICATION OF SANTA FE ENERGY RESOURCES, INC. FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO

CASE NO. 11294

MOTION TO DISMISS

Comes now PHILLIPS PETROLEUM COMPANY ("Phillips"), by its attorneys, Kellahin and Kellahin, enters its appearance in this case as an interested party in opposition to the Applicant and moves the Division to dismiss this case because the Applicant, Santa Fe Energy Resources, Inc., has violated Section 70-2-17(C) NMSA (1978) by instituting an application for compulsory pooling for a spacing unit one-half of which is already committed to another spacing unit and by filing said application prior to proposing the well;

And in Support States:

(1) On February 3, 1995, Santa Fe Energy Resources, Inc. ("Santa Fe") requested a term assignment of Phillips Petroleum Company's ("Phillips") interest in 480 acres in parts of Sections 21 and 27, T21S, R33E, NMPM, Lea County, New Mexico.

(2) On March 28, 1995, Phillips responded it was not interested in assigning its 480-acre interest to Santa Fe.

EXHIBIT "G"

(3) On April 28, 1995, Santa Fe proposed the voluntary formation of a five (5) section exploratory unit including Phillips' 480-acres with the initial unit well to be drilled on Phillips' acreage in the SW/4 of Section 27. See Exhibit "A".

(4) However, at no time prior to May 9, 1995, did Santa Fe propose the formation of a single 320-acre gas spacing unit consisting of the W/2 Section 27 for a well **other** than as part of the five section exploratory unit or as part of a 480-acre assignment or farmout deal.

(5) On Tuesday, May 9, 1995, counsel for Santa Fe filed a Compulsory Pooling Application with the Division seeking to pool the W/2 of Section 27 as a 320-acre Morrow formation gas spacing unit in which Santa Fe controls 25% (the N/2NW/4) and Phillips controls the remaining 75% See Exhibit "B" attached.

(6) On Thursday, May 11, 1995, Santa Fe sent a letter to Phillips which is referenced "Abe Exploratory Unit" and in which Santa Fe again proposed the voluntary five section exploration unit or the inclusion of Phillips' interest as part of a multiple well program.

(7) On that same day, May 11, 1995, Santa Fe also sent notice to Phillips that Santa Fe had filed with the Division a compulsory pooling application for the W/2 of Section 27, T21S, R33E, NMPM, Lea County, New Mexico.

(8) The W/2 spacing unit for Section 27, for which Santa Fe seeks to have the Division issue a compulsory pooling order, is not available for pooling because the SW/4 of Section 27 has already been consolidated on a 100% voluntarily basis and dedicated to a S/2 spacing unit for the drilling of Phillips' Phillips State Well No. 1 in Unit (N). See Exhibit "C" attached.