GALLEGOS LAW FIRM

A Professional Corporation

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RECEIVED
NOV 28 1995
Oil Conservation Division

MICHAEL J. CONDON

November 28, 1995

HAND-DELIVERED
William J. LeMay, Director
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, NM 87505

Re: Case No. 11434; Application of Meridian Oil Inc. for Compulsory Pooling and an Unorthodox Gas Well Location, San Juan County, New Mexico, Proposed Seymour Well No. 7A

Dear Mr. LeMay:

This office represents Doyle and Margaret Hartman d/b/a Doyle Hartman, Oil Operator. We are filing today an Intervention and Motion to Dismiss in this matter, which is currently scheduled for hearing on December 7, 1995. Due to scheduling conflicts, we are unable to attend the hearing next Thursday and would request that this matter be continued to the next hearing docket.

Thank you for your cooperation in this matter. If you have any questions, please feel free to contact me.

Very truly yours,

GALLEGOS LAW FIRM, P.C.

By Michael J. Condon
MICHAEL J. CONDON

MJC:sa
Enclosure
cc: Doyle Hartman
Tom Kellahin
Carolyn Sebastian

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

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

CASE NO. 11434

INTERVENTION AND MOTION TO DISMISS BY DOYLE HARTMAN, OIL OPERATOR

Doyle Hartman and Margaret Hartman, doing business as Doyle Hartman, Oil Operator (hereafter "Hartman") oppose the application filed in this matter and move the Oil Conservation Division to dismiss the application of Meridian Oil Inc., as grounds stating:

1. Hartman owns a .12500 working interest in the E/2 Section 23 T31N, R9W, NMPM, which is the 320 acre proration unit relevant to the proposed infill well.

2. The E/2 Section 23, T31N, R9W, NMPM is a Mesa Verde proration unit dedicated to the Seymour No. 7 well which is productive from the Blanco Mesa Verde Pool. The Seymour No. 7 well is located in the NE4 of said Section 23.

3. The E/2 Section 23 is comprised of federal lease SF 078505 dated May 1, 1948 leased to John C. Dawson and federal lease NM 03601 dated May 1, 1948 leased to Claude A. Teel. The then owners by mesne assignments of those leasehold interests, on March 30, 1953 entered into a Communitization Agreement (Contract No. 14-08-001-917) by which they pooled their interests in the two separate separately owned tracts insofar as the Mesa Verde formation underlying those lands. A copy of that agreement is attached and adopted by reference as Exhibit "A".

4. Correspondingly, on April 10, 1953, the interest owners in the E2 Section 23 entered into an Operating Agreement which designated Southern Union Gas Company as the operator. A copy of that agreement is attached hereto and adopted by referenced as Exhibit "B". Hartman knows of no other effective communitization or operating agreements governing this property and controlling the rights and responsibilities of the operator and other interested parties to the subject 320 acre tract as to the Mesa Verde formation.

5. The 1953 Operating Agreement covering the entire 320-acre standard proration unit authorized the drilling of one well and one well only on the subject 320 acre proration unit. That well was drilled and is known as the Seymour No. 7. The 1953 Operating Agreement does not provide for "additional operations," "additional wells" or any similar terms or conditions by which the operator can propose the Seymour 7A well, circulate an AFE, and especially does not authorize the imposition of penalty provisions for "non-consent" interest owners.

6. The statutory authority relied on by the applicant in bringing this proceeding and which defines the jurisdiction and authority of the Oil Conservation Division is NMSA 1978 Section 70-2-17(C). That law, in pertinent part, provides:

> 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 such lands or interests or both in the spacing or proration unit as a unit. (Emphasis added).

The statute does not authorize forced pooling where, as here, the owners have already pooled their interests under a communitization agreement. Under these circumstances, the communitization and operating agreements control the means by which the property would be developed.

7. In the present case,

A. The diverse interest owners have already agreed to pool their interests (in accordance with the terms and provisions of the 1953 Communitization Agreement) and have authorized the drilling of only one well, the Seymour No. 7.

B. Meridian does not have the authority to drill the proposed well under either the 1953 Communitization Agreement or § 70-2-17(C).

C. The Oil Conservation Division need not and cannot order a compulsory pooling because the tracts are already contractually pooled as to the Mesa Verde formation and the subject 320 acre unit, under the provisions of the 1953 Communitization Agreement

WHEREFORE Hartman requests that the Oil Conservation Division

(a) cancel the evidentiary hearing now set on the Examiner's Docket for December 7, 1995;

(b) dismiss the application of Meridian Oil Inc. as being outside the statutory authority of the Division; and

(c) grant such other relief as the Division deems proper.

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 28th day of November, 1995 to the following:

Tom Kellahin
117 N. Guadalupe
Santa Fe, NM 87501

_____
MICHAEL J. CONDON

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'95 NOV 27 PM 12 42
GALLEGOS LAW FIRM P.C.

ILLEGIBLE

San Juan Basin Form

RECEIVED
JUN 1 1953
U. S. GEOLOGICAL SURVEY
ROSWELL, NEW MEXICO

COMMUNITIZATION AGREEMENT

Contract No. 14-08-001-917

CONSERVATION DIVISION
RECEIVED
JUN 22 1953
GEOLOGICAL SURVEY

THIS AGREEMENT entered into as of the 30th day of March, 19 53, by and between the parties subscribing, ratifying or consenting hereto, such parties being hereinafter referred to as "parties hereto",

WITNESSETH:

WHEREAS, the Act of February 25, 1920, 41 Stat. 437, as amended by the Act of August 8, 1946, 60 Stat. 950; 30 U.S.C. Secs. 181 et seq., authorized communitization or drilling agreements communitizing or pooling a federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing dry gas and associated liquid hydrocarbons in accordance with the terms and conditions of this agreement;

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

Exhibit "A"

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 B. Dawson, his wife

Claude A. Teel

Mary Nell Teel, his wife

ATTEST:

Asst Secretary

SKELLY OIL COMPANY

By

President

LESSEES AND WORKING INTEREST OWNERS

C. A. McAdams

McAdams, his wife

A. W. Rutter

Rutter, his wife

R. H. 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, 1953.

Mary Mac 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 [illegible], to me personally known, who, being by me duly sworn, did say that he is the Asst. 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 [illegible] 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.

[illegible]
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 _____)
) SS
COUNTY OF _____)

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
_____ County, _____

My Commission Expires:

_____

STATE OF _____)
) SS
COUNTY OF _____)

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
_____ County, _____

My Commission Expires:

_____

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 Cornell, 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 Cornell 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

Martile A. Downard
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 (This interest is subject to CFR 192.83)	1 %
Albuquerque Associated Oil Co.	5 %

Recapitulation

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

PW #69
Seymour #7

STATE OF NEW MEXICO, County of San Juan, ss.
I hereby certify this instrument was filed for record
on April 22, 1953 at 8:22 o'clock A.M.
and duly recorded in book 214, page 6 of the
Records of said county.
Eugene A. Mitchell
Probate Clerk and ex-officio Recorder

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),

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1953 APR 27 PM 12 33
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

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 "B"

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-F

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, inconsistent 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 1608, 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:

By _____
Vice President

_____ Secretary

OPERATOR

SKELLY OIL COMPANY

ATTEST:

By _____
President

_____ Secretary

_____

_____

_____

NON-OPERATOR

3-111

STATE OF Texas }
COUNTY OF Dallas } SS

On this 14th day of April, 1953, before me appeared J. C. Reit, 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. Reit 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 A. L. Cashman, 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 A. L. Cashman 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 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 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

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

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

9. **Legal Expense**

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

10. **Taxes**

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

11. **Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workman'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.

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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
G.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.

2.

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.

3.

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.