

CASE 7334: R. A. MENDENHALL ASSOCIATES, <sup>es,</sup>  
LTD. FOR COMPULSORY POOLING, EDDY  
COUNTY, NEW MEXICO

Dismiss this Case

A replacement rate  
has been adv. for

Sep + 29

Case No.

7334

Application

Transcripts.

Small Exhibits

ETC



BRUCE KING  
GOVERNOR  
LARRY KEHOE  
SECRETARY

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

October 14, 1981

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

Mr. Conrad E. Coffield  
Hinkle, Cox, Eaton, Coffield  
& Hensley  
Attorneys at Law  
P. O. Box 3580  
Midland, Texas 79702

Re: CASE NO. 7334  
ORDER NO. R-6794

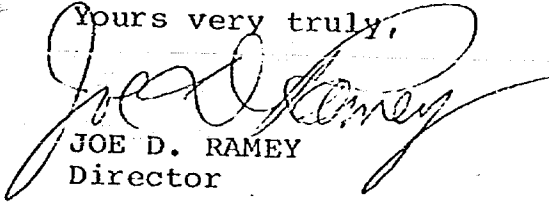
Applicant:

R. A. Mendenhall Associates, Ltd.

Dear Sir:

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

Yours very truly,

  
JOE D. RAMEY  
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x  
Artesia OCD x  
Aztec OCD       

Other Sumner Buell

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. 7334  
Order No. R-6794

APPLICATION OF R. A. MENDENHALL  
ASSOCIATES, LTD. FOR COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

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

NOW, on this 13th day of October, 1981, the Division  
Director, having considered the record and the recommendations  
of the Examiner, and being fully advised in the premises,

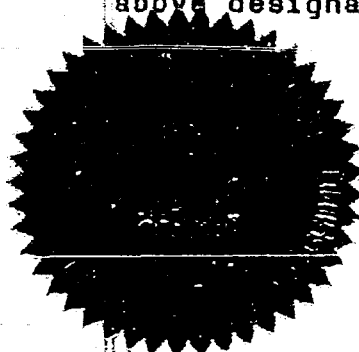
FINDS:

That the applicant's request for dismissal should be  
granted.

IT IS THEREFORE ORDERED:

That Case No. 7334 is hereby dismissed.

DONE at Santa Fe, New Mexico, on the day and year herein-  
above designated.



SEAL  
fd/

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

*Joe D. Ramey*  
JOE D. RAMEY  
Director



W. E. BONDURANT, JR.  
(1944-1973)

OF COUNSEL  
CLARENCE E. HINKLE\*  
ROBERT A. STONE

LEWIS C. COX, JR.\*  
PAUL W. EATON, JR.  
CONRAD E. COFFIELD  
HAROLD L. HENSLEY, JR.\*  
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JOHN S. NELSON\*  
RICHARD E. OLSON\*  
ANDERSON CARTER, II  
STEVEN D. ARNOLD  
JEFFREY L. BOWMAN  
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LAW OFFICES

HINKLE, COX, EATON, COFFIELD & HENSLEY

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SEP 18 1981

SANTA FE

NEW MEXICO OFFICE  
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1701 AMERICAN NATIONAL BANK BUILDING  
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\*NOT LICENSED IN  
TEXAS

September 8, 1981

Mr. Dan Nutter  
Oil Conservation Division  
Post Office Box 2088  
Santa Fe, New Mexico 87501

Re: R. A. Mendenhall Associates,  
Ltd. Case No. 7334

Dear Dan:

On behalf of our client, R. A. Mendenhall Associates, Ltd.,  
we ask that you please dismiss the above referenced case, being  
an application for compulsory pooling in Eddy County, New Mexico.

Thank you.

Very truly yours,

HINKLE, COX, EATON,  
COFFIELD & HENSLEY

*Conrad E. Coffield*

Conrad E. Coffield

CEC:rh

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

EXAMINER HEARING

IN THE MATTER OF:

Application of R. A. Mendenhall Associates, Ltd., for compulsory pooling, Eddy County, New Mexico.

CASE  
7334

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

W. Perry Pearce, Esq.  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

Conrad E. Coffield, Esq.  
HINKLE, COX, EATON, COFFIELD &  
HENSLEY  
POST OFFICE BOX 3580  
MIDLAND, TEXAS 79702

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2

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## A P P E A R A N C E S   C O N T ' D

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4

For Union Oil:

Sumner G. Buell, Esq.

5

121 East Palace Avenue

6

Santa Fe, New Mexico 87501

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## I N D E X

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## RICHARD MENDENHALL

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Direct Examination by Mr. Coffield

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Cross Examination by Mr. Buell

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Cross Examination by Mr. Stamets

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## EDWARD MATCHUS

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Direct Examination by Mr. Buell

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Cross Examination by Mr. Stamets

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Cross Examination by Mr. Coffield

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Recross Examination by Mr. Stamets

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Redirect Examination by Mr. Buell

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## LLOYD F. THOMPSON

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Direct Examination by Mr. Buell

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Cross Examination by Mr. Stamets

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Cross Examination by Mr. Coffield

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## I N D E X   C O N T ' D

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Recross Examination by Mr. Stamets

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Recross Examination by Mr. Coffield

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Redirect Examination by Mr. Buell

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## E X H I B I T S

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Applicant Exhibit One, Montage

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Applicant Exhibit Two, Correspondence

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Applicant Exhibit Three, ARE

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Union Exhibit One, Map

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Union Exhibit Two, Map

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MR. STAMETS: Call next Case 7334.

MR. PEARCE: Application of R. A. Mendenhall Associates, Ltd., for compulsory pooling, Eddy County, New Mexico.

MR. COFFIELD: Conrad Coffield, with the Hinkle Law Firm, appearing on behalf of the applicant, and I have one witness to be sworn.

MR. STAMETS: Any other appearances in this case?

MR. BUELL: Mr. Examiner, I'm Sumner Buell, with the firm of Jasper and Buell, in Santa Fe, appearing on behalf of Union Oil Company in opposition to the application.

MR. STAMETS: I'd like to have all those who are going to be witnesses in this case stand and be sworn at this time.

(Witnesses sworn.)

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

## DIRECT EXAMINATION

BY MR. COFFIELD:

Q Mr. Mendenhall, would you please state your name and address, and your relationship to the applicant?

A My name is Richard Mendenhall. My address is 230 Western United Lodge Building, Midland, Texas.

I am the owner, general partner of R. A. Mendenhall Associates, Limited.

Q Mr. Mendenhall, would you please give the Examiner a brief resume of your educational background and work experience in the oil business?

A I'm a graduate of Kansas State University with a BS and MS in geology in 1956 and 1958.

I have worked in the oil field business for about 23 years; various capacities, as geologist, District Geologist for Texaco; Exploration Manager, Chief Geologist, W. A. Moncrief; Vice President of Exploration and Production for Florida Gas Exploration; and in the last three years I've been owner, general partner of R. A. Mendenhall Associates, Limited.

Q Are you familiar with the applicant's application in this case?

A I am.

Q And are you familiar with the property

1  
2 and the proposed well location involved here?

3 A. I am.

4 Q And finally, are you familiar with the  
5 land ownership and the history of negotiations on the drilling  
6 of this particular well?

7 A. I am.

8 MR. COFFIELD: Mr. Examiner, do you have  
9 any other questions of the witness?

10 MR. STAMETS: The witness is considered  
11 qualified.

12 Q Mr. Mendenhall, what is it that you seek  
13 by this application?

14 A. I seek an order pooling all the mineral  
15 interests in the Delaware Mountain Group formations underlying  
16 the northwest quarter of the southeast quarter of Section 10,  
17 Township 22 South, Range 27 East, to be dedicated to a well  
18 to be drilled at a standard location on that tract.

19 MR. STAMETS: While we're on that point,  
20 could we clarify the common, more common formation names  
21 involved in the Delaware Mountain Group for the record?

22 A. It would be the Cherry Canyon.

23 MR. STAMETS: Okay.

24 A. Okay. Also, we ask that the cost of  
25 drilling and completing the well be considered, along with

1  
2 the allocation of those costs, as well as the actual operating  
3 costs and charges for supervision.

4 Further, we ask that R. A. Mendenhall  
5 Associates, Limited, be designated as applicant, as applicant,  
6 as operator of the well, and that a charge for risk involved  
7 in drilling said well be assessed.

8 MR. BUELL: Mr. Examiner, may I move to  
9 strike the last statements as to the cost of drilling and  
10 completing of the well and the allocation of costs and the  
11 actual operating costs and charges for supervision, designation  
12 of applicant as operator of the well, and charges for risk  
13 involved in drilling the well. None of that material is asked  
14 for in the application which has been filed in this case, and  
15 as such, I don't believe it's properly before the Examiner,  
16 at this time.

17 MR. COFFIELD: Mr. Buell, would you state  
18 that again, what it is that you're objecting to?

19 MR. BUELL: On the allocation of costs  
20 of completing the well, allocation of the costs for actual  
21 operations, charges for supervision, designation of applicant  
22 as operator, and a charge for risk involved in drilling the  
23 well.

24 MR. COFFIELD: And your point was what,  
25 sir?



1  
2 MR. BUELL: None of that is asked for  
3 in the application that's been filed in this case.

4 MR. STAMETS: Mr. Coffield, he certainly  
5 is accurate. The application does not reflect that at all.  
6 Do you have some sort of response?

7 MR. COFFIELD: No, I do not have a response  
8 to that. As far as -- I certainly don't go along with Mr.  
9 Buell. Obviously it's an oversight; it's not there. We  
10 certainly intended for those items to be included and we would  
11 respectfully request that the application be amended accordingly.

12 MR. BUELL: If I may respond, I think  
13 that's really the heart of the compulsory pooling hearing and  
14 they have not asked for it and it's not properly before them.  
15 If they want to refile and set it again for another hearing,  
16 I think perhaps it's proper to ask for dismissal at this time.

17 MR. STAMETS: Okay, the issues that you  
18 are concerned with now are the drilling costs, the supervision  
19 costs, and any risk factor.

20 MR. BUELL: Uh-huh, and as I read the  
21 application, all that it asks is that all the interests be  
22 pooled. That's all.

23 MR. STAMETS: Okay. I think that it's  
24 a logical and reasonable extension to assume that they are  
25 to be pooled and someone is to be named as the operator, and

2 I believe that there's no reason we couldn't proceed in this  
3 case today and name someone the operator. I don't believe  
4 we could dismiss that part of the case today.

5 MR. COFFIELD: If the Examiner please,  
6 it would appear to me that as the advertisement is constructed,  
7 the protestant has obviously been notified of the matter, so  
8 it could come as no surprise.

9 MR. STAMETS: Mr. Buell, I would assume  
10 now, looking at the docket, that we advertised in the same  
11 manner as this case is shown in the docket, including the  
12 allocation of well cost, the naming the operator, charges, and  
13 so on.

14 Making that assumption, which is the  
15 notice that we're concerned with? What counts? Does his  
16 application count or does the notice that we made in the paper  
17 count?

18 MR. BUELL: My position is that the  
19 application counts. The notice is merely erroneous. It does  
20 not accurately reflect what is in the application, and probably  
21 should be readvertised, to reflect what's in the application  
22 or the application should be refiled and this one dismissed.

23 MR. STAMETS: Let's go off the record  
24 a minute.

25 (Thereupon discussion was had

1  
2 off the record.)

3  
4 MR. STAMETS: Let's go back on the record.  
5 Mr. Buell, I'm going to have to agree with you that the cost  
6 of drilling and the charge for risk are not appropriate for  
7 the application we have in this case, even though it was ad-  
8 vertised to cover those items.

9 I am going to allow the witness to go  
10 ahead and discuss those things today, but no order will be  
11 issued on those matters prior to September the 23rd when this  
12 matter can be brought again to public hearing.

13 At that time I will simply incorporate  
14 the record from today's hearing, unless there is further  
15 testimony at that time, and issue an order on those points  
16 subsequent to that hearing; however, a decision as to whether  
17 or not to pool this acreage and name an operator will be made  
18 based on the evidence presented today.

19 Mr. Coffield, I presume you will get us  
20 an application in.

21 MR. COFFIELD: Yes, sir.

22 MR. STAMETS: A corrected application  
23 shortly.

24 MR. BUELL: Again, I would, just for the  
25 record, show my continuing objection to this type of procedure.

1  
2 MR. STAMETS: You certainly may.

3 Q All right, Mr. Mendenhall, refer to what  
4 we've marked as Exhibit One and discuss that, please.

5 A Exhibit One is a montage of the area of  
6 interest. On the upper lefthand corner is the structure map  
7 on top of the Cherry Canyon. In the central part of the map  
8 is a list of key well data supporting the area in the chrono-  
9 logical list that they were drilled.

10 In the upper righthand corner is the  
11 index of the State -- of a portion of the State of New Mexico,  
12 state of Eddy -- I mean the county of Eddy County.

13 In the center part of the map, or montage,  
14 is a cross section through the key wells. To the right is  
15 a generalized cross section, or section of the -- this portion  
16 of the basin.

17 And in the lower righthand corner is a  
18 legend of the particular map.

19 Q Were there any other features on this  
20 exhibit you wanted to discuss?

21 A At this time I'll discuss the structure  
22 map, which is located in the upper lefthand corner. The area  
23 of interest is located in the northwest corner of the south-  
24 east quarter of Section 10, being located in Township 22 South,  
25 27 East.

The Esperanza Field is located approximately three miles southeast of Carlsbad. The Esperanza Field, which produces from the Cherry Canyon in and of the Delaware Mountain Group ranges from approximately 3417 feet to 3434 feet below surface. It was discovered by Union Oil of California in 1969 in the drilling of their No. 1 Tracy, located in the northeast of the northwest of 10, 22, 27, which I think would be the "C" location.

Two other wells were completed by -- pardon me. This particular well was completed for 290 barrels of oil a day on August the 4th, 1969, and up through May, 1981, has produced approximately 355,000 barrels of oil.

In May, 1981, the records show that this particular well produced 2410 barrels of oil; an average of 77.7 barrels of oil per day, plus approximately 308 barrels of water, or approximately 9.9 barrels of water a day.

Two other wells have been completed in the Cherry Canyon by Union Oil of California. On October the 23rd they completed this No. 2 Pennzoil, and the No. 2 Pennzoil is located in the northwest of the northeast at the approximate "B" location.

This well was completed pumping 95 barrels of oil plus 3 barrels of water per day. This well has made approximately 50,000 barrels of oil through May, 1981.

1  
2 In May it produced 1333 barrels of oil, or approximately 43  
3 barrels of oil per day, plus 186 barrels of water, or approx-  
4 imately 6 barrels of water per day.

5 On November 7, 1980, Union Oil completed  
6 its No. 1 Federal "AJ", which is in the southwest of the  
7 northeast of Section 10 at the "G" location. This particular  
8 well was completed pumping 75 barrels of oil per day, plus  
9 5 barrels of water, and this well has produced up through May  
10 approximately 10,796 barrels of oil. In May it produced 1505  
11 barrels of oil, 48.5 barrel per day average, and approximately  
12 512 barrels of water, or about 16.5 barrels of water.

13 The fourth well located within the Es-  
14 peranza Field actually does not produce from the same pay  
15 horizon, although it is listed within the Esperanza Field.  
16 This well was originally drilled by Houston Oil Company, now  
17 operated by AmeriBob Energy Corporation, on the Union Federal  
18 lease. This particular well is located in the northwest of  
19 the southeast of Section 11, also in Township 22 South, 27  
20 East, at the approximate "L" location.

21 This particular well is producing from  
22 a sand which is interpreted to be in the Cherry Canyon trend;  
23 however, located approximately 325 feet above the productive  
24 interval in the other three wells previously discussed.

25 This well has produced approximately

3646 barrels of oil through May, 1981, and only produced 5 barrels of oil in May.

During the drilling a development of the Esperanza Field by Union, they drilled three offsets to the Cherry Canyon test. When you start in the southwest southwest Section 3, 22, 27, being the "M" location, which is approximately 1800 feet northwest of the discovery well. It later drilled the -- pardon me. They drilled also the -- a well to the southwest, this being the No. 2 Tracy in Section 10, being the southwest northwest, the "E" location. They later drilled, or also drilled another location, being the No. 1 Pennzoil Federal in the southwest southeast of Section 3 at the "O" location, each of these being completed as a dry hole.

Later they offset the well by previously discussed wells to the east and to the south, these being at a lesser direction.

The area is enhanced by same development to the south and the Union No. 1 Forni, which was drilled in the northeast of the southeast of Section 15, 22, 27, I believe it's the "I" location. This well did not test the Cherry Canyon, however mechanical logs, electric logs, indicate that approximately 40 feet of sand, gross, and 20 feet of net sand is present, which compares very favorable with the discovery well, the Cherry Canyon, being approximately 45 feet of gross

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2 and 19 feet of net. This sand is somewhat compatible with the  
3 structural configuration, thickening across the apex, thinning  
4 to the flanks. Therefor we feel that this sand body trending  
5 across here also trends across the area of interest; however,  
6 a location at the proposed 2140 -- pardon me, 2140 feet from  
7 the east and 1650 feet from the south of Section 10 is approx-  
8 imately 2000 feet south, which is in the same realm of dis-  
9 tance as the 1800 feet to the three dry holes, which does not  
10 assure that this is a productive location, that there is a  
11 risk factor involved. This is a stratigraphic formation.  
12 The sand is not a continuous sand throughout the basin area.  
13 It is, we feel, locally correlative.

14 Q Would you discuss, please, Mr. Mendenhall,  
15 the -- within this quarter quarter section that you seek to  
16 dedicate to the well, the proportionate ownership within that  
17 quarter quarter?

18 A This is a -- to the south of the river  
19 we own or R. A. Mendenhall Associates owns 60 acres. To the  
20 north of the river Union controls 100 acres. Within the  
21 quarter section with which we are dealing we feel we have  
22 approximately about 38 percent of the lease and Union has the  
23 remaining approximately 62 percent.

24 Q All right, would you now go to the Exhibit  
25 Two and explain that exhibit?



1

2

A Exhibit Two is a list of communications

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summary between R. A. Mendenhall Associates and Union of

4

California. Approximately one year ago on September the 4th

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a letter after some conversation with Union was created and

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requesting from Union a farmout; an answer from them on October

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the 2nd, 1980, advised me that their -- my request was turned

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down, that they were considering on drilling the particular

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farmout acreage which I had requested.

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The acreage which I had requested at that

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time was all of the south half of the northeast quarter of

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Section 10, the southeast of the northwest of Section 10,

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and that acreage located on the north/northeast side of the

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river in the southeast quarter.

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They drilled then their well, which is

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being the No. 1 "AJ" Union, and this well then was completed

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in November 11th -- pardon me, November the 7th, 1980, for

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75 barrels of oil and 5 barrels of water.

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Upon completion of that particular well

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I then contacted Union of California on 12-24 requesting a

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joint operation and that we also acquire the farmout from

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adjoining acreage to the west.

23

On April the 2nd, 1981, I received a

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letter turning down this joint operations request and also

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that the acreage under consideration should also not be con-

1  
2 sidered.

3 On May the 5th, 1981, I made a formal  
4 recommendation to Union that we form a joint drilling operations.  
5 Submitted at that time was an AFE, operating agreement, and  
6 along with a request that they advise me shortly within one  
7 month, and on June the 9th, 1981, I received a letter from  
8 Union advising that the proposal was being evaluated, not  
9 advising whether there was any consideration to drilling or  
10 not drilling.

11 Q From your experience and contacts with  
12 Union, do you see any reason to expect that you'll be able to  
13 reach any sort of agreement with them?

14 A I hope we can but we have not and that  
15 is the reason why I'm here to ask compulsory pooling.

16 Q Okay, refer to what we've marked now as  
17 Exhibit Three and explain that, please.

18 A The AFE which was furnished in the letter  
19 on 5 -- or I should say May the 5th, 1981, is no longer of  
20 value, due to inflation, inflation factors, and the cost of  
21 various drilling requirements, the cost of casing, drilling  
22 prices have gone up, and we have revised this as of August  
23 21st, 1981, to reflect this change.

24 Q And is that, and the change in the AFE,  
25 is that what Exhibit Three is?

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2

A. Yes.

3

Q. And you're asking to be named as operator.

4

A. I am.

5

Q. Mr. Mendenhall, do you have a recommenda-

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tion to make to the Examiner as to a penalty to be included

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in the order which --

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MR. BUELL: Objection, Your Honor -- Mr.

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Examiner, it's outside the scope of the hearing.

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MR. STAMETS: Your objection is noted.

11

The witness may answer the question.

12

A. The maximum.

13

Q. Which will be, are you asking then for

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200 percent penalty, as provided for in the New Mexico statutes?

15

A. That's correct.

16

Q. Do you have a recommendation as to the

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amount of administrative overhead to be included in the order?

18

A. Yes.

19

MR. BUELL: Objection, Your Honor.

20

MR. STAMETS: Your objection is noted

21

and the witness may answer the question.

22

A. This has been changed from the original

23

operating agreement submitted on May 5, '81, to \$3350 for a

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drilling well and \$350 a month for a producing rate. This

25

is what I am being subjected to with other operators and also

1  
2 myself in the area, and in Texas.

3 Q In the event that you were not allowed  
4 to drill this well, Mr. Mondenhall, what -- what would be the  
5 results, as far as you're concerned?

6 A The party who owns the acreage would be  
7 deprived of any development on there, which I feel is currently  
8 being drained. I would in the future, although my lease is  
9 good through 8-1-83, would have to expire through the non-  
10 development.

11 Q So it's your testimony, then, that you  
12 feel that you are likely being drained by the situation in  
13 the past, then?

14 A That is correct.

15 Q Were these exhibits prepared by you or  
16 under your supervision?

17 A Yes, they were.

18 Q And in your opinion will the approval  
19 of this application be in the interest of conservation, pre-  
20 vention of waste, and protection of correlative rights?

21 A Yes.

22 Q Do you have anything else to add?

23 A That's it.

24 MR. COFFIELD: Move the admission of  
25 Exhibits One, Two, and Three, Mr. Examiner.

1  
2 MR. STAMETS: These exhibits will be  
3 admitted.

4 Are there any questions of the witness?

5 MR. BUELL: May we have a few minutes  
6 with the surprise today?

7 MR. STAMETS: Yes, you may.

8 MR. BUELL: Please, if I may.

9  
10 CROSS EXAMINATION

11 BY MR. BUELL:

12 Q Mr. Mendenhall, I understood your testi-  
13 mony here today that you thought that the interest in this  
14 quarter section, quarter quarter section, was 62 percent  
15 Union and 38 percent Mendenhall, correct?

16 A Approximately. It will have to be sur-  
17 veyed.

18 Q In your previous offers to strike some  
19 sort of a deal with the Union Oil Company, didn't you feel  
20 that a 70/30 percent split was more equitable?

21 A At that time that was negotiable. We  
22 both had talked over the telephone about this, that there  
23 would have to be a survey to fully define the metes and bounds  
24 that we can find in either survey of the people to the south,  
25 the Hebers (sic) or the Tracys.

1  
2 Q By the way, what is the date of your  
3 lease?

4 A The date of my lease will expire on  
5 8-1-83.

6 Q When did you acquire it?

7 A On 8-1-80.

8 Q In a letter of December 24th you also  
9 represented to Union that you thought it would be split on a  
10 70 percent/30 percent basis, did you not?

11 A I did, but again with conversation that  
12 we all recognized it would have to be surveyed.

13 Q Have you undertaken the survey?

14 A No.

15 Q Then you really aren't asking the Com-  
16 mission to allocate costs in this based upon your testimony  
17 today when you don't know who owns what percentage of the  
18 acreage?

19 A I think it should be allocated according  
20 to the percent given.

21 Q 68/32?

22 A Pardon?

23 Q 68/32?

24 A That is what I -- the lease -- what I  
25 have looked at recently on a map which I obtained from the

1  
2 Soil Conservation. This is the latest information which I  
3 have, if you'll bear with me for a minute, and you can plani-  
4 meter. I feel it may have changed to approximately 38/62.

5 Q And what's the date of that map?

6 A That I do not know. I just acquired it  
7 from the Soil Conservation and the landowner.

8 Q Would it make any difference in your  
9 opinion as to the differences in ownership that Union acquired  
10 their lease in 1967 for all lands north and east of the Pecos  
11 River?

12 A I believe the -- I'll stand corrected for  
13 this -- but I believe the New Mexico ruling is -- as I said,  
14 I could be corrected on this -- that the river does not --  
15 the movement of the river does not go with property lines.

16 Q That's your legal opinion?

17 A That is what I've been advised.

18 Q And could the river have been in a dif-  
19 ferent location in 1967?

20 A I was not there.

21 Q Have you made any effort to find out the  
22 location of the river in 1967?

23 A No, I have not.

24 MR. BUELL: That's all I have, Mr. Exam-  
25 iner.

## CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Mendenhall, would you propose a survey of the acreage and determination as to the actual percentage of ownership and allocation of well cost based on those percentages?

A. I think that's only fair to the mineral owners. I mean, we're going to have -- if the well is productive, as we hope it is, we will have to do that, to be only honest with the mineral owners.

Q You wouldn't wish to pay for more than your share or have Union pay for more than its.

A. That's correct.

MR. STAMETS: Any other questions of this witness?

MR. BUELL: No, Mr. Examiner.

MR. STAMETS: He may be excused.

A. Thank you.

MR. STAMETS: Do you have any other witnesses, Mr. Coffield?

MR. COFFIELD: No, sir.

MR. STAMETS: Mr. Buell?



1

2

MR. BUELL: I'll have two witnesses, Mr.

3

Examiner.

4

I'd like to call Mr. Edward Matchus.

5

6

EDWARD MATCHUS

7

being called as a witness and being duly sworn upon his oath,

8

testified as follows, to-wit:

9

10

DIRECT EXAMINATION

11

BY MR. BUELL:

12

Q.

Would you state your name, please?

13

A.

Edward Matchus, M-A-T-C-H-U-S.

14

Q.

By whom are you employed, Mr. Matchus?

15

Where and in what capacity?

16

A.

I'm a Senior Geologist employed in Mid-  
land, Texas, by Union Oil Company of California.

17

Q.

Are you generally familiar with the

18

Esparanza Delaware Field?

19

A.

Yes, I am.

20

Q.

And have you previously testified before

21

this Commission and had your qualifications as an expert ac-  
cepted and made a matter of record?

22

23

A.

Yes, I have.

24

MR. BUELL: Are the witness' qualifica-

1  
2 tions acceptable?

3 MR. STAMETS: They are.

4 Q I refer you to what has been marked for  
5 identification as Union's Exhibit Number One. Would you  
6 please explain to the Examiner what that shows?

7 A Union's Exhibit Number One is a map of  
8 the Esparanza Field contoured on the top of a Lower Tracy Sand,  
9 which is Cherry Canyon in age. It is the producing sand in  
10 the Esparanza Field.

11 On this map are shown four wells which  
12 are colored in orange, as was pointed out earlier, three of  
13 these wells, the Tracy, the Pennzoil, and the Federal "AJ",  
14 produce from the Lower Tracy Sand.

15 In Section 11 the Union No. 1 Union  
16 Federal, or Eastland No. 1 Union Federal produces from Cherry  
17 Canyon sands located approximately 300 and 400 feet above the  
18 Tracy Sand producing section. This is illustrated on the  
19 type log section on the left, which shows a producing interval  
20 for the Tracy Sand. The producing interval for the two sec-  
21 tions in the Union Federal Well in Section 11, which are  
22 located 200 to 300 feet above the Tracy Sand, and also to the  
23 southwest in Section 20, an area where three wells are colored  
24 orange. These wells also produce from the Cherry Canyon.  
25 It is called the Carlsbad South Cherry Canyon Field. The

1  
2 producing interval for the Cherry Canyon South -- or Carlsbad  
3 South Cherry Canyon Field is shown on the type log.

4 What is illustrated in the type log here  
5 is the main producing section in Esperanza with the producing  
6 interval for the additional pay developed in Cherry Canyon  
7 section at various depths above -- or various positions above  
8 the Tracy pay.

9 This is a structure contour map based on  
10 the top of the Tracy Sand. It demonstrates the configuration  
11 at the top of the sand. It also shows on the west side of  
12 an area of closure by a dashed line an area where is loss of  
13 permeability and noted on the map are notations where the  
14 sand has shaled out and also where it has been tested either  
15 recovering mud or has recovered water.

16 On the east side of the field in the  
17 southwest southeast of Section 3, Union drilled the Pennzoil  
18 Federal, where core and drill stem tests established water  
19 at a position of -370.

20 To the south in the area of Section 11,  
21 the Eastland No. 1 Union Federal encountered the Tracy Sand  
22 as wet.

23 To the south in Section 15 the Union Oil  
24 No. 1 Forni also found the Tracy Sand to be wet. This is  
25 based on log readings from electric log characteristics.

1  
2 So what I've outlined is a northwest/  
3 southeast trending body of sand. There are permeability  
4 barriers to the west, down dip to the east it is carrying  
5 water.

6 The proposed 40-acre unit, or tract,  
7 rather, that is the subject of this hearing, has a red arrow  
8 pointing to it. It is my belief that the trend of the Tracy  
9 Sand producing interval extends southeast into and over this  
10 40-acre tract.

11 It's my contention that due to the  
12 alignment of the field, the sand developed in a northwest/  
13 southeast trend, that the likelihood of a producing location  
14 on this 40 acres is very good, and I would question the degree  
15 of risk involved. It would be my estimation that this is a  
16 90 percent safe location.

17 There are coinciding factors to point  
18 to that. The northwest/southeast alignment of the sand is  
19 commonly found with a barrier shaling out, thinning of sand,  
20 and so forth, on one side and the down dip side carrying the  
21 water. I do not see any reason why the northwest of the  
22 southeast should not be productive, first of all, from the  
23 Tracy Sand. In addition to that, the area should be consi-  
24 dered as potentially productive as the Union Federal No. 1  
25 is to the east, from the sand in the Cherry Canyon that are

1  
2 productive above the Tracy zone.

3 MR. BUELL: I have no further questions.

4 MR. STAMETS: Are there any other ques-  
5 tions of this witness?

6 MR. COFFIELD: I'm sure we will, Mr.  
7 Examiner, just a minute.

8  
9 CROSS EXAMINATION

10 BY MR. STAMETS:

11 Q Mr. Matchus, did you indicate that you  
12 felt there was a 90 percent chance of getting a well in the --

13 A Success factor, yes. I don't think  
14 there's much risk in drilling a well at that location.

15 Q Is that a 90 percent chance of getting  
16 a commercial well?

17 A From the Tracy Sand, yes, or from, as  
18 we're calling it, Cherry Canyon.

19 I do think we should note that there are  
20 different Cherry Canyon sands that do produce.

21  
22 CROSS EXAMINATION

23 BY MR. COFFIELD:

24 Q All right, Mr. Matchus, if I might ask  
25 you this. Well, first of all, may I ask you, how you reached

1  
2 the 90 percent figure?

3 A. On the basis of trend. I assume that  
4 if you had continuation of the same sand body, continuation  
5 of the same datum essentially, what we're talking about is  
6 this -300 line which comes down here from the north/south  
7 direction, I believe that the projection of that 90 percent  
8 line -- not 90 percent, -300 line continues well over the  
9 quarter section in question here, and the degree of success  
10 by my estimation is that it should be very favorable.

11 Q. Well, Mr. Matchus, apparently Union had  
12 or has some rather serious problems in joining in the drilling  
13 of this well. If it's such a sure bet, why did Union decide  
14 not to join in the drilling of this well with Mr. Mendenhall?

15 A. I cannot answer that. That, I believe,  
16 is management. I would recommend drilling a well. I see no  
17 reason why this location should not have a well.

18 Q. Okay. Also here on your exhibit, I be-  
19 lieve, is this the No. 3 Tracy?

20 A. Yes.

21 Q. Located, let me see where is it --

22 A. Southwest southwest of -- I mean south-  
23 west of the southwest.

24 Q. And that is completed as a dry hole?

25 A. Yes.

1  
2 Q Why would Union of California drill that  
3 well as opposed to going in the direction that Mr. Mendenhall  
4 does? I presume -- would it be accurate to say that you as-  
5 sumed it was going to be a successful endeavor?

6 A No, that well shaled out. The sand it-  
7 self is -- prior to drilling it, it should -- it was hoped  
8 that that would extend the field, but the fact that the non-  
9 development of Tracy Sand --

10 Q So the fact remains that that did turn  
11 out to be a surprise, what happened.

12 A Yes.

13 Q Would it likewise not be just as possible  
14 that the well Mr. Mendenhall proposes could also be a surprise?

15 A I don't think it could be as much of a  
16 surprise as that, no. I think the west sides are your limiting  
17 factor. I think if you go south or southeast you're going  
18 to be within the reservoir.

19 And our contours so suggest. Our sand  
20 development so suggests.

21 MR. COFFIELD: No other questions.

22  
23 RECROSS EXAMINATION

24 BY MR. STAMETS:

25 Q Mr. Matchus, are you the geologist who

recommended drilling the Tracy offsets?

A. No, I was not involved in that. I can say that with a smile.

Q. I presume that those were considered pretty good prospects when that well initially was completed?

A. Yes, they were. You'll notice they took a big circle going around there.

Q. That only shows that geologists can be wrong.

A. It does. In fact, that's why we are geologists; you have to look in and try to project what is coming on.

Q. What's the chance of your being wrong with your 90 percent chance of getting a well?

A. I think very little.

MR. STAMETS: Are there any other questions of this witness?

MR. BUELL: Just a few more, Mr. Examiner, if I may.

REDIRECT EXAMINATION

BY MR. BUELL:

Q. The Tracy offsets that people have been talking about, were those drilled earlier than the Tracy 1



1  
2 and 2?

3 A. Some of the, yes, some of the wells were  
4 drilled before that, but the sequence, I'd have to check the  
5 drilling dates as to which one was drilled first, but the  
6 Tracy 1 stimulated thought for developing additional production,  
7 and then the stepouts, Tracy 2, Tracy 3, followed.

8 Q. So do I understand you correctly that  
9 the wells that are shown in orange on this map, along with  
10 the Union No. 1 Forni, are the ones that have demonstrated  
11 this trend and also the Tracy No. 3 demonstrated the shale  
12 closure to the north and west?

13 A. Yes.

14 Q. Were exhibits -- was Exhibit Number One  
15 prepared by you or under your supervision?

16 A. It was prepared by me.

17 MR. BUELL: I move the admission of  
18 Exhibit Number One.

19 MR. STAMETS: Exhibit Number One will be  
20 admitted.

21 The witness may be excused.

22 MR. BUELL: Call Mr. Thompson.  
23  
24  
25

LLOYD F. THOMPSON

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

DIRECT EXAMINATION

BY MR. BUELL:

Q. Would you state your name, please, sir?

A. Lloyd F. Thompson.

Q. And by whom are you employed, where,  
and what capacity?

A. Union Oil Company of California, Post  
Office Box 671, Midland, Texas, Zip 79702, and my capacity  
is District Operations Manager.

Q. Mr. Thompson, are you generally familiar  
with what Mr. Mendenhall seeks in this Case No. 7334?

A. Yes, I am.

Q. Have you ever previously testified before  
the Oil Conservation Division or one of its examiners?

A. No, I have not.

Q. Would you give the Examiner your educa-  
tional background, please?

A. Bachelor of Science degree in June, 1950,  
petroleum engineering, University of California at Berkeley.

Q. And after your education would you briefly

1  
2 give your work experience?

3 A. After two years in the service I joined  
4 Union Oil Company as a petroleum engineer in the fall of 1953.  
5 I've been employed by Union Oil Company since then.

6 Q. And what have been the general nature of  
7 your duties with Union Oil Company?

8 A. Primarily in my early career I was in-  
9 volved in the drilling, completion, production of oil and gas  
10 wells, designing and installation of surface facilities both  
11 on and offshore. Approximately two years of my career as a  
12 reservoir engineer involved with reservoir management.

13 Q. And what are your current duties with  
14 Union Oil Company?

15 A. Currently I am in management as the  
16 District Operations Manager for the Midland District, which  
17 entails the west -- rough -- approximately west Texas and the  
18 State of New Mexico with the exception of the northwest  
19 quadrant, Four Corners area.

20 In that capacity I am responsible, under  
21 my direction is the drilling and completion of wells, the --  
22 both exploratory and development; the operation, production  
23 of the wells after their completion, and reservoir management,  
24 reservoir engineering groups report to me.

25 Q. Referring you to what has been marked

1  
2 as Exhibit Number Two, would you explain what that is, please?

3 A. This is what we refer to as a curiosity  
4 map that I had prepared simply to illustrate some production  
5 figures relative to the wells in the area of the -- of the  
6 questioned compulsory pooling. It basically would corroborate  
7 I would say at this point in time the evidence introduced by --  
8 as far as production rates and completion dates, initial pro-  
9 duction rates, the evidence introduced by Mr. Mendenhall.  
10 I don't really see any point in going into the numbers on  
11 here, do you?

12 Q. Would it also corroborate the geology  
13 as drawn by Mr. Matchus?

14 A. Well, it does indicate the wells which  
15 were unsuccessful that were drilled early in the life of the  
16 field, that defined the northerly and westerly boundaries of  
17 the pool.

18 I would point out that those wells were  
19 drilled early in the life of the field and in -- in the  
20 1960s. The subsequent development to the south and east have  
21 further refined our knowledge of the reservoir.

22 Q. Did you hear Mr. Mendenhall's testimony  
23 as to reasonable drilling costs, or supervision?

24 A. Yes, I did.

25 Q. Do you recall what that figure was?

1  
2 A I don't recall the figure. I feel that  
3 his supervision figure for a Delaware test is on the high  
4 side. It sounds more like what would be appropriate for  
5 a Pennsylvanian test in this area.

6 Q Was Exhibit Two prepared by you or under  
7 your supervision?

8 A Yes, it was.

9 MR. BUELL: I would move the introduction  
10 of Exhibit Number Two.

11 MR. STAMETS: Exhibit Number Two will be  
12 admitted.

13 MR. BUELL: I have no further questions.

14 A I --

15 Q Did you wish to add something?

16 A Yes. I would like to add that, for the  
17 record, Union Oil Company does not own all of the operating  
18 rights under the quarter section in question north and east  
19 of the Pecos River. We are the operator of the Carlsbad  
20 working interest owner, working interest unit, and as such  
21 have about a 51 percent ownership. We do not, however, pur-  
22 port today to represent the other working interest owners in  
23 this property.

24 MR. STAMETS: That's an interesting  
25 statement, Mr. Thompson.

## CROSS EXAMINATION

BY MR. STAMETS:

Q Does Union have the authority to enter into communitization for the acreage in question?

A Only as to our interest and no, actually, we don't. We would have to have, under the joint operating agreement, as I understand it, and it's just as I am told by my land and legal people, we would have to have 100 percent concurrence of all the working interest owners to voluntarily join in a thing of this nature.

## CROSS EXAMINATION

BY MR. COFFIELD:

Q As a point of clarification on that matter, Mr. Thompson, I think you called it the Carlsbad Unit?

A Carlsbad Working Interest Unit, yes, sir.

Q So it's a working interest unit, it's not an administratively approved unit?

A No, sir. It's a working interest only unit. It's not a State or Federally approved unit.

Q Okay. Then as far as the acreage is concerned, are -- you're not saying that we're incorrect in our information about Union of Cal owning of record, at least,

1  
2 a lease on the acreage in this --

3 A That was, I believe, our contribution  
4 to the working interest owner, to the working interest unit,  
5 yes, sir.

6 However, that's no longer the correct  
7 ownership because of the effect of the working interest unit.

8 Q All right, but as far as you know, that's  
9 a matter, I presume, that as far as you know, Mr. Mendenhall  
10 would have no knowledge of that.

11 Let me put it another way. Did you --  
12 did Union of Cal. ever advise Mr. Mendenhall that it had no  
13 authority to speak as the owner of that tract?

14 A I don't have any specific knowledge that  
15 he was informed that the tract was committed to a -- to a  
16 working interest unit. No, I do not.

17 Q Do you --

18 A I don't know that he was not, either.

19 Q Are you familiar with the correspondence  
20 that we submitted as Exhibit Two, I believe, in connection  
21 with Mr. Mendenhall's contacts with Union of Cal?

22 A I have seen correspondence. May I look  
23 at Exhibit Two? In the past. My memory is not all that it  
24 might be.

25 I would call your attention to the letter

1  
2 dated April 2nd, 1981, from a Linda H. Hicks, as part of your  
3 exhibit, in which I will quote: Dear Mr. Mendenhall, Please  
4 be advised that Union Oil Company of California, as operator  
5 of the Carlsbad Working Interest Unit, does not wish to pursue  
6 formation of your proposed joint operating agreement in the  
7 southeast quarter of Section 10, Township 22 South, Range 27  
8 East, Eddy County, New Mexico, as proposed in your letter of  
9 December 24, 1980. Signed by Linda H. Hicks, Landman, land  
10 person.

11 That would seem to me to be a notification  
12 that there was a working interest unit involved.

13 Q You would not interpret that as indicating,  
14 however, that Union of California is speaking only, could  
15 only speak as to itself and not as the unit.

16 A I wouldn't interpret that either way.

17 Q All right. Also, in connection with  
18 your, with your position with the company, Mr. Thompson, are  
19 you, in your management position, are you involved in the  
20 authorization or recommendation as far as drilling or parti-  
21 cipating in a project?

22 A Yes, I am.

23 Q Then I will ask you the same question I  
24 asked Mr. Matchus earlier, you heard his testimony and you  
25 would concur, I presume, as to how successful this particular



1  
2 venture is likely to be, that being the case, may I ask you  
3 why you did not desire to join?

4 A. Counselor, is this a subject of this  
5 hearing?

6 MR. BUELL: I don't think it's properly  
7 so. I would object to this as being irrelevant.

8 MR. STAMETS: Mr. Buell, I think, I tend  
9 to agree with you that the why is not important, at least as  
10 to the compulsory pooling, but why could be important as to  
11 the risk factor. If the reason was that Union considered  
12 this a highly risky venture, then that certainly could affect  
13 the risk factors that result, and so I would ask that the  
14 witness respond to the question, if he's able.

15 MR. BUELL: Mr. Examiner, I would withdraw  
16 my objection if the witness were asked the question to address  
17 what you're interested in. What risk factor would he assign  
18 to this well, and leave it at that.

19 MR. STAMETS: Let me ask the question.  
20 Mr. Thompson, did the reason that Union did not choose to  
21 enter into a voluntary agreement to drill the well in this  
22 tract have anything at all to do with the riskiness of the  
23 venture? To your knowledge?

24 A. The decision?

25 MR. STAMETS: Yes.

1  
2 A. I think I can honestly say that the  
3 decision not to drill was not based on the riskiness, not to  
4 join the drilling of this well, was not based on our assessment  
5 of the risk of drilling this well. There were other factors  
6 involved.

7 Q. Mr. Thompson, you indicated that the  
8 \$3350 overhead charge while drilling was excessive, or you  
9 felt it was excessive. To your knowledge, has Union entered  
10 into any voluntary communitizations for drilling of this type  
11 of wells recently in which the rates would substantiate your  
12 feeling that this figure was high?

13 A. My memory and ability to recollect facts  
14 here, Mr. Examiner, are not as good as I would like. This  
15 number strikes me today, the first time I heard it, as more  
16 appropriate for a Pennsylvanian or Morrow test, and more in  
17 line with what my feeling is that we're getting for those  
18 types of tests today, rather than a 4000, 4500 feet Delaware  
19 well.

20 Q. In any event, you don't have anything  
21 today --

22 A. I don't have anything today to suggest  
23 a lesser number.

24 MR. STAMETS: Are there any other ques-  
25 tions of this witness?

1  
2 MR. COFFIELD: If the Examiner please,  
3 just a moment.  
4

5 RECROSS EXAMINATION

6 BY MR. COFFIELD:

7 Q On the allocation of costs, Mr. Thompson,  
8 the costs that are stated, aren't those normally prorated  
9 over the, over the drilling time? For example, as to the figure  
10 that was mentioned as far as the drilling costs, say it would  
11 take 15 days to drill the well, isn't that normally 15/30ths?

12 A I believe that the number was stated as  
13 a monthly cost and it would be prorated over it, that's cor-  
14 rect.

15 MR. STAMETS: Do you have something  
16 further, Mr. Buell?

17 MR. BUELL: Yes.  
18

19 REDIRECT EXAMINATION

20 BY MR. BUELL:

21 Q If you were going to assign a risk  
22 factor to this well, what would you recommend to the Commis-  
23 sion to be a proper risk factor?

24 A I would recommend 25 percent would be  
25 appropriate in this condition.

1  
2 MR. BUELL: I have nothing else.

3 MR. STAMETS: Let's see, have we received  
4 your exhibits into evidence?

5 MR. BUELL: Yes, sir.

6 MR. STAMETS: Okay. Mr. Coffield, do  
7 you have anything further you wish to put into evidence today?

8 MR. COFFIELD: No.

9 MR. STAMETS: All right. The hearing  
10 today, then, will be taken under advisement. Everyone is  
11 aware of the readvertisement which appears to be necessary,  
12 and what we're going to do then on September 23rd. That  
13 doesn't guarantee what Mr. Buell will do on September 23rd.  
14 I wouldn't be surprised to see him on that date.

15 This case is taken under advisement.

16  
17 (Hearing concluded.)  
18  
19  
20  
21  
22  
23  
24  
25

## CERTIFICATE

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

Sally W. Boyd C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7334 heard by me on 8-26 1981.  
Richard L. Stump, Examiner  
Oil Conservation Division

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

EXAMINER HEARING

IN THE MATTER OF:

Application of R. A. Mendenhall Asso-  
ciates, Ltd., for compulsory pooling,  
Eddy County, New Mexico.

CASE  
7334

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

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## A P P E A R A N C E S   C O N T ' D

For Union Oil:

Sumner G. Buell, Esq.  
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Santa Fe, New Mexico 87501

## I N D E X

## RICHARD MENDENHALL

Direct Examination by Mr. Coffield	5
Cross Examination by Mr. Buell	20
Cross Examination by Mr. Stamets	23

## EDWARD MATCHUS

Direct Examination by Mr. Buell	24
Cross Examination by Mr. Stamets	28
Cross Examination by Mr. Coffield	28
Recross Examination by Mr. Stamets	30
Redirect Examination by Mr. Buell	31

## LLOYD F. THOMPSON

Direct Examination by Mr. Buell	33
Cross Examination by Mr. Stamets	37
Cross Examination by Mr. Coffield	37

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I N D E X   C O N T ' D

Recross Examination by Mr. Stamets	40
Recross Examination by Mr. Coffield	42
Redirect Examination by Mr. Buell	42

E X H I B I T S

Applicant Exhibit One, Montage	11
Applicant Exhibit Two, Correspondence	15
Applicant Exhibit Three, AFE	17
Union Exhibit One, Map	25
Union Exhibit Two, Map	35



1  
2 MR. STAMETS: Call next Case 7334.

3 MR. PEARCE: Application of R. A. Menden-  
4 hall Associates, Ltd., for compulsory pooling, Eddy County,  
5 New Mexico.

6 MR. COFFIELD: Conrad Coffield, with the  
7 Hinkle Law Firm, appearing on behalf of the applicant, and I  
8 have one witness to be sworn.

9 MR. STAMETS: Any other appearances in  
10 this case?

11 MR. BUELL: Mr. Examiner, I'm Sumner  
12 Buell, with the firm of Jasper and Buell, in Santa Fe, ap-  
13 pearing on behalf of Union Oil Company in opposition to the  
14 application.

15 MR. STAMETS: I'd like to have all those  
16 who are going to be witnesses in this case stand and be sworn  
17 at this time.

18  
19 (Witnesses sworn.)

20  
21 RICHARD MENDENHALL  
22 being called as a witness and being duly sworn upon his oath,  
23 testified as follows, to-wit:  
24  
25

## DIRECT EXAMINATION

BY MR. COFFIELD:

Q Mr. Mendenhall, would you please state your name and address, and your relationship to the applicant?

A My name is Richard Mendenhall. My address is 230 Western United Lodge Building, Midland, Texas.

I am the owner, general partner of R. A. Mendenhall Associates, Limited.

Q Mr. Mendenhall, would you please give the Examiner a brief resume of your educational background and work experience in the oil business?

A I'm a graduate of Kansas State University with a BS and MS in geology in 1956 and 1958.

I have worked in the oil field business for about 23 years; various capacities, as geologist, District Geologist for Texaco; Exploration Manager, Chief Geologist, W. A. Moncrief; Vice President of Exploration and Production for Florida Gas Exploration; and in the last three years I've been owner, general partner of R. A. Mendenhall Associates, Limited.

Q Are you familiar with the applicant's application in this case?

A I am.

Q And are you familiar with the property

1

2

and the proposed well location involved here?

3

A. I am.

4

Q And finally, are you familiar with the

5

land ownership and the history of negotiations on the drilling

6

of this particular well?

7

A. I am.

8

MR. COFFIELD: Mr. Examiner, do you have

9

any other questions of the witness?

10

MR. STAMETS: The witness is considered

11

qualified.

12

Q Mr. Mendenhall, what is it that you seek

13

by this application?

14

A. I seek an order pooling all the mineral

15

interests in the Delaware Mountain Group formations underlying

16

the northwest quarter of the southeast quarter of Section 10,

17

Township 22 South, Range 27 East, to be dedicated to a well

18

to be drilled at a standard location on that tract.

19

MR. STAMETS: While we're on that point,

20

could we clarify the common, more common formation names

21

involved in the Delaware Mountain Group for the record?

22

A. It would be the Cherry Canyon.

23

MR. STAMETS: Okay.

24

A. Okay. Also, we ask that the cost of

25

drilling and completing the well be considered, along with

1  
2 the allocation of those costs, as well as the actual operating  
3 costs and charges for supervision.

4 Further, we ask that R. A. Mendenhall  
5 Associates, Limited, be designated as applicant, as applicant,  
6 as operator of the well, and that a charge for risk involved  
7 in drilling said well be assessed.

8 MR. BUELL: Mr. Examiner, may I move to  
9 strike the last statements as to the cost of drilling and  
10 completing of the well and the allocation of costs and the  
11 actual operating costs and charges for supervision, designation  
12 of applicant as operator of the well, and charges for risk  
13 involved in drilling the well. None of that material is asked  
14 for in the application which has been filed in this case, and  
15 as such, I don't believe it's properly before the Examiner,  
16 at this time.

17 MR. COFFIELD: Mr. Buell, would you state  
18 that again, what it is that you're objecting to?

19 MR. BUELL: On the allocation of costs  
20 of completing the well, allocation of the costs for actual  
21 operations, charges for supervision, designation of applicant  
22 as operator, and a charge for risk involved in drilling the  
23 well.

24 MR. COFFIELD: And your point was what,  
25 sir?

1  
2 MR. BUELL: None of that is asked for  
3 in the application that's been filed in this case.

4 MR. STAMETS: Mr. Coffield, he certainly  
5 is accurate. The application does not reflect that at all.  
6 Do you have some sort of response?

7 MR. COFFIELD: No, I do not have a response  
8 to that. As far as -- I certainly don't go along with Mr.  
9 Buell. Obviously it's an oversight; it's not there. We  
10 certainly intended for those items to be included and we would  
11 respectfully request that the application be amended accordingly.

12 MR. BUELL: If I may respond, I think  
13 that's really the heart of the compulsory pooling hearing and  
14 they have not asked for it and it's not properly before them.  
15 If they want to refile and set it again for another hearing,  
16 I think perhaps it's proper to ask for dismissal at this time.

17 MR. STAMETS: Okay, the issues that you  
18 are concerned with now are the drilling costs, the supervision  
19 costs, and any risk factor.

20 MR. BUELL: Uh-huh, and as I read the  
21 application, all that it asks is that all the interests be  
22 pooled. That's all.

23 MR. STAMETS: Okay. I think that it's  
24 a logical and reasonable extension to assume that they are  
25 to be pooled and someone is to be named as the operator, and

1  
2 I believe that there's no reason we couldn't proceed in this  
3 case today and name someone the operator. I don't believe  
4 we could dismiss that part of the case today.

5 MR. COFFIELD: If the Examiner please,  
6 it would appear to me that as the advertisement is constructed,  
7 the protestant has obviously been notified of the matter, so  
8 it could come as no surprise.

9 MR. STAMETS: Mr. Buell, I would assume  
10 now, looking at the docket, that we advertised in the same  
11 manner as this case is shown in the docket, including the  
12 allocation of well cost, the naming the operator, charges, and  
13 so on.

14 Making that assumption, which is the  
15 notice that we're concerned with? What counts? Does his  
16 application count or does the notice that we made in the paper  
17 count?

18 MR. BUELL: My position is that the  
19 application counts. The notice is merely erroneous. It does  
20 not accurately reflect what is in the application, and probably  
21 should be readvertised, to reflect what's in the application  
22 or the application should be refiled and this one dismissed.

23 MR. STAMETS: Let's go off the record  
24 a minute.

25 (Thereupon discussion was had

1  
2 off the record.)  
3

4 MR. STAMETS: Let's go back on the record.  
5 Mr. Buell, I'm going to have to agree with you that the cost  
6 of drilling and the charge for risk are not appropriate for  
7 the application we have in this case, even though it was ad-  
8 vertised to cover those items.

9 I am going to allow the witness to go  
10 ahead and discuss those things today, but no order will be  
11 issued on those matters prior to September the 23rd when this  
12 matter can be brought again to public hearing.

13 At that time I will simply incorporate  
14 the record from today's hearing, unless there is further  
15 testimony at that time, and issue an order on those points  
16 subsequent to that hearing; however, a decision as to whether  
17 or not to pool this acreage and name an operator will be made  
18 based on the evidence presented today.

19 Mr. Coffield, I presume you will get us  
20 an application in.

21 MR. COFFIELD: Yes, sir.

22 MR. STAMETS: A corrected application  
23 shortly.

24 MR. BUELL: Again, I would, just for the  
25 record, show my continuing objection to this type of procedure.

MR. STAMETS: You certainly may.

Q All right, Mr. Mendenhall, refer to what we've marked as Exhibit One and discuss that, please.

A Exhibit One is a montage of the area of interest. On the upper lefthand corner is the structure map on top of the Cherry Canyon. In the central part of the map is a list of key well data supporting the area in the chronological list that they were drilled.

In the upper righthand corner is the index of the State -- of a portion of the State of New Mexico, state of Eddy -- I mean the county of Eddy County.

In the center part of the map, or montage, is a cross section through the key wells. To the right is a generalized cross section, or section of the -- this portion of the basin.

And in the lower righthand corner is a legend of the particular map.

Q Were there any other features on this exhibit you wanted to discuss?

A At this time I'll discuss the structure map, which is located in the upper lefthand corner. The area of interest is located in the northwest corner of the southeast quarter of Section 10, being located in Township 22 South, 27 East.



1  
2 The Esperanza Field is located approxi-  
3 mately three miles southeast of Carlsbad. The Esperanza Field,  
4 which produces from the Cherry Canyon in and of the Delaware  
5 Mountain Group ranges from approximately 3417 feet to 3434  
6 feet below surface. It was discovered by Union Oil of California  
7 in 1969 in the drilling of their No. 1 Tracy, located in the  
8 northeast of the northwest of 10, 22, 27, which I think would  
9 be the "C" location.

10 Two other wells were completed by --  
11 pardon me. This particular well was completed for 290 barrels  
12 of oil a day on August the 4th, 1969, and up through May,  
13 1981, has produced approximately 355,000 barrels of oil.

14 In May, 1981, the records show that this  
15 particular well produced 2410 barrels of oil; an average of  
16 77.7 barrels of oil per day, plus approximately 308 barrels  
17 of water, or approximately 9.9 barrels of water a day.

18 Two other wells have been completed in  
19 the Cherry Canyon by Union Oil of California. On October the  
20 23rd they completed this No. 2 Pennzoil, and the No. 2 Pennzoil  
21 is located in the northwest of the northeast at the approxi-  
22 mate "B" location.

23 This well was completed pumping 95 bar-  
24 rels of oil plus 3 barrels of water per day. This well has  
25 made approximately 50,000 barrels of oil through May, 1981.

1  
2 In May it produced 1333 barrels of oil, or approximately 43  
3 barrels of oil per day, plus 186 barrels of water, or approximately 6 barrels of water per day.  
4

5 On November 7, 1980, Union Oil completed  
6 its No. 1 Federal "AJ", which is in the southwest of the  
7 northeast of Section 10 at the "G" location. This particular  
8 well was completed pumping 75 barrels of oil per day, plus  
9 5 barrels of water, and this well has produced up through May  
10 approximately 10,796 barrels of oil. In May it produced 1505  
11 barrels of oil, 48.5 barrel per day average, and approximately  
12 512 barrels of water, or about 16.5 barrels of water.

13 The fourth well located within the Es-  
14 peranza Field actually does not produce from the same pay  
15 horizon, although it is listed within the Esperanza Field.  
16 This well was originally drilled by Houston Oil Company, now  
17 operated by AmeriBob Energy Corporation, on the Union Federal  
18 lease. This particular well is located in the northwest of  
19 the southeast of Section 11, also in Township 22 South, 27  
20 East, at the approximate "L" location.

21 This particular well is producing from  
22 a sand which is interpreted to be in the Cherry Canyon trend;  
23 however, located approximately 325 feet above the productive  
24 interval in the other three wells previously discussed.

25 This well has produced approximately

3646 barrels of oil through May, 1981, and only produced 5 barrels of oil in May.

During the drilling a development of the Esperanza Field by Union, they drilled three offsets to the Cherry Canyon test. When you start in the southwest southwest Section 3, 22, 27, being the "M" location, which is approximately 1800 feet northwest of the discovery well. It later drilled the -- pardon me. They drilled also the -- a well to the southwest, this being the No. 2 Tracy in Section 10, being the southwest northwest, the "E" location. They later drilled, or also drilled another location, being the No. 1 Pennzoil Federal in the southwest southeast of Section 3 at the "O" location, each of these being completed as a dry hole.

Later they offset the well by previously discussed wells to the east and to the south, these being at a lesser direction.

The area is enhanced by same development to the south and the Union No. 1 Forni, which was drilled in the northeast of the southeast of Section 15, 22, 27, I believe it's the "I" location. This well did not test the Cherry Canyon, however mechanical logs, electric logs, indicate that approximately 40 feet of sand, gross, and 20 feet of net sand is present, which compares very favorable with the discovery well, the Cherry Canyon, being approximately 45 feet of gross

1  
2 and 19 feet of net. This sand is somewhat compatible with the  
3 structural configuration, thickening across the apex, thinning  
4 to the flanks. Therefore we feel that this sand body trending  
5 across here also trends across the area of interest; however,  
6 a location at the proposed 2140 -- pardon me, 2140 feet from  
7 the east and 1650 feet from the south of Section 10 is approx-  
8 imately 2000 feet south, which is in the same realm of dis-  
9 tance as the 1800 feet to the three dry holes, which does not  
10 assure that this is a productive location, that there is a  
11 risk factor involved. This is a stratigraphic formation.  
12 The sand is not a continuous sand throughout the basin area.  
13 It is, we feel, locally correlative.

14 Q Would you discuss, please, Mr. Mendenhall,  
15 the -- within this quarter quarter section that you seek to  
16 dedicate to the well, the proportionate ownership within that  
17 quarter quarter?

18 A This is a -- to the south of the river  
19 we own or R. A. Mendenhall Associates owns 60 acres. To the  
20 north of the river Union controls 100 acres. Within the  
21 quarter section with which we are dealing we feel we have  
22 approximately about 38 percent of the lease and Union has the  
23 remaining approximately 62 percent.

24 Q All right, would you now go to the Exhibit  
25 Two and explain that exhibit?

1  
2 A. Exhibit Two is a list of communications  
3 summary between R. A. Mendenhall Associates and Union of  
4 California. Approximately one year ago on September the 4th  
5 a letter after some conversation with Union was created and  
6 requesting from Union a farmout; an answer from them on October  
7 the 2nd, 1980, advised me that their -- my request was turned  
8 down, that they were considering on drilling the particular  
9 farmout acreage which I had requested.

10 The acreage which I had requested at that  
11 time was all of the south half of the northeast quarter of  
12 Section 10, the southeast of the northwest of Section 10,  
13 and that acreage located on the north/northeast side of the  
14 river in the southeast quarter.

15 They drilled then their well, which is  
16 being the No. 1 "AJ" Union, and this well then was completed  
17 in November 11th -- pardon me, November the 7th, 1980, for  
18 75 barrels of oil and 5 barrels of water.

19 Upon completion of that particular well  
20 I then contacted Union of California on 12-24 requesting a  
21 joint operation and that we also acquire the farmout from  
22 adjoining acreage to the west.

23 On April the 2nd, 1981, I received a  
24 letter turning down this joint operations request and also  
25 that the acreage under consideration should also not be con-

1  
2 sidered.

3  
4 On May the 5th, 1981, I made a formal  
5 recommendation to Union that we form a joint drilling operations.  
6 Submitted at that time was an AFE, operating agreement, and  
7 along with a request that they advise me shortly within one  
8 month, and on June the 9th, 1981, I received a letter from  
9 Union advising that the proposal was being evaluated, not  
10 advising whether there was any consideration to drilling or  
11 not drilling.

12 Q From your experience and contacts with  
13 Union, do you see any reason to expect that you'll be able to  
14 reach any sort of agreement with them?

15 A I hope we can but we have not and that  
16 is the reason why I'm here to ask compulsory pooling.

17 Q Okay, refer to what we've marked now as  
18 Exhibit Three and explain that, please.

19 A The AFE which was furnished in the letter  
20 on 5 -- or I should say May the 5th, 1981, is no longer of  
21 value, due to inflation, inflation factors, and the cost of  
22 various drilling requirements, the cost of casing, drilling  
23 prices have gone up, and we have revised this as of August  
24 21st, 1981, to reflect this change.

25 Q And is that, and the change in the AFE,  
is that what Exhibit Three is?

1  
2 A Yes.

3 Q And you're asking to be named as operator.

4 A I am.

5 Q Mr. Mendenhall, do you have a recommenda-  
6 tion to make to the Examiner as to a penalty to be included  
7 in the order which --

8 MR. BUELL: Objection, Your Honor -- Mr.  
9 Examiner, it's outside the scope of the hearing.

10 MR. STAMETS: Your objection is noted.  
11 The witness may answer the question.

12 A The maximum.

13 Q Which will be, are you asking then for  
14 200 percent penalty, as provided for in the New Mexico statutes?

15 A That's correct.

16 Q Do you have a recommendation as to the  
17 amount of administrative overhead to be included in the order?

18 A Yes.

19 MR. BUELL: Objection, Your Honor.

20 MR. STAMETS: Your objection is noted  
21 and the witness may answer the question.

22 A This has been changed from the original  
23 operating agreement submitted on May 5, '81, to \$3350 for a  
24 drilling well and \$350 a month for a producing rate. This  
25 is what I am being subjected to with other operators and also

1  
2 myself in the area, and in Texas.

3 Q In the event that you were not allowed  
4 to drill this well, Mr. Mendenhall, what -- what would be the  
5 results, as far as you're concerned?

6 A The party who owns the acreage would be  
7 deprived of any development on there, which I feel is currently  
8 being drained. I would in the future, although my lease is  
9 good through 8-1-83, would have to expire through the non-  
10 development.

11 Q So it's your testimony, then, that you  
12 feel that you are likely being drained by the situation in  
13 the past, then?

14 A That is correct.

15 Q Were these exhibits prepared by you or  
16 under your supervision?

17 A Yes, they were.

18 Q And in your opinion will the approval  
19 of this application be in the interest of conservation, pre-  
20 vention of waste, and protection of correlative rights?

21 A Yes.

22 Q Do you have anything else to add?

23 A That's it.

24 MR. COFFIELD: Move the admission of  
25 Exhibits One, Two, and Three, Mr. Examiner.



1  
2 MR. STAMETS: These exhibits will be  
3 admitted.

4 Are there any questions of the witness?

5 MR. BUELL: May we have a few minutes  
6 with the surprise today?

7 MR. STAMETS: Yes, you may.

8 MR. BUELL: Please, if I may.

9  
10 CROSS EXAMINATION

11 BY MR. BUELL:

12 Q Mr. Mendenhall, I understood your testi-  
13 mony here today that you thought that the interest in this  
14 quarter section, quarter quarter section, was 62 percent  
15 Union and 38 percent Mendenhall, correct?

16 A Approximately. It will have to be sur-  
17 veyed.

18 Q In your previous offers to strike some  
19 sort of a deal with the Union Oil Company, didn't you feel  
20 that a 70/30 percent split was more equitable?

21 A At that time that was negotiable. We  
22 both had talked over the telephone about this, that there  
23 would have to be a survey to fully define the metes and bounds  
24 that we can find in either survey of the people to the south,  
25 the Hebers (sic) or the Tracys.

Q By the way, what is the date of your lease?

A The date of my lease will expire on 8-1-83.

Q When did you acquire it?

A On 8-1-80.

Q In a letter of December 24th you also represented to Union that you thought it would be split on a 70 percent/30 percent basis, did you not?

A I did, but again with conversation that we all recognized it would have to be surveyed.

Q Have you undertaken the survey?

A No.

Q Then you really aren't asking the Commission to allocate costs in this based upon your testimony today when you don't know who owns what percentage of the acreage?

A I think it should be allocated according to the percent given.

Q 68/32?

A Pardon?

Q 68/32?

A That is what I -- the lease -- what I have looked at recently on a map which I obtained from the

1  
2 Soil Conservation. This is the latest information which I  
3 have, if you'll bear with me for a minute, and you can plani-  
4 meter. I feel it may have changed to approximately 38/62.

5 Q And what's the date of that map?

6 A That I do not know. I just acquired it  
7 from the Soil Conservation and the landowner.

8 Q Would it make any difference in your  
9 opinion as to the differences in ownership that Union acquired  
10 their lease in 1967 for all lands north and east of the Pecos  
11 River?

12 A I believe the -- I'll stand corrected for  
13 this -- but I believe the New Mexico ruling is -- as I said,  
14 I could be corrected on this -- that the river does not --  
15 the movement of the river does not go with property lines.

16 Q That's your legal opinion?

17 A That is what I've been advised.

18 Q And could the river have been in a dif-  
19 ferent location in 1967?

20 A I was not there.

21 Q Have you made any effort to find out the  
22 location of the river in 1967?

23 A No, I have not.

24 MR. BUELL: That's all I have, Mr. Exam-  
25 iner.

## CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Mendenhall, would you propose a survey of the acreage and determination as to the actual percentage of ownership and allocation of well cost based on those percentages?

A I think that's only fair to the mineral owners. I mean, we're going to have -- if the well is productive, as we hope it is, we will have to do that, to be only honest with the mineral owners.

Q You wouldn't wish to pay for more than your share or have Union pay for more than its.

A That's correct.

MR. STAMETS: Any other questions of this witness?

MR. BUELL: No, Mr. Examiner.

MR. STAMETS: He may be excused.

A Thank you.

MR. STAMETS: Do you have any other witnesses, Mr. Coffield?

MR. COFFIELD: No, sir.

MR. STAMETS: Mr. Buell?

1  
2 MR. BUELL: I'll have two witnesses, Mr.  
3 Examiner.

4 I'd like to call Mr. Edward Matchus.

5  
6 EDWARD MATCHUS

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

9  
10 DIRECT EXAMINATION

11 BY MR. BUELL:

12 Q Would you state your name, please?

13 A Edward Matchus, M-A-T-C-H-U-S.

14 Q By whom are you employed, Mr. Matchus?

15 Where and in what capacity?

16 A I'm a Senior Geologist employed in Mid-  
17 land, Texas, by Union Oil Company of California.

18 Q Are you generally familiar with the  
19 Esparanza Delaware Field?

20 A Yes, I am.

21 Q And have you previously testified before  
22 this Commission and had your qualifications as an expert ac-  
23 cepted and made a matter of record?

24 A Yes, I have.

25 MR. BUELL: Are the witness' qualifica-

1  
2 tions acceptable?

3 MR. STAMETS: They are.

4 Q I refer you to what has been marked for  
5 identification as Union's Exhibit Number One. Would you  
6 please explain to the Examiner what that shows?

7 A Union's Exhibit Number One is a map of  
8 the Esparanza Field contoured on the top of a Lower Tracy Sand,  
9 which is Cherry Canyon in age. It is the producing sand in  
10 the Esparanza Field.

11 On this map are shown four wells which  
12 are colored in orange, as was pointed out earlier, three of  
13 these wells, the Tracy, the Pennzoil, and the Federal "AJ",  
14 produce from the Lower Tracy Sand.

15 In Section 11 the Union No. 1 Union  
16 Federal, or Eastland No. 1 Union Federal produces from Cherry  
17 Canyon sands located approximately 300 and 400 feet above the  
18 Tracy Sand producing section. This is illustrated on the  
19 type log section on the left, which shows a producing interval  
20 for the Tracy Sand. The producing interval for the two sec-  
21 tions in the Union Federal Well in Section 11, which are  
22 located 200 to 300 feet above the Tracy Sand, and also to the  
23 southwest in Section 20, an area where three wells are colored  
24 orange. These wells also produce from the Cherry Canyon.  
25 It is called the Carlsbad South Cherry Canyon Field. The

1  
2 producing interval for the Cherry Canyon South -- or Carlsbad  
3 South Cherry Canyon Field is shown on the type log.

4 What is illustrated in the type log here  
5 is the main producing section in Esparanza with the producing  
6 interval for the additional pay developed in Cherry Canyon  
7 section at various depths above -- or various positions above  
8 the Tracy pay.

9 This is a structure contour map based on  
10 the top of the Tracy Sand. It demonstrates the configuration  
11 at the top of the sand. It also shows on the west side of  
12 an area of closure by a dashed line an area where is loss of  
13 permeability and noted on the map are notations where the  
14 sand has shaled out and also where it has been tested either  
15 recovering mud or has recovered water.

16 On the east side of the field in the  
17 southwest southeast of Section 3, Union drilled the Pennzoil  
18 Federal, where core and drill stem tests established water  
19 at a position of -370.

20 To the south in the area of Section 11,  
21 the Eastland No. 1 Union Federal encountered the Tracy Sand  
22 as wet.

23 To the south in Section 15 the Union Oil  
24 No. 1 Forni also found the Tracy Sand to be wet. This is  
25 based on log readings from electric log characteristics.

1  
2 So what I've outlined is a northwest/  
3 southeast trending body of sand. There are permeability  
4 barriers to the west, down dip to the east it is carrying  
5 water.

6 The proposed 40-acre unit, or tract,  
7 rather, that is the subject of this hearing, has a red arrow  
8 pointing to it. It is my belief that the trend of the Tracy  
9 Sand producing interval extends southeast into and over this  
10 40-acre tract.

11 It's my contention that due to the  
12 alignment of the field, the sand developed in a northwest/  
13 southeast trend, that the likelihood of a producing location  
14 on this 40 acres is very good, and I would question the degree  
15 of risk involved. It would be my estimation that this is a  
16 90 percent safe location.

17 There are coinciding factors to point  
18 to that. The northwest/southeast alignment of the sand is  
19 commonly found with a barrier shaling out, thinning of sand,  
20 and so forth, on one side and the down dip side carrying the  
21 water. I do not see any reason why the northwest of the  
22 southeast should not be productive, first of all, from the  
23 Tracy Sand. In addition to that, the area should be consi-  
24 dered as potentially productive as the Union Federal No. 1  
25 is to the east, from the sand in the Cherry Canyon that are



1  
2 productive above the Tracy zone.

3 MR. BUELL: I have no further questions.

4 MR. STAMETS: Are there any other ques-  
5 tions of this witness?

6 MR. COFFIELD: I'm sure we will, Mr.  
7 Examiner, just a minute.

8  
9 CROSS EXAMINATION

10 BY MR. STAMETS:

11 Q Mr. Matchus, did you indicate that you  
12 felt there was a 90 percent chance of getting a well in the --

13 A Success factor, yes. I don't think  
14 there's much risk in drilling a well at that location.

15 Q Is that a 90 percent chance of getting  
16 a commercial well?

17 A From the Tracy Sand, yes, or from, as  
18 we're calling it, Cherry Canyon.

19 I do think we should note that there are  
20 different Cherry Canyon sands that do produce.

21  
22 CROSS EXAMINATION

23 BY MR. COFFIELD:

24 Q All right, Mr. Matchus, if I might ask  
25 you this. Well, first of all, may I ask you, how you reached

1  
2 the 90 percent figure?

3 A On the basis of trend. I assume that  
4 if you had continuation of the same sand body, continuation  
5 of the same datum essentially, what we're talking about is  
6 this -300 line which comes down here from the north/south  
7 direction, I believe that the projection of that 90 percent  
8 line -- not 90 percent, -300 line continues well over the  
9 quarter section in question here, and the degree of success  
10 by my estimation is that it should be very favorable.

11 Q Well, Mr. Matchus, apparently Union had  
12 or has some rather serious problems in joining in the drilling  
13 of this well. If it's such a sure bet, why did Union decide  
14 not to join in the drilling of this well with Mr. Mendenhall?

15 A I cannot answer that. That, I believe,  
16 is management. I would recommend drilling a well. I see no  
17 reason why this location should not have a well.

18 Q Okay. Also here on your exhibit, I be-  
19 lieve, is this the No. 3 Tracy?

20 A Yes.

21 Q Located, let me see where is it --

22 A Southwest southwest of -- I mean south-  
23 west of the southwest.

24 Q And that is completed as a dry hole?

25 A Yes.

Q Why would Union of California drill that well as opposed to going in the direction that Mr. Mendenhall does? I presume -- would it be accurate to say that you assumed it was going to be a successful endeavor?

A No, that well shaled out. The sand itself is -- prior to drilling it, it should -- it was hoped that that would extend the field, but the fact that the non-development of Tracy Sand --

Q So the fact remains that that did turn out to be a surprise, what happened.

A Yes.

Q Would it likewise not be just as possible that the well Mr. Mendenhall proposes could also be a surprise?

A I don't think it could be as much of a surprise as that, no. I think the west sides are your limiting factor. I think if you go south or southeast you're going to be within the reservoir.

And our contours so suggest. Our sand development so suggests.

MR. COFFIELD: No other questions.

RE CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Matchus, are you the geologist who

recommended drilling the Tracy offsets?

A. No, I was not involved in that. I can say that with a smile.

Q. I presume that those were considered pretty good prospects when that well initially was completed?

A. Yes, they were. You'll notice they took a big circle going around there.

Q. That only shows that geologists can be wrong.

A. It does. In fact, that's why we are geologists; you have to look in and try to project what is coming on.

Q. What's the chance of your being wrong with your 90 percent chance of getting a well?

A. I think very little.

MR. STAMETS: Are there any other questions of this witness?

MR. BUELL: Just a few more, Mr. Examiner, if I may.

REDIRECT EXAMINATION

BY MR. BUELL:

Q. The Tracy offsets that people have been talking about, were those drilled earlier than the Tracy 1

1  
2 and 2?

3 A. Some of the, yes, some of the wells were  
4 drilled before that, but the sequence, I'd have to check the  
5 drilling dates as to which one was drilled first, but the  
6 Tracy 1 stimulated thought for developing additional production,  
7 and then the stepouts, Tracy 2, Tracy 3, followed.

8 Q. So do I understand you correctly that  
9 the wells that are shown in orange on this map, along with  
10 the Union No. 1 Forni, are the ones that have demonstrated  
11 this trend and also the Tracy No. 3 demonstrated the shale  
12 closure to the north and west?

13 A. Yes.

14 Q. Were exhibits -- was Exhibit Number One  
15 prepared by you or under your supervision?

16 A. It was prepared by me.

17 MR. BUELL: I move the admission of  
18 Exhibit Number One.

19 MR. STAMETS: Exhibit Number One will be  
20 admitted.

21 The witness may be excused.

22 MR. BUELL: Call Mr. Thompson.  
23  
24  
25

LLOYD F. THOMPSON

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

DIRECT EXAMINATION

BY MR. BUELL:

Q Would you state your name, please, sir?

A Lloyd F. Thompson.

Q And by whom are you employed, where,  
and what capacity?

A Union Oil Company of California, Post  
Office Box 671, Midland, Texas, Zip 79702, and my capacity  
is District Operations Manager.

Q Mr. Thompson, are you generally familiar  
with what Mr. Mendenhall seeks in this Case No. 7334?

A Yes, I am.

Q Have you ever previously testified before  
the Oil Conservation Division or one of its examiners?

A No, I have not.

Q Would you give the Examiner your educa-  
tional background, please?

A Bachelor of Science degree in June, 1950,  
petroleum engineering, University of California at Berkeley.

Q And after your education would you briefly

1  
2 give your work experience?

3 A. After two years in the service I joined  
4 Union Oil Company as a petroleum engineer in the fall of 1953.  
5 I've been employed by Union Oil Company since then.

6 Q And what have been the general nature of  
7 your duties with Union Oil Company?

8 A. Primarily in my early career I was in-  
9 volved in the drilling, completion, production of oil and gas  
10 wells, designing and installation of surface facilities both  
11 on and offshore. Approximately two years of my career as a  
12 reservoir engineer involved with reservoir management.

13 Q And what are your current duties with  
14 Union Oil Company?

15 A. Currently I am in management as the  
16 District Operations Manager for the Midland District, which  
17 entails the west -- rough -- approximately west Texas and the  
18 State of New Mexico with the exception of the northwest  
19 quadrant, Four Corners area.

20 In that capacity I am responsible, under  
21 my direction is the drilling and completion of wells, the --  
22 both exploratory and development; the operation, production  
23 of the wells after their completion, and reservoir management,  
24 reservoir engineering groups report to me.

25 Q Referring you to what has been marked

1  
2 as Exhibit Number Two, would you explain what that is, please?

3 A This is what we refer to as a curiosity  
4 map that I had prepared simply to illustrate some production  
5 figures relative to the wells in the area of the -- of the  
6 questioned compulsory pooling. It basically would corroborate  
7 I would say at this point in time the evidence introduced by --  
8 as far as production rates and completion dates, initial pro-  
9 duction rates, the evidence introduced by Mr. Mendenhall.  
10 I don't really see any point in going into the numbers on  
11 here, do you?

12 Q Would it also corroborate the geology  
13 as drawn by Mr. Matchus?

14 A Well, it does indicate the wells which  
15 were unsuccessful that were drilled early in the life of the  
16 field, that defined the northerly and westerly boundaries of  
17 the pool.

18 I would point out that those wells were  
19 drilled early in the life of the field and in -- in the  
20 1960s. The subsequent development to the south and east have  
21 further refined our knowledge of the reservoir.

22 Q Did you hear Mr. Mendenhall's testimony  
23 as to reasonable drilling costs, or supervision?

24 A Yes, I did.

25 Q Do you recall what that figure was?



1  
2 A I don't recall the figure. I feel that  
3 his supervision figure for a Delaware test is on the high  
4 side. It sounds more like what would be appropriate for  
5 a Pennsylvanian test in this area.

6 Q Was Exhibit Two prepared by you or under  
7 your supervision?

8 A Yes, it was.

9 MR. BUELL: I would move the introduction  
10 of Exhibit Number Two.

11 MR. STAMETS: Exhibit Number Two will be  
12 admitted.

13 MR. BUELL: I have no further questions.

14 A I --

15 Q Did you wish to add something?

16 A Yes. I would like to add that, for the  
17 record, Union Oil Company does not own all of the operating  
18 rights under the quarter section in question north and east  
19 of the Pecos River. We are the operator of the Carlsbad  
20 working interest owner, working interest unit, and as such  
21 have about a 51 percent ownership. We do not, however, pur-  
22 port today to represent the other working interest owners in  
23 this property.

24 MR. STAMETS: That's an interesting  
25 statement, Mr. Thompson.

## CROSS EXAMINATION

BY MR. STAMETS:

Q Does Union have the authority to enter into communitization for the acreage in question?

A Only as to our interest and no, actually, we don't. We would have to have, under the joint operating agreement, as I understand it, and it's just as I am told by my land and legal people, we would have to have 100 percent concurrence of all the working interest owners to voluntarily join in a thing of this nature.

## CROSS EXAMINATION

BY MR. COFFIELD:

Q As a point of clarification on that matter, Mr. Thompson, I think you called it the Carlsbad Unit?

A Carlsbad Working Interest Unit, yes, sir.

Q So it's a working interest unit, it's not an administratively approved unit?

A No, sir. It's a working interest only unit. It's not a State or Federally approved unit.

Q Okay. Then as far as the acreage is concerned, are -- you're not saying that we're incorrect in our information about Union of Cal owning of record, at least,

1  
2 a lease on the acreage in this --

3 A That was, I believe, our contribution  
4 to the working interest owner, to the working interest unit,  
5 yes, sir.

6 However, that's no longer the correct  
7 ownership because of the effect of the working interest unit.

8 Q All right, but as far as you know, that's  
9 a matter, I presume, that as far as you know, Mr. Mendenhall  
10 would have no knowledge of that.

11 Let me put it another way. Did you --  
12 did Union of Cal ever advise Mr. Mendenhall that it had no  
13 authority to speak as the owner of that tract?

14 A I don't have any specific knowledge that  
15 he was informed that the tract was committed to a -- to a  
16 working interest unit. No, I do not.

17 Q Do you --

18 A I don't know that he was not, either.

19 Q Are you familiar with the correspondence  
20 that we submitted as Exhibit Two, I believe, in connection  
21 with Mr. Mendenhall's contacts with Union of Cal?

22 A I have seen correspondence. May I look  
23 at Exhibit Two? In the past. My memory is not all that it  
24 might be.

25 I would call your attention to the letter

1  
2 dated April 2nd, 1981, from a Linda H. Hicks, as part of your  
3 exhibit, in which I will quote: Dear Mr. Mendenhall, Please  
4 be advised that Union Oil Company of California, as operator  
5 of the Carlsbad Working Interest Unit, does not wish to pursue  
6 formation of your proposed joint operating agreement in the  
7 southeast quarter of Section 10, Township 22 South, Range 27  
8 East, Eddy County, New Mexico, as proposed in your letter of  
9 December 24, 1980. Signed by Linda H. Hicks, Landman, land  
10 person.

11 That would seem to me to be a notification  
12 that there was a working interest unit involved.

13 Q You would not interpret that as indicating,  
14 however, that Union of California is speaking only, could  
15 only speak as to itself and not as the unit.

16 A I wouldn't interpret that either way.

17 Q All right. Also, in connection with  
18 your, with your position with the company, Mr. Thompson, are  
19 you, in your management position, are you involved in the  
20 authorization or recommendation as far as drilling or part-  
21 cipating in a project?

22 A Yes, I am.

23 Q Then I will ask you the same question I  
24 asked Mr. Matchus earlier, you heard his testimony and you  
25 would concur, I presume, as to how successful this particular

1  
2 venture is likely to be, that being the case, may I ask you  
3 why you did not desire to join?

4 A. Counselor, is this a subject of this  
5 hearing?

6 MR. BUELL: I don't think it's properly  
7 so. I would object to this as being irrelevant.

8 MR. STAMETS: Mr. Buell, I think, I tend  
9 to agree with you that the why is not important, at least as  
10 to the compulsory pooling, but why could be important as to  
11 the risk factor. If the reason was that Union considered  
12 this a highly risky venture, then that certainly could affect  
13 the risk factors that result, and so I would ask that the  
14 witness respond to the question, if he's able.

15 MR. BUELL: Mr. Examiner, I would withdraw  
16 my objection if the witness were asked the question to address  
17 what you're interested in. What risk factor would he assign  
18 to this well, and leave it at that.

19 MR. STAMETS: Let me ask the question.  
20 Mr. Thompson, did the reason that Union did not choose to  
21 enter into a voluntary agreement to drill the well in this  
22 tract have anything at all to do with the riskiness of the  
23 venture? To your knowledge?

24 A. The decision?

25 MR. STAMETS: Yes.

1  
2 A I think I can honestly say that the  
3 decision not to drill was not based on the riskiness, not to  
4 join the drilling of this well, was not based on our assessment  
5 of the risk of drilling this well. There were other factors  
6 involved.

7 Q Mr. Thompson, you indicated that the  
8 \$3350 overhead charge while drilling was excessive, or you  
9 felt it was excessive. To your knowledge, has Union entered  
10 into any voluntary communitizations for drilling of this type  
11 of wells recently in which the rates would substantiate your  
12 feeling that this figure was high?

13 A My memory and ability to recollect facts  
14 here, Mr. Examiner, are not as good as I would like. This  
15 number strikes me today, the first time I heard it, as more  
16 appropriate for a Pennsylvanian or Morrow test, and more in  
17 line with what my feeling is that we're getting for those  
18 types of tests today, rather than a 4000, 4500 feet Delaware  
19 well.

20 Q In any event, you don't have anything  
21 today --

22 A I don't have anything today to suggest  
23 a lesser number.

24 MR. STAMETS: Are there any other ques-  
25 tions of this witness?

MR. COFFIELD: If the Examiner please,  
just a moment.

## RECROSS EXAMINATION

BY MR. COFFIELD:

Q On the allocation of costs, Mr. Thompson,  
the costs that are stated, aren't those normally prorated  
over the, over the drilling time? For example, as to the figure  
that was mentioned as far as the drilling costs, say it would  
take 15 days to drill the well, isn't that normally 15/30ths?

A I believe that the number was stated as  
a monthly cost and it would be prorated over it, that's cor-  
rect.

MR. STAMETS: Do you have something  
further, Mr. Buell?

MR. BUELL: Yes.

## REDIRECT EXAMINATION

BY MR. BUELL:

Q If you were going to assign a risk  
factor to this well, what would you recommend to the Commis-  
sion to be a proper risk factor?

A I would recommend 25 percent would be  
appropriate in this condition.

1  
2 MR. BUELL: I have nothing else.

3 MR. STAMETS: Let's see, have we received  
4 your exhibits into evidence?

5 MR. BUELL: Yes, sir.

6 MR. STAMETS: Okay. Mr. Coffield, do  
7 you have anything further you wish to put into evidence today?

8 MR. COFFIELD: No.

9 MR. STAMETS: All right. The hearing  
10 today, then, will be taken under advisement. Everyone is  
11 aware of the readvertisement which appears to be necessary,  
12 and what we're going to do then on September 23rd. That  
13 doesn't guarantee what Mr. Buell will do on September 23rd.  
14 I wouldn't be surprised to see him on that date.

15 This case is taken under advisement.

16  
17 (Hearing concluded.)  
18  
19  
20  
21  
22  
23  
24  
25



## C E R T I F I C A T E

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

Sally W. Boyd, C.S.R.

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

\_\_\_\_\_, Examiner  
Oil Conservation Division

R. A. MENDENHALL ASSOCIATES, LTD.

OIL & GAS

SUITE 230 WESTERN UNITED LIFE BUILDING, MIDLAND, TEXAS 79701

915/0835334

COMMUNICATION SUMMARY

9-04-80	RAMAL TO UNION 76	Requested farmout
10-02-80	UNION 76 TO RAMAL	Turn down farmout request
12-24-80	RAMAL TO UNION 76	Requested Joint drilling operations
4-02-81	UNION 76 TO RAMAL	Turn down Joint drilling operations request
5-05-81	RAMAL TO UNION 76	Formal Joint Drilling Operations request (AFE and Operating Agreement submitted)
6-9-81	UNION 76 TO RAMAL	Letter advising that proposal being evaluated

BEFORE EXAMINER STAMETS  
OIL CONSERVATION DIVISION

EXHIBIT NO. 2

CASE NO. 7334

Submitted by R. A. MENDENHALL

Hearing Date Aug 26, 1981

EXHIBIT 2 of 3

September 4, 1980

Union Oil of California  
Midland District  
500 North Marienfeld  
Midland, Texas 79701

Re: Eddy County, New Mexico  
Section 10, Twp 22S, Rge 27E  
(SE/NW, S/2 of NE/4 and that  
Part NE of the Pecos River in  
SE/4)

Gentlemen:

I own an oil and gas lease on the lands located southwest of the Pecos River in the SE/4 of Section 10, Township 22S, Range 27E. This letter is a request for a "Farmout" on your above captioned lands. On or before June, 1981, depending on rig availability, I will cause a well to be drilled at a location of my choice to evaluate the Delaware Sand and Cherry Canyon reservoirs. Each well drilled would earn an eighty-acre proration to the base of the formation drilled. A ninety-day option between each well would be observed to earn 80 acres. If production is established in one or more of the wells drilled, you would retain a 1/16th of 7/8ths override during payout; after payout of all wells drilled (dry holes and producers), you would have an option to convert such override to a 25% working interest.

I would appreciate an early reply so that I may schedule a rig.

Very truly yours,

R. A. MENDENHALL ASSOCIATES, LTD.

*R. A. Mendenhall*  
Original Signed

Richard A. Mendenhall

RAM/lis

Union Oil Company of California  
500 North Marienfeld, Midland, Texas 79701  
P.O. Box 671, Midland, Texas 79702  
Telephone (915) 682-9731

File —  
Esperanza  
Prospect File,  
Eddy Co., NM



Robert V. Lockhart  
District Land Manager  
Midland District

October 2, 1980

R. A. Mendenhall Asso., Ltd.  
Suite 230 - Western United Life Bldg.  
Midland, Texas 79701

Attn: Mr. Richard Mendenhall

Dear Mr. Mendenhall:

Farmout Request  
Carlsbad Prospect (7382)  
Eddy County, New Mexico  
Pt. Lse.'s #77181, 77187, 77385  
Section 10, T-22S, R-27E, (SE/NW, S/2  
of NE/4 and that Part NE of the Pecos  
River in SE/4)

This is to confirm our telephone conversation of yesterday, October 1, 1980, wherein I advised you that Union is presently waiting on a rig to drill a 4500' Delaware test in the NE/4 of Section 10.

We may wish to consider a farmout proposal on the captioned acreage after completion of our proposed test, depending upon its performance.

Yours very truly,

UNION OIL COMPANY OF CALIFORNIA

*Mel C. Jones*  
Mel C. Jones  
Landman

MCJ:tl

December 24, 1980

Union Oil Company of California  
P. O. Box 671  
Midland, Texas 79702

Re: Farmout Request  
Carlsbad Prospect (7382)  
Eddy County, New Mexico  
Pt. Lse.'s #77181, 77187, 77385  
Section 10, T-22S, R-27E, (SE/NW,  
S/2 of NE/4 and that Part NE of  
the Pecos River in SE/4)

Gentlemen:

On September 4, 1980, I submitted to you a request for a farmout on certain Union Oil Company of California (Union) acreage in the subject section; by letter of October 2, 1980, you advised me that Union planned to drill a test well in the NE/4 of said section (which has now been completed as a Delaware test). By this letter it is requested that considerations be given by both Union and myself to 1) acquiring a joint farmout from Coquina Oil Corporation (SW/4 of the captioned Section 10) for a 4000' Delaware Sand test to be located in the NE/4 of the SW/4, and 2) forming a 40-acre drilling unit consisting of joint lands owned in the NW/4 of the SE/4 of Section 10.

It appears by utilizing aerial photographs, topographic maps and a plainimeter that the 100-acre oil and gas lease owned by Union and the 60-acre oil and gas lease owned by myself is as shown on the attached plat.

I recommend to Union that 1) Union and I share in Coquina Oil Corporation farmout, if successfully acquired, on a 50-50 basis, and 2) that we share in the 40-acre drilling unit expense on a basis of 70% to Union and 30% to myself with each retaining and being responsible for its own net revenue obligations.

On subsequent drilling operations in the SE/4 of Section 10, more particularly the S/2 of the SE/4 of Section 10, drilling units could be set up on percentages as shown on the attached map, or if so desired, I would consider swapping Union's 2 acres in the SW/4 of the SE/4 for 2 acres of my lease in the SE/4 of the SE/4, thereby giving a 100% operation of a well, if drilled, in the SW/4 of the SE/4 of Section 10.

Union Oil Company of California  
Page 2  
December 24, 1980

Please review this and advise me of your ideas. I would like to have drilling operations to begin in the first half of year 1981. Drilling title opinions are current through November 7, 1980, on my 60-acre oil and gas lease.

Very truly yours,

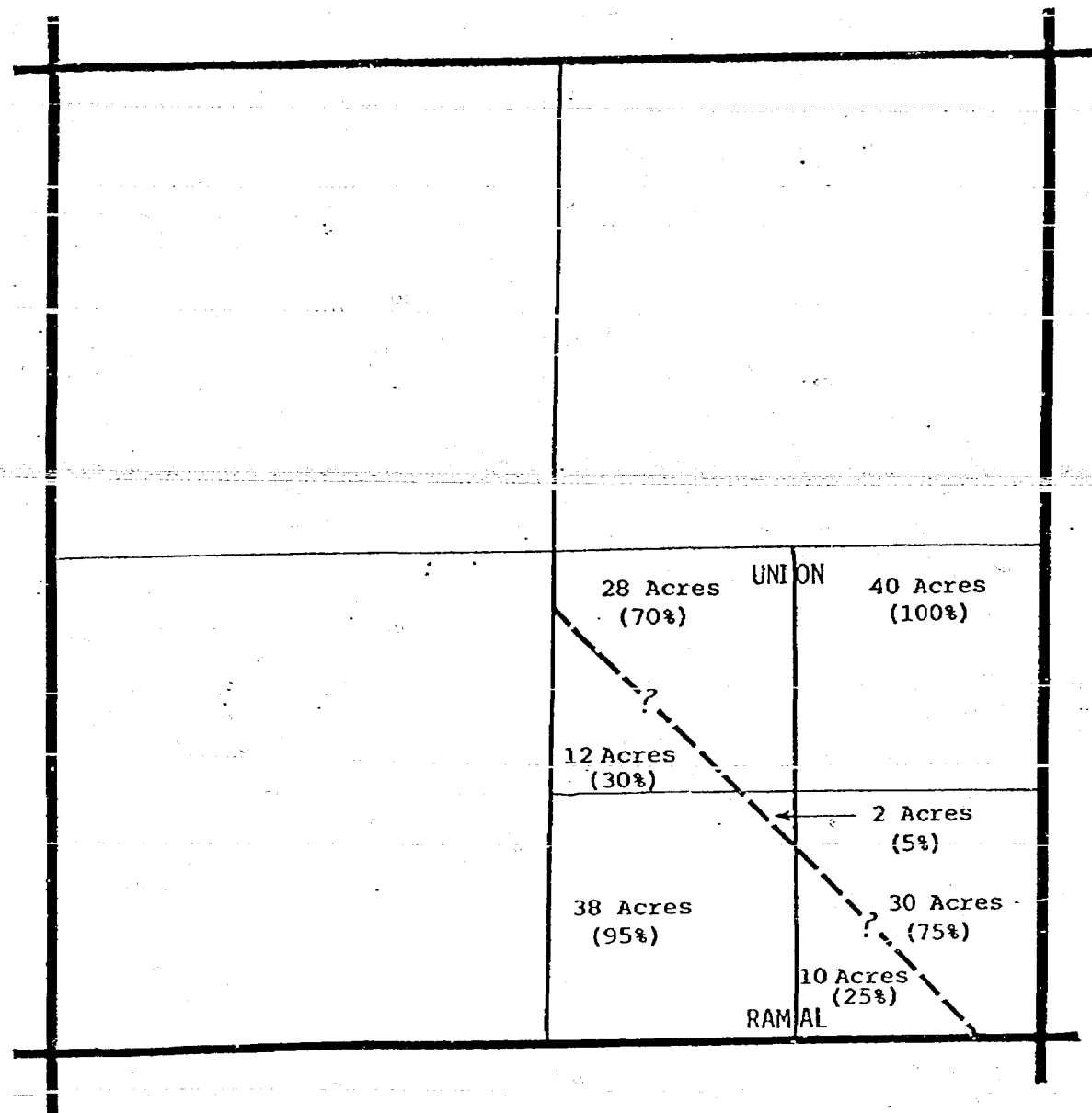
R. A. MENDENHALL ASSOCIATES, LTD.

*R. A. Mendenhall*  
Original Signed

Richard A. Mendenhall

RAM/lis

Attachment



EDDY COUNTY, NEW MEXICO

Sec. 10, Twp 22S, Rge 37E

1" = 1000'

Union Oil Company of California  
500 North Marleneid, Midland, Texas 79701  
P.O. Box 671, Midland, Texas 79702  
Telephone (915) 682-9731



Robert V. Lockhart  
District Land Manager  
Midland District

April 2, 1981

R. A. Mendenhall Associates, Ltd.  
Suite 230 Western United Life Bldg.  
Midland, Texas 79701  
Attention: Mr. Richard Mendenhall

Re: Proposed Joint Operating Agreement  
Carlsbad Prospect (7382)  
SE/4 Sec. 10, T-22-S, R-27-E  
Eddy County, New Mexico

Dear Mr. Mendenhall:

Please be advised that Union Oil Company of California, as Operator of the Carlsbad W.I. Unit, does not wish to pursue formation of your proposed joint operating agreement in the SE/4 of Section 10, T-22-S, R-27-E, Eddy County, New Mexico, as proposed in your letter of December 24, 1980.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script, appearing to read "Linda H. Hicks".

Linda H. Hicks  
Landman

LHH/s



Union Oil Company of California  
500 North Marlenfeld, Midland, Texas 79701  
P.O. Box 671, Midland, Texas 79702  
Telephone (915) 682-9731



Robert V. Lockhart  
District Land Manager  
Midland District

April 2, 1981

Coquina Oil Company  
P.O. Drawer 2960  
Midland, Texas 79702

Attention: Mr. Jim Shaw

Re: Optional Farmout Request  
SW/4 Section 10, T-22-S, R-27-E  
Eddy County, New Mexico

Gentlemen:

Please be advised that Union Oil Company of California does not wish to pursue the farmout request as set forth in our letter dated March 5, 1981.

Thank you for your consideration in this matter.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script, reading "Linda H. Hicks".

Linda H. Hicks  
Landman

LHH/s

cc. Richard Mendenhall

PS Form 3811, Jan. 1979

● SENDER: Complete items 1, 2, and 3.  
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one.)

☒ Show to whom and date delivered..... *led*

☒ Show to whom, date and address of delivery.....

☐ RESTRICTED DELIVERY  
Show to whom and date delivered.....

☐ RESTRICTED DELIVERY.  
Show to whom, date, and address of delivery. \$

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:  
*Union Oil Company of CA*

3. ARTICLE DESCRIPTION:  
REGISTERED NO. CERTIFIED NO. INSURED NO.  
*19724/18*

(Always obtain signature of addressee or agent)

I have received the article described above.  
SIGNATURE ☐ Addressee ☐ Authorized agent  
*C. G. Bailey*

DATE OF DELIVERY

ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

CLERK'S INITIALS  
*ABP*

POSTMARK  
MAY 8 1981

May 5, 1981

Union Oil of California  
P. O. Box 671  
Midland, Texas 79702

Attention: Mr. Robert V. Lockhart

Re: Proposed Well  
R. A. Mendenhall Associates, Ltd.  
#1 Tracy  
1980' FEL & 2310' FSL, Section 10,  
T-22-S, R-27-E, Eddy County,  
New Mexico

Gentlemen:

It is recommended that Union Oil of California and R. A. Mendenhall Associates, Ltd., join in the drilling of the subject well as soon as possible to test the equivalent Esperanza Field pay at an approximate depth of 3425 feet.

The working interest in the 40-acre tract to be assigned to this well is 70% to Union Oil of California and 30% to R. A. Mendenhall Associates, Ltd. Abstract data does not show any metes or bounds for the properties located in the subject area; however, in utilizing topographic maps, aerial photographs and a planimeter, the division and/or interest of property based on 40-acre proration units is as shown on the attached map.

Enclosed please find an AFE for both drilling and completion and an A.A.P.L. Form 610-Model Form Operating Agreement-1977 for your signatures.

Union Oil of California  
Page 2  
May 5, 1981

Acquiring a drilling rig is most difficult, therefore, since time is in essence, please execute and return to the above address one copy of the AFE for drilling, one copy of the AFE for completion and one copy of the Operating Agreement by June 3, 1981.

Very truly yours,

R. A. MENDENHALL ASSOCIATES, LTD.

*R. A. Mendenhall*  
Original Signed

Richard A. Mendenhall

RAM/lis

Enclosures

AUTHORIZATION FOR EXPENDITURE  
DRILLING

OPERATOR R. A. Mendenhall Associates, Ltd. WELL NAME #1 Tracy  
 LOCATION 2310' FSL & 1980' FEL, Section 10, T-22-S, R-27-E  
 CO/PARISH Eddy STATE New Mexico  
 AFE # \_\_\_\_\_ PROSPECT # Esperanza PROPOSED WELL DEPTH 3600'

DESCRIPTION (INTANGIBLES)	ACCT #	DRILLING	ACTUAL
PERMITS & SURVEYING		\$ 500	\$
DIRT WORK, ROADS - PAD - PITS - SURFACE DAMAGE		15,000	
CONTRACT DRILLING 3600 FT @ \$15.00 /FT		54,000	
DAYWORK W/DRILLPIPE 2 DAYS @ \$5500.00 /DAY		11,000	
FUEL		250	
WATER		7,500	
BITS		---	
CASING CREWS & TOOLS		450	
CEMENT & SERVICE - SURFACE SX		3,000	
- INTERMEDIATE SX		---	
- SX		---	
- SX		---	
CORE & ANALYSIS		---	
DRILLING FLUIDS		6,000	
DRILL STEM TEST TEST @ /TEST		3,000	
ELECTRIC LOGS - RUN 1		6,000	
- RUN 2		---	
- RUN 3		---	
- RUN 4		---	
MUD LOGGER DAYS @ \$ /DAY		---	
PIT LINER		1,500	
RENTAL TOOLS		---	
SUPERVISION - ENGINEERING 5 DAYS @ \$300.00 /DAY + EXP		1,500	
SUPERVISION - GEOLOGICAL 5 DAYS @ \$300.00 /DAY + EXP		1,500	
TRUCKING		250	
MISC. LABOR		---	
MISC. & CONTINGENCIES (10%)		10,000	
OVERHEAD		---	
INFLATION FACTOR		---	
TOTAL INTANGIBLE DRILLING COST (1)		\$ 121,450	\$
DESCRIPTION (TANGIBLES)			
CASING HEAD		\$ 1,000	\$
SURFACE CASING 500 FT 8-5/8" SIZE @ \$ /FT		6,200	
INT. CASING FT SIZE @ \$ /FT			
TRUCKING		250	
CATTLEGUARD		1,500	
MISC. & CONTINGENCIES (10%)		600	
INFLATION FACTOR			
TOTAL TANGIBLE DRILLING COST (2)		\$ 9,550	\$
TOTAL DRILLING COST (1 + 2)		\$ 131,000	\$
DESCRIPTION (INTANGIBLE ABANDONMENT)			
CEMENT & SERVICES		\$ 1,000	\$
LOCATION CLEAN UP DAY RIG TIME +		6,000	
MISC. & CONTINGENCIES (10%)		850	
TOTAL INTANGIBLE ABANDONMENT (3)		\$ 7,850	\$
TOTAL DRY HOLE COST (1 + 2 + 3)		\$ 138,850	\$
OWNER	%	PREPARED BY	DATE
		Richard A. Mendenhall	April 30, 1981
		OPERATOR APPROVAL	DATE
		PARTNER INTEREST	DRY HOLE COST
		PARTNER APPROVAL	DATE
		REMARKS:	

AUTHORIZATION FOR EXPENDITURE  
COMPLETION

OPERATOR R. A. Mendenhall Associates, Ltd. WELL NAME #1 Tracy  
 LOCATION 2310' FSL & 1980' FEL, Section 10, T-22-S, R-27-E  
 CO/PARISH Eddy STATE New Mexico  
 AFE # \_\_\_\_\_ PROSPECT # Esperanza PROPOSED WELL DEPTH 3600'

DESCRIPTION (INTANGIBLES)				ACCT #	FLOWING	PUMPING	ACTUAL
DIRT WORK, SURFACE DAMAGES, LEGAL					\$	\$ 7,500	\$
DAYWORK W/DRILLPIPE	1	DAYS @ \$	5,500 /DAY			5,500	
COMPLETION UNIT	5	DAYS @ \$	1,400 /DAY			7,000	
CEMENT & SERVICE - PRODUCTION						3,000	
CASING CREW & TOOLS						1,750	
ELECTRIC LOG						1,500	
PERFORATION						1,250	
ROUSTABOUT LABOR							
STIMULATION	\$	ACID	\$ FRAC			2,500	
SUPERVISION - ENG. DAYS @ \$ /DAY + EXP						3,000	
TRUCKING						1,000	
MISC. & CONTINGENCIES (10%)						2,000	
OVERHEAD						1,100	
RENTAL EQUIPMENT: PACKER, BOP, TEST TANK, ETC.						2,000	
INFLATION FACTOR							
TOTAL INTANGIBLE COMPLETION COST (4)					\$	\$ 39,100	\$
DESCRIPTION (TANGIBLES)							
PRODUCTION CASING	3600	FT	5 1/2" SIZE @ \$ 8.50 /FT		\$	\$ 30,600	\$
		FT	SIZE @ \$ /FT				
		FT	SIZE @ \$ /FT				
		FT	SIZE @ \$ /FT				
		FT	SIZE @ \$ /FT				
PRODUCTION TUBING	3600	FT	2-3/8" SIZE @ \$ 3.35 /FT			12,060	
		FT	SIZE @ \$ /FT				
		FT	SIZE @ \$ /FT				
		FT	SIZE @ \$ /FT				
HANGER ASSEMBLY						1,500	
X-MAS TREE							
PACKER & PRODUCTION ACCESSORIES						4,500	
SUCKER RODS		FT	SIZE @ \$ /FT			7,500	
MISC. & CONTINGENCIES (10%)							
GUYLINE-ANCHOR						400	
INFLATION FACTOR							
TOTAL TANGIBLE COMPLETION COST (5)					\$	\$ 56,560	\$
TOTAL COST THROUGH X-MAS TREE (4+5)					\$	\$ 95,660	\$
OWNER	%	PRODUCTION EQUIPMENT					
		STORAGE TANKS 2-250 Bbl + 1-285 Bbl			\$	\$ 9,000	\$
		WALKWAYS & STAIRWAYS				---	
		SEPARATORS				---	
		DEHYDRATORS				---	
		TREATING EQUIPMENT				5,000	
		METERS & REGULATING EQUIPMENT				---	
		FIELD PIPELINES				6,000	
		LEASING BLDG - DWELLING				---	
		FACILITY INSTALLATIONS				5,000	
		MISC. & CONTINGENCIES (10%)				6,000	
		PUMPING UNIT & ENGINE				32,000	
		HEATER/TREATER				7,000	
		INFLATION FACTOR				---	
TOTAL PRODUCTION EQUIPMENT (6)					\$	\$ 70,000	\$
TOTAL COMPLETION COST (4 + 5 + 6)					\$	\$ 165,660	\$
TOTAL DRILLING & COMPLETION COST (1+2+4+5+6)					\$	\$ 296,660	\$
PREPARED BY		DATE		OPERATOR APPROVAL		DATE	
Richard A. Mendenhall		April 30, 1961					
PARTNER INTEREST		COMPLETION COST		PARTNER APPROVAL		DATE	
REMARKS:							

A.A.P.L. FORM 610 - 1977

# MODEL FORM OPERATING AGREEMENT



Use of this Model Form is prohibited  
except when authorized in writing by the  
Petroleum Association of the United States

## OPERATING AGREEMENT

DATED

May 4, 1981,

OPERATOR R. A. MENDENHALL ASSOCIATES, Ltd.

CONTRACT AREA Covering all wells to be drilled in the SE/4 of

Section 10, T-22-S, R-27-E

COUNTY OR PARISH OF Eddy STATE OF New Mexico

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## TABLE OF CONTENTS

Article	Title	Page
I.	DEFINITIONS	1
II.	EXHIBITS	1
III.	INTERESTS OF PARTIES	2
	A. OIL AND GAS INTERESTS	2
	B. INTEREST OF PARTIES IN COSTS AND PRODUCTION	2
IV.	TITLES	2
	A. TITLE EXAMINATION	2
	B. LOSS OF TITLE	2
	1. Failure of Title	2-3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	OPERATOR	3
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	3
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	DRILLING AND DEVELOPMENT	4
	A. INITIAL WELL	4
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6
	C. RIGHT TO TAKE PRODUCTION IN KIND	6-7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	7
	E. ABANDONMENT OF WELLS	7
	1. Abandonment of Dry Holes	7
	2. Abandonment of Wells that have Produced	7-8
VII.	EXPENDITURES AND LIABILITY OF PARTIES	8
	A. LIABILITY OF PARTIES	8
	B. LIENS AND PAYMENT DEFAULTS	8
	C. PAYMENTS AND ACCOUNTING	8
	D. LIMITATION OF EXPENDITURES	9
	1. Drill or Deepen	9
	2. Rework or Plug Back	9
	3. Other Operations	9
	E. ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	9
	F. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	9-10
	G. TAXES	10
	H. INSURANCE	10
VIII.	ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST	10
	A. SURRENDER OF LEASES	10-11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. ACREAGE OR CASH CONTRIBUTION	11
	D. SUBSEQUENTLY CREATED INTEREST	11-12
	E. MAINTENANCE OF UNIFORM INTEREST	12
	F. WAIVER OF RIGHT TO PARTITION	12
	G. PREFERENTIAL RIGHT TO PURCHASE	12
IX.	INTERNAL REVENUE CODE ELECTION	12-13
X.	CLAIMS AND LAWSUITS	13
XI.	FORCE MAJEURE	13
XII.	NOTICES	13
XIII.	TERM OF AGREEMENT	13-14
XIV.	COMPLIANCE WITH LAWS AND REGULATIONS	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
XV.	OTHER PROVISIONS	14
XVI.	MISCELLANEOUS	15



# OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between R. A. MENDENHALL ASSOCIATES, LTD., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

## ARTICLE I. DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

## ARTICLE II. EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

XX

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

~~E X E C U T I V E S E C R E T A R Y O F T H E A R M Y~~

☐ F X B I / O R G X P E R S O N X D I R E C T O R X A N D X C E R T I F I C A T I O N X o f X N e w X S e c u r e d X P o s i t i o n s

If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.  
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Account~~, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby, and any burdens of record that as of the date of this Agreement may exist against leasehold estate.

ARTICLE IV.  
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished <sup>upon request</sup> to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ ~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

1 or operating costs which it may have theretofore paid, but there shall be no monetary liability on its  
2 part to the other parties hereto for drilling, development, operating or other similar costs by reason of  
3 such title failure; and

4 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the  
5 operation of the interest which has been lost, but the interests of the parties shall be revised on an acre-  
6 age basis, as of the time it is determined finally that title failure has occurred, so that the interest of  
7 the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract  
8 Area by the amount of the interest lost; and

9 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled  
10 on the Contract Area is increased by reason of the title failure, the party whose title has failed shall  
11 receive the proceeds attributable to the increase in such interests (less costs and burdens attributable  
12 thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;  
13 and

14 (d) Should any person not a party to this agreement, who is determined to be the owner of any in-  
15 terest in the title which has failed, pay in any manner any part of the cost of operation, development,  
16 or equipment, such amount shall be paid to the party or parties who bore the costs which are so refund-  
17 ed; and

18 (e) Any liability to account to a third party for prior production of oil and gas which arises by  
19 reason of title failure shall be borne by the party or parties in the same proportions in which they shared  
20 in such prior production; and

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection  
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties  
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.

24  
25 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight,  
26 any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously  
27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against  
28 the party who failed to make such payment. Unless the party who failed to make the required payment  
29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-  
30 ure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of  
31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-  
32 volved, and the party who failed to make proper payment will no longer be credited with an interest in  
33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event  
34 the party who failed to make the required payment shall not have been fully reimbursed, at the time of  
35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an  
36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it  
37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the  
38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following  
39 as is necessary to effect reimbursement:

40 (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost  
41 interest, on an acreage basis, up to the amount of unrecovered costs;

42 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an  
43 acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production  
44 from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable  
45 to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said  
46 portion of the oil and gas to be contributed by the other parties in proportion to their respective in-  
47 terests; and

48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or  
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-  
50 coming a party to this agreement.

51  
52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.  
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties  
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
55 the Contract Area.

## 56 57 ARTICLE V. 58 OPERATOR

### 59 60 A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

61  
62 R. A. MENDENHALL ASSOCIATES, LTD. shall be the  
63 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on  
64 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-  
65 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator  
66 to the other parties for losses sustained or liabilities incurred, except such as may result from gross  
67 negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

As soon as a rig is made available  
On or before the \_\_\_\_\_ day of \_\_\_\_\_, 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

A legal location in the NW/4 of the SE/4 of Section 10, T22S, R27E, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Esperanza Field pay at an approximate depth of 3425'

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

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

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

## B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to ~~forty-eight (48) hours~~ <sup>twenty-four (24) hours</sup>, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.B.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ~~sixty (60) days~~ <sup>thirty (30) days</sup> after the expiration of the notice period of ~~thirty (30) days~~ <sup>thirty (30) days</sup> (or as promptly as possible after the expiration of the ~~forty-eight (48) hour~~ <sup>twenty-four (24) hour</sup> period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within ~~thirty (30) days~~ <sup>twenty-four (24) hours</sup> (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, <sup>completed</sup> reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, <sup>completing</sup> reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) ~~100%~~ <sup>200%</sup> of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) <sup>300</sup> % of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C, and

1 300% of that portion of the cost of newly acquired equipment in the well (to and including the well  
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-  
3 pated therein.

4  
5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's  
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-  
7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from  
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-  
9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not  
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-  
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-  
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13  
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share  
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of  
16 all production, severance, gathering and other taxes, and all royalty, overriding royalty and other  
17 burdens applicable to Non-Consenting Party's share of production.

18  
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall  
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of  
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,  
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the  
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of  
24 salvage.

25  
26 Within sixty (60) days after the completion of any operation under this Article, the party con-  
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-  
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,  
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,  
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed  
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being  
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-  
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the  
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the  
35 amount of proceeds realized from the sale of the well's working interest production during the preceding  
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties  
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any  
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any  
39 such operation which would have been owned by a Non-Consenting Party had it participated therein  
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,  
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;  
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43  
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest  
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-  
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same  
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-  
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,  
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be  
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in  
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52  
53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent  
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well  
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing  
56 well spacing pattern for such source of supply.

57  
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial  
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)  
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall  
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article  
62 VI.A.

#### 63 C. Right to Take Production in Kind:

64  
65 Each party shall have the right to take in kind or separately dispose of its proportionate share of  
66 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-  
67 velopment and producing operations and in preparing and treating oil for marketing purposes and  
68 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-  
69 sition by any party of its proportionate share of the production shall be borne by such party. Any  
70



1 party taking its share of production in kind shall be required to pay for only its proportionate share  
2 of such part of Operator's surface facilities which it uses.

3  
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its  
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled  
6 to receive payment direct from the purchaser thereof for its share of all production.

7  
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately  
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have  
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such  
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking  
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-  
13 erator shall be subject always to the right of the owner of the production to exercise at any time its  
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a  
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for  
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the  
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the  
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's  
19 share of gas production without first giving such other party thirty (30) days notice of such intended  
20 sale prior written

21  
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-  
23 liveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not  
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the  
25 balancing or accounting between the respective accounts of the parties shall be in accordance with  
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as  
27 Exhibit "E", or is a separate Agreement.

28  
29 **D. Access to Contract Area and Information:**

30  
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect  
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-  
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon  
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-  
35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports  
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings  
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to  
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the  
39 information.

40  
41 **E. Abandonment of Wells:**

42  
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well  
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole  
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent  
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours  
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and  
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All  
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,  
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-  
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct  
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

53  
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-  
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-  
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and  
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense  
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment  
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-  
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvageable  
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated  
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall  
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,  
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-  
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the  
67 formation or formations then open to production. If the interest of the abandoning party is or includes  
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an  
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-  
70 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well

## ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

### B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

### C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.



## D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have ~~forty-eight (48) hours~~ <sup>twenty-four (24) hours</sup> (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Ten thousand and no/100-----Dollars (\$ 10,000.00 ) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Ten thousand and no/100-----Dollars (\$ 10,000.00 ).

## E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties ~~XXXXXX~~ <sup>XXXXXXXXXXXXXXXXXXXXXXXXXXXX</sup> due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any ~~XXXXXX~~ <sup>XXXXXX</sup> lessor or royalty owner; and if any such ~~XXXXXX~~ <sup>XXXXXX</sup> lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

## F. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its ~~or~~ <sup>or</sup> their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

1 of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article  
2 IV.B.3.

3  
4 G. Taxes:

5  
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad  
7 valorem taxation all property subject to this agreement which by law should be rendered for such  
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-  
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be  
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-  
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its  
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in  
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold  
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such  
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-  
16 ner provided in Exhibit "C".

17  
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within  
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all  
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative  
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and  
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay  
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then  
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25  
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-  
27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-  
28 duced under the terms of this agreement.

29  
30 H. Insurance:

31  
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's  
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-  
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge  
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have  
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the  
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.  
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the  
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain  
40 such other insurance as Operator may require.

41  
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently  
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for  
44 such insurance for Operator's fully owned automotive equipment.

45  
46 ARTICLE VIII.

47 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

48  
49 A. Surrender of Leases:

50  
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall  
52 not be surrendered in whole or in part unless all parties consent thereto.

53  
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and  
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express  
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and  
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties  
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-  
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas  
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas  
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".  
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,  
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,  
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-  
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties  
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells  
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance  
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plug-  
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

1 be shared by the parties assignee in the proportions that the interest of each bears to the interest of all  
2 parties assignee.

3  
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or  
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract  
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter  
7 be subject to the terms and provisions of this agreement.

8  
9 **B. Renewal or Extension of Leases:**

10  
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties  
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt  
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such  
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper  
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,  
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17  
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it  
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of  
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages  
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23  
24 Each party who participates in the purchase of a renewal lease shall be given an assignment of its  
25 proportionate interest therein by the acquiring party.

26  
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest  
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease  
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after  
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted  
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal  
32 lease and shall not be subject to the provisions of this agreement.

33  
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas  
35 leases.

36  
37 **C. Acreage or Cash Contributions:**

38  
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling  
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who  
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or  
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is  
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling  
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto  
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and  
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and  
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-  
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or  
49 any other operation on the Contract Area.

50  
51 If any party contracts for any consideration relating to disposition of such party's share of substances  
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this  
53 Article VIII.C.

54  
55 **D. Subsequently Created Interest:**

56  
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent  
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-  
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently  
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as  
61 follows:

62  
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the  
64 party conducting such operations becomes entitled to receive the production attributable to the interest  
65 out of which the subsequently created interest is derived, such party shall receive same free and clear  
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently  
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and  
68 all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

#### E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement, however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

#### F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severally its undivided interest therein.

#### G. ~~Preferential Right to Purchase:~~

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

### ARTICLE IX. INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

#### ARTICLE X. CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand and no/100 Dollars (\$ 5,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

#### ARTICLE XI. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

#### ARTICLE XII. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype and addressed to the party to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof to all other parties.

#### ARTICLE XIII. TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subjected hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease, or oil and gas interest contributed by any other party beyond the term of this agreement.

☒ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

1 ☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled  
 2 under any provision of this agreement, results in production of oil and/or gas in paying quantities, this  
 3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-  
 4 tion, and for an additional period of \_\_\_\_\_ days from cessation of all production; provided, however,  
 5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in  
 6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-  
 7 erations have been completed and if production results therefrom, this agreement shall continue in  
 8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well  
 9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil  
 10 and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-  
 11 tions are commenced within \_\_\_\_\_ days from the date of abandonment of said well.

12  
 13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from  
 14 any liability which has accrued or attached prior to the date of such termination.

#### 15 ARTICLE XIV.

#### 16 COMPLIANCE WITH LAWS AND REGULATIONS

##### 17 A. Laws, Regulations and Orders:

18  
 19 This agreement shall be subject to the conservation laws of the state in which the committed  
 20 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of  
 21 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and  
 22 orders.

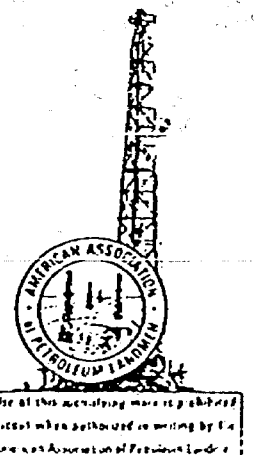
##### 23 B. Governing Law:

24  
 25 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-  
 26 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-  
 27 terpretation or construction, shall be governed and determined by the law of the state in which the  
 28 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most  
 29 of the land in the Contract Area is located shall govern.

#### 30 ARTICLE XV.

#### 31 OTHER PROVISIONS

- 32  
 33 A. If the operator is required hereunder to pay ad valorem taxes based in whole  
 34 or in part upon separate valuations of each party's working interest, then  
 35 notwithstanding anything to the contrary herein, charges to the joint ac-  
 36 count shall be made and paid by the parties hereto in accordance with the  
 37 percentage of tax value generated by each party's working interest.
- 38  
 39 B. When there is no party in default hereunder, and after a period of one(1) year  
 40 from the date of this agreement, should any of the Non-Operators be of the opinion  
 41 that it can operate the Unit Area more economically than Operator, such Non-  
 42 Operators shall give thirty (30) days' written notice to Operator, and subject to  
 43 the requirements set forth hereafter in this Section, on the first day of the  
 44 calendar month following the end of such thirty (30) day period, said Non-Operator  
 45 shall take charge of such operations under the terms of this agreement. Prior to  
 46 such Non-Operator being permitted to exercise such right to assume operations, said  
 47 Non-Operator must agree, in writing, to maintain the average production trend, and  
 48 efficiency rate as had been established by the Operator, and must agree, in  
 49 writing, to immediately reduce operating expenses by not less than ten percent (10%),  
 50 and to continue to operator the Unit Area on such agreed basis. In like manner  
 51 and upon like notice, any then Non-Operator shall have the right to assume  
 52 operations hereunder, providing it receives approval of a total of more than 50%  
 53 in interest of the working interest owners.



ARTICLE XVI.  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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

IN WITNESS WHEREOF, this agreement shall be effective as of 4 day of May, 1981

OPERATOR

R. A. MENDENHALL ASSOCIATES Ltd.,

BY \_\_\_\_\_  
RICHARD A. MENDENHALL, GENERAL PARTNER

NON-OPERATORS

UNION OIL COMPANY OF CALIFORNIA

BY \_\_\_\_\_



THIS AGREEMENT, when signed by the parties hereto, shall be binding upon the parties hereto and their heirs, devisees, legal representatives, successors and assigns.

EXHIBIT "A"

Attached to and made a part of the Operating Agreement by and between R. A. Mendenhall Associates, Ltd., as Operator, and Union Oil Company of California et al., as Operator.

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LANDS AND DEPTHS SUBJECT TO THIS AGREEMENT

All lands which are owned by R. A. Mendenhall Associates, Ltd., and Union Oil Company of California et al. will be committed by each to all Drilling Units located in the SE/4 of Section 10, T-22-S, R-27-E, Eddy County, New Mexico, from surface of the ground to and including all depths down to 100' below the deepest depth drilled which is estimated to be 3425'.

PARTIES TO AGREEMENT, ADDRESS, AND INTERESTS

R. A. Mendenhall Associates, Ltd.  
Suite 230 Western United Life Building  
Midland, Texas 79701

NW/SE 40 acres	30%
SW/SE 40 acres	95%
SE/SE 40 acres	25%

Union Oil Company of California  
P. O. Box 671  
Midland, Texas 79702

NW/SE 40 acres	70%
SW/SE 40 acres	5%
SE/SE 40 acres	75%



## EXHIBIT " C "

Attached to and made a part of Operating Agreement dated May 4, 1981  
between R. A. Mendenhall Associates, Ltd., as Operator, and  
Union Oil Company of California et al., as Non-Operators

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

### 2. Statement and Billings

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

### 3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

### 4. Adjustments

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

### 5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

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

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

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

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

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

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

### 3. Employee Benefits

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

### 4. Material

Council of Petroleum Accountants Societies of North America.

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 Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not ( X ) 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 \$ 2500.00  
Producing Well Rate \$ 275.00

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

**B. Overhead - Percentage Basis**

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

(a) Development

\_\_\_\_\_ Percent ( %) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

\_\_\_\_\_ Percent ( %) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

**2. Overhead - Major Construction**

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

- A. \_\_\_\_\_ % of total costs if such costs are more than \$ \_\_\_\_\_ but less than \$ \_\_\_\_\_; plus  
 B. \_\_\_\_\_ % of total costs in excess of \$ \_\_\_\_\_ but less than \$1,000,000; plus  
 C. \_\_\_\_\_ % of total costs in excess of \$1,000,000. \*To be negotiated if applicable.

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.

outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

## V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be agreed to by Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from Joint Property.

### 1. Material Purchased by the Operator or Non-Operators.

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

### 2. Division in Kind

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator to the Joint Account.

### 3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

## VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless agreed to by Operator and Non-Operators shall be priced on the following basis:

### 1. New Price Defined

New price as used in this Section VI shall be the price specified for new Material in Section IV.

### 2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

### 3. Good Used Material

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

- A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
- B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five per cent (75%) of new price.

### 4. Other Used Material

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

- A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
- B. Is serviceable for original function but not suitable for reconditioning.

### 5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

### 6. Junk Material

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

### 7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

## VII. 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 inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operators 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 Operator and Non-Operators.

EXHIBIT "D"

INSURANCE

Attached to and made a part of that Operating Agreement dated May 4, 1981, between R. A. Mendenhall Associated, Ltd., as Operator, and Union Oil Company of California et al., as Non-Operators.

---

Operator shall carry for the benefit and the expense of the Joint Account insurance with responsible insurance carrier as follows:

1. Workman's Compensation and Employer's Liability Insurance as may be required by the laws of the State in which premises are located.
2. General Public Liability and Property Damage Insurance with limits of not less than \$250,000 covering injury to or death of one person, and not less than \$500,000 covering injury to or death of more than one person by reason of one accident, and not less than \$100,000 covering accidental loss of or damage to property of third person.
3. Automobile Public Liability and Property Damage Insurance with limits of not less than \$250,000 covering injury to or death of one person, and \$500,000 covering injury to or death of more than one person by reason of one accident and not less than \$100,000 covering damage to property of third persons.



Union Oil Company of California  
500 North Mariefeld, Midland, Texas 79701  
P.O. Box 671, Midland, Texas 79702  
Telephone (915) 682-9731



Robert V. Lockhart  
District Land Manager  
Midland District

June 9, 1981

Mr. R. A. Mendenhall  
R. A. Mendenhall Associates, Ltd.  
Suite 230  
Western United Life Building  
Midland, Texas 79701

Re: Proposed #1 Tracy  
1980' FEL & 2310' FSL, Sec. 10  
T-22-S, R-27-E, Eddy County, New Mexico  
Carlsbad Prospect (7382)

Dear Mr. Mendenhall:

This will acknowledge receipt of your letter dated May 5, 1981, proposing the drilling of the above referenced well.

Please be advised that your proposal is presently being evaluated and we will be back to you as soon as possible.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script that reads "Linda H. Hicks".

Linda H. Hicks  
Landman

LHH/s

Received 6/10/81



**AUTHORIZATION FOR EXPENDITURE  
DRILLING**

OPERATOR R. A. Mendenhall Associates, Ltd. WELL NAME #1 Tracy  
 LOCATION 1650' FSL & 2140' FEL, Section 10, T-22-S, R-27-E  
 CO/PARISH Eddy STATE New Mexico  
 AFE # \_\_\_\_\_ PROSPECT # Esperanza PROPOSED WELL DEPTH 3600'

DESCRIPTION (INTANGIBLES)	ACCT #	DRILLING	ACTUAL
PERMITS & SURVEYING		\$ 550	\$
DIRT WORK, ROADS - PAD - PITS - SURFACE DAMAGE		16,000	
CONTRACT DRILLING FT. @ \$ 16.50 /FT		59,400	
DAYWORK W/DRILLPIPE DAYS @ \$5900.00 /DAY		11,600	
FUEL		250	
WATER		7,500	
BITS			
CASING CREWS & TOOLS		500	
CEMENT & SERVICE - SURFACE SX		3,500	
- INTERMEDIATE SX			
- SX			
- SX			
CORE & ANALYSIS			
DRILLING FLUIDS		7,000	
DRILL STEM TEST TEST @ \$3000.00 /TEST		3,000	
ELECTRIC LOGS - RUN 1		7,300	
- RUN 2			
- RUN 3			
- RUN 4			
MUD LOGGER DAYS @ \$ /DAY			
PISTON LINER		1,500	
RENTAL TOOLS			
SUPERVISION - ENGINEERING 5 DAYS @ \$ 350.00/DAY + EXP		1,750	
SUPERVISION - GEOLOGICAL 5 DAYS @ \$ 350.00/DAY + EXP		1,750	
TRUCKING		500	
MISC. LABOR			
MISC. & CONTINGENCIES (10%)		12,200	
OVERHEAD		1,200	
INFLATION FACTOR			
<b>TOTAL INTANGIBLE DRILLING COST (1)</b>		<b>\$ 135,500</b>	<b>\$</b>
DESCRIPTION (TANGIBLES)			
CASING HEAD		\$ 1,250	\$
SURFACE CASING 500 FT 8-5/8" SIZE @ \$ 13.50/FT		6,750	
INT. CASING FT SIZE @ \$ /FT		250	
TRUCKING		1,750	
MISC. & CONTINGENCIES (10%)			
INFLATION FACTOR			
<b>TOTAL TANGIBLE DRILLING COST (2)</b>		<b>\$ 10,000</b>	<b>\$</b>
<b>TOTAL DRILLING COST (1 + 2)</b>		<b>\$ 145,500</b>	<b>\$</b>
DESCRIPTION (INTANGIBLE ABANDONMENT)			
CEMENT & SERVICES		\$ 3,000	\$
LOCATION CLEAN UP DAY RIG TIME +		6,000	
MISC. & CONTINGENCIES (10%)		1,000	
<b>TOTAL INTANGIBLE ABANDONMENT (3)</b>		<b>\$ 10,000</b>	<b>\$</b>
<b>TOTAL DRY HOLE COST (1 + 2 + 3)</b>		<b>\$ 155,500</b>	<b>\$</b>

OWNER	PREPARED BY	DATE	
	Richard Mendenhall	August 21, 1981	
	OPERATOR APPROVAL	DATE	
	<div style="border: 1px solid black; padding: 5px; text-align: center;"> <b>BEFORE EXAMINER STAMETS</b>  <b>OIL CONSERVATION DIVISION</b>            EXHIBIT NO. <u>3</u> </div>		
	PARTNER INTEREST	7334	DRY HOLE COST
	Submitted by <u>R. A. Mendenhall</u>		
	PARTNER APPROVAL	DATE	
	Hearing Date <u>Aug 26 1981</u>		
REMARKS:			
EXHIBIT 3 of 3			

**AUTHORIZATION FOR EXPENDITURE  
COMPLETION**

OPERATOR R. A. Mendenhall Associates, Ltd. WELL NAME #1 Tracy  
 LOCATION 1650' FSL & 2140' FEL, Section 10, T-22-S, R-27-E  
 CO/PARISH Eddy STATE New Mexico  
 AFE # \_\_\_\_\_ PROSPECT # Esperanza PROPOSED WELL DEPTH 3600'

DESCRIPTION (INTANGIBLES)		ACCT #	FLOWING	PUMPING	ACTUAL
DIRT WORK, SURFACE DAMAGES, LEGAL			\$	\$ 8,000	\$
DAYWORK W/DRILLPIPE	1 DAYS @ \$ 5800.00 /DAY			5,800	
COMPLETION UNIT	5 DAYS @ \$ 1500.00 /DAY			7,500	
CEMENT & SERVICE - PRODUCTION				4,000	
CASING CREW & TOOLS				2,250	
ELECTRIC LOG				1,500	
PERFORATION				1,500	
ROUSTABOUT LABOR					
STIMULATION	\$ ACID \$ FRAC			3,000	
SUPERVISION - ENG. 10 DAYS @ \$350.00/DAY + EXP				3,500	
TRUCKING				1,000	
MISC. & CONTINGENCIES (10%)				4,000	
OVERHEAD				1,200	
RENTAL EQUIPMENT: PACKER, BOP, TEST TANK, ETC.				2,500	
INFLATION FACTOR					
TOTAL INTANGIBLE COMPLETION COST (4)			\$	\$ 45,750	\$
DESCRIPTION (TANGIBLES)					
PRODUCTION CASING	3600 FT 5 1/2" SIZE @ \$ 9.95 /FT		\$	\$ 35,820	\$
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
PRODUCTION TUBING	3600 FT 2-3/8" SIZE @ \$ 4.20 /FT			15,120	
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
HANGER ASSEMBLY				1,750	
X-MAS TREE					
PACKER & PRODUCTION ACCESSORIES				5,000	
SUCKER RODS	3500 FT SIZE @ \$ 2.15 /FT			7,500	
MISC. & CONTINGENCIES (10%)				6,500	
GUYLINE-ANCHOR				400	
INFLATION FACTOR					
TOTAL TANGIBLE COMPLETION COST (5)			\$	\$ 72,090	\$
TOTAL COST THROUGH X-MAS TREE (4+5)			\$	\$ 117,840	\$
OWNER	%	PRODUCTION EQUIPMENT			
		STORAGE TANKS 2-250 Bbl + 1 285 Bbl		\$	\$ 11,850
		WALKWAYS & STAIRWAYS			---
		SEPARATORS			---
		DEHYDRATORS			---
		TREATING EQUIPMENT			5,000
		METERS & REGULATING EQUIPMENT			---
		FIELD PIPELINES			6,000
		LEASING BLDG - DWELLING			---
		FACILITY INSTALLATIONS			5,000
		MISC. & CONTINGENCIES (10%)			6,000
		PUMPING UNIT & ENGINE			32,000
		HEATER/TREATER			7,000
		INFLATION FACTOR			---
TOTAL PRODUCTION EQUIPMENT (6)			\$	\$ 72,850	\$
TOTAL COMPLETION COST (4 + 5 + 6)			\$	\$ 190,690	\$
TOTAL DRILLING & COMPLETION COST (1+2+4+5+6)			\$	\$ 336,190	\$
PREPARED BY		DATE	OPERATOR APPROVAL		DATE
Richard A. Mendenhall		August 21, 1981			
PARTNER INTEREST		COMPLETION COST	PARTNER APPROVAL		DATE
REMARKS:					

R. A. MENDENHALL ASSOCIATES, LTD.

OIL & GAS

SUITE 230 WESTERN UNITED LIFE BUILDING, MIDLAND, TEXAS 79701

915/683-5334

COMMUNICATION SUMMARY

9-04-80	RAMAL TO UNION 76	Requested farmout
10-02-80	UNION 76 TO RAMAL	Turn down farmout request
12-24-80	RAMAL TO UNION 76	Requested Joint drilling operations
4-02-81	UNION 76 TO RAMAL	Turn down Joint drilling operations request
5-05-81	RAMAL TO UNION 76	Formal Joint Drilling Operations request (AFE and Operating Agreement submitted)
6-9-81	UNION 76 TO RAMAL	Letter advising that proposal being evaluated

BEFORE EXAMINER STAMETS  
OIL CONSERVATION DIVISION  
EXHIBIT NO. 2

CASE NO. 7334

Submitted by R. A. MENDENHALL

Hearing Date Aug 26, 1981  
EXHIBIT 2 of 3

September 4, 1980

Union Oil of California  
Midland District  
500 North Marienfeld  
Midland, Texas 79701

Re: Eddy County, New Mexico  
Section 10, Twp 22S, Rge 27E  
(SE/NW, S/2 of NE/4 and that  
Part NE of the Pecos River in  
SE/4)

Gentlemen:

I own an oil and gas lease on the lands located southwest of the Pecos River in the SE/4 of Section 10, Township 22S, Range 27E. This letter is a request for a "Farmout" on your above captioned lands. On or before June, 1981, depending on rig availability, I will cause a well to be drilled at a location of my choice to evaluate the Delaware Sand and Cherry Canyon reservoirs. Each well drilled would earn an eighty-acre proration to the base of the formation drilled. A ninety-day option between each well would be observed to earn 80 acres. If production is established in one or more of the wells drilled, you would retain a 1/16th of 7/8ths override during payout; after payout of all wells drilled (dry holes and producers), you would have an option to convert such override to a 25% working interest.

I would appreciate an early reply so that I may schedule a rig.

Very truly yours,

R. A. MENDENHALL ASSOCIATES, LTD.

*R. A. Mendenhall*  
Original Signed

Richard A. Mendenhall

RAM/lis

Union Oil Company of California  
500 North Marienfeld, Midland, Texas 79701  
P.O. Box 671, Midland, Texas 79702  
Telephone (915) 682-9731

FILE —  
Esperanza  
Prospect File,  
Eddy Co., NM



Robert V. Lockhart  
District Land Manager  
Midland District

October 2, 1980

R. A. Mendenhall Asso., Ltd.  
Suite 230 - Western United Life Bldg.  
Midland, Texas 79701

Attn: Mr. Richard Mendenhall

Dear Mr. Mendenhall:

Farmout Request  
Carlsbad Prospect (7382)  
Eddy County, New Mexico  
Pt. Lse.'s #77181, 77187, 77385  
Section 10, T-22S, R-27E, (SE/NW, S/2  
of NE/4 and that Part NE of the Pecos  
River in SE/4)

This is to confirm our telephone conversation of yesterday, October 1, 1980, wherein I advised you that Union is presently waiting on a rig to drill a 4500' Delaware test in the NE/4 of Section 10.

We may wish to consider a farmout proposal on the captioned acreage after completion of our proposed test, depending upon its performance.

Yours very truly,

UNION OIL COMPANY OF CALIFORNIA

*Mel C. Jones*  
Mel C. Jones  
Landman

MCJ:ib

December 24, 1980

Union Oil Company of California  
P. O. Box 671  
Midland, Texas 79702

Re: Farmout Request  
Carlsbad Prospect (7382)  
Eddy County, New Mexico  
Pt. Lse.'s #77181, 77187, 77385  
Section 10, T-22S, R-27E, (SE/4, NW/4,  
S/2 of NE/4 and that Part NE of  
the Pecos River in SE/4)

Gentlemen:

On September 4, 1980, I submitted to you a request for a farmout on certain Union Oil Company of California (Union) acreage in the subject section; by letter of October 2, 1980, you advised me that Union planned to drill a test well in the NE/4 of said section (which has now been completed as a Delaware test). By this letter it is requested that considerations be given by both Union and myself to 1) acquiring a joint farmout from Coquina Oil Corporation (SW/4 of the captioned Section 10) for a 4000' Delaware Sand test to be located in the NE/4 of the SW/4, and 2) forming a 40-acre drilling unit consisting of joint lands owned in the NW/4 of the SE/4 of Section 10.

It appears by utilizing aerial photographs, topographic maps and a plainimeter that the 100-acre oil and gas lease owned by Union and the 60-acre oil and gas lease owned by myself is as shown on the attached plat.

I recommend to Union that 1) Union and I share in Coquina Oil Corporation farmout, if successfully acquired, on a 50-50 basis, and 2) that we share in the 40-acre drilling unit expense on a basis of 70% to Union and 30% to myself with each retaining and being responsible for its own net revenue obligations.

On subsequent drilling operations in the SE/4 of Section 10, more particularly the S/2 of the SE/4 of Section 10, drilling units could be set up on percentages as shown on the attached map, or if so desired, I would consider swapping Union's 2 acres in the SW/4 of the SE/4 for 2 acres of my lease in the SE/4 of the SE/4, thereby giving a 100% operation of a well, if drilled, in the SW/4 of the SE/4 of Section 10.

Union Oil Company of California  
Page 2  
December 24, 1980

Please review this and advise me of your ideas. I would like to have drilling operations to begin in the first half of year 1981. Drilling title opinions are current through November 7, 1980, on my 60-acre oil and gas lease.

Very truly yours,

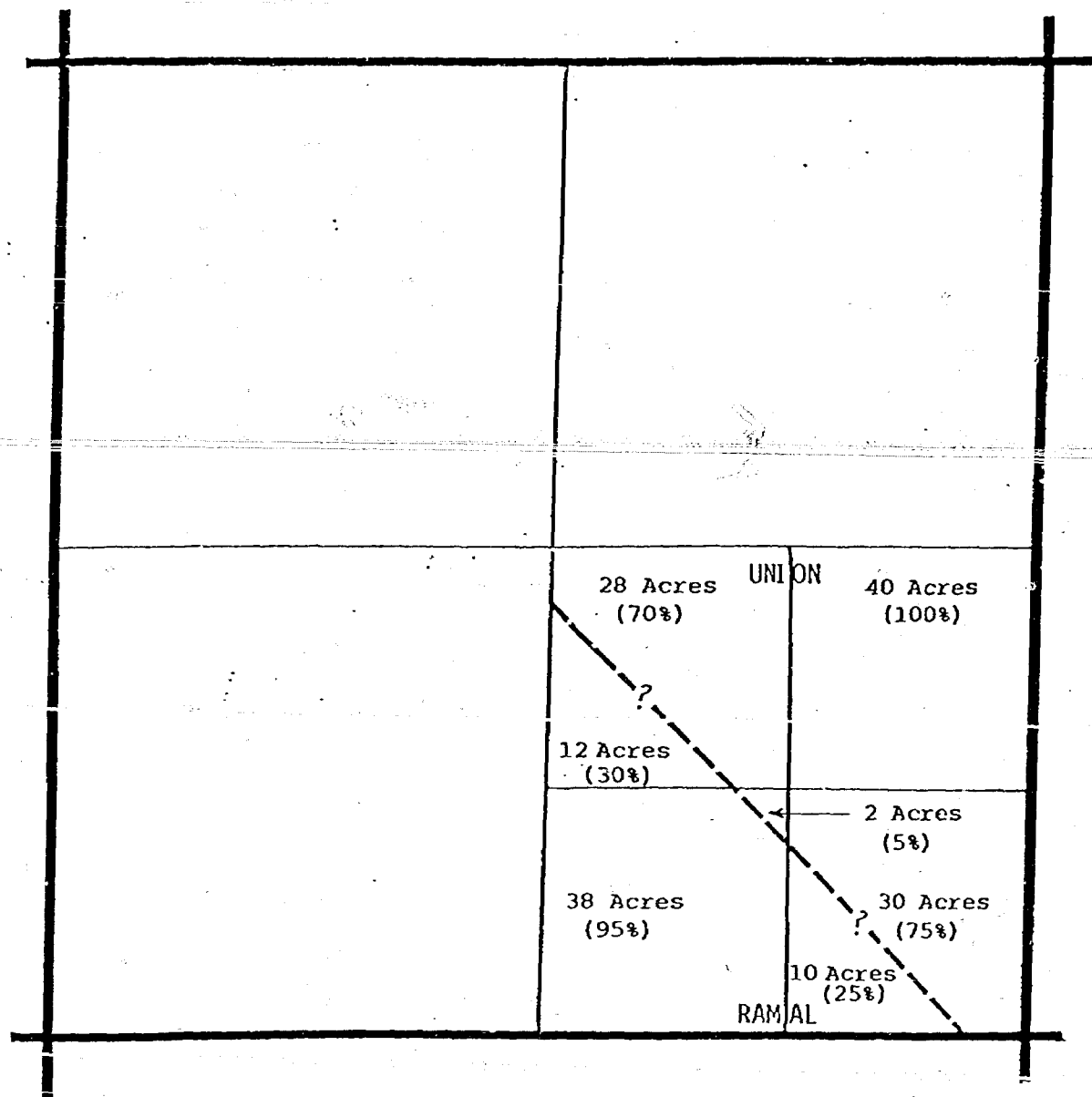
R. A. MENDENHALL ASSOCIATES, LTD.

*R. A. Mendenhall*  
Original Signed

Richard A. Mendenhall

RAM/lis

Attachment



EDDY COUNTY, NEW MEXICO

Sec. 10, Twp 22S, Rge 37E

1" = 1000'



Union Oil Company of California  
500 North Mariefeld, Midland, Texas 79701  
P.O. Box 671, Midland, Texas 79702  
Telephone (915) 682-9731



Robert V. Lockhart  
District Land Manager  
Midland District

April 2, 1981

R. A. Mendenhall Associates, Ltd.  
Suite 230 Western United Life Bldg.  
Midland, Texas 79701  
Attention: Mr. Richard Mendenhall

Re: Proposed Joint Operating Agreement  
Carlsbad Prospect (7382)  
SE/4 Sec. 10, T-22-S, R-27-E  
Eddy County, New Mexico

Dear Mr. Mendenhall:

Please be advised that Union Oil Company of California, as Operator of the Carlsbad W.I. Unit, does not wish to pursue formation of your proposed joint operating agreement in the SE/4 of Section 10, T-22-S, R-27-E, Eddy County, New Mexico, as proposed in your letter of December 24, 1980.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script that reads "Linda H. Hicks".

Linda H. Hicks  
Landman

LHH/s

Union Oil Company of California  
500 North Marienfeld, Midland, Texas 79701  
P.O. Box 671, Midland, Texas 79702  
Telephone (915) 682-9731



Robert V. Lockhart  
District Land Manager  
Midland District

April 2, 1981

Coquina Oil Company  
P.O. Drawer 2960  
Midland, Texas 79702

Attention: Mr. Jim Shaw

Re: Optional Farmout Request  
SW/4 Section 10, T-22-S, R-27-E  
Eddy County, New Mexico

Gentlemen:

Please be advised that Union Oil Company of California does not wish to pursue the farmout request as set forth in our letter dated March 5, 1981.

Thank you for your consideration in this matter.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script that reads "Linda H. Hicks".

Linda H. Hicks  
Landman

LHH/s

A handwritten signature in cursive script that reads "Richard Marshall".

PS Form 3811, Jan. 1979

RETURN, RECEIPT, REGISTERED, INSURED, CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3.  
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one.)  
☒ Show to whom and date delivered..... *led*  
☒ Show to whom, date and address of delivery.....  
☐ RESTRICTED DELIVERY  
Show to whom and date delivered.....  
☐ RESTRICTED DELIVERY.  
Show to whom, date, and address of delivery.....  
(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:  
*Union Oil Company of CA*

3. ARTICLE DESCRIPTION:  
REGISTERED NO. CERTIFIED NO. INSURED NO.  
*1972/11*  
(Always obtain signature of addressee or agent)

I have received the article described above.  
SIGNATURE ☐ Addressee ☐ Authorized agent  
*C. G. Bailey*  
DATE OF DELIVERY  
ADDRESS (Complete only if requested)  
CLERK'S INITIALS  
*BA*

4. UNABLE TO DELIVER BECAUSE:

POSTMARK  
MAY 8 1981

May 5, 1981

Union Oil of California  
P. O. Box 671  
Midland, Texas 79702

Attention: Mr. Robert V. Lockhart

Re: Proposed Well  
R. A. Mendenhall Associates, Ltd.  
#1 Tracy  
1980' FEL & 2310' FSL, Section 10,  
T-22-S, R-27-E, Eddy County,  
New Mexico

Gentlemen:

It is recommended that Union Oil of California and R. A. Mendenhall Associates, Ltd., join in the drilling of the subject well as soon as possible to test the equivalent Esperanza Field pay at an approximate depth of 3425 feet.

The working interest in the 40-acre tract to be assigned to this well is 70% to Union Oil of California and 30% to R. A. Mendenhall Associates, Ltd. Abstract data does not show any metes or bounds for the properties located in the subject area; however, in utilizing topographic maps, aerial photographs and a planimeter, the division and/or interest of property based on 40-acre proration units is as shown on the attached map.

Enclosed please find an AFE for both drilling and completion and an A.A.F.L. Form 610-Model Form Operating Agreement-1977 for your signatures.

Union Oil of California

Page 2

May 5, 1981

Acquiring a drilling rig is most difficult, therefore, since time is in essence, please execute and return to the above address one copy of the AFE for drilling, one copy of the AFE for completion and one copy of the Operating Agreement by June 3, 1981.

Very truly yours,

R. A. MENDENHALL ASSOCIATES, LTD.

*R. A. Mendenhall*  
Original Signed

Richard A. Mendenhall

RAM/lis

Enclosures

AUTHORIZATION FOR EXPENDITURE  
DRILLING

OPERATOR R. A. Mendenhall Associates, Ltd. WELL NAME #1 Tracy

LOCATION 2310' FSL & 1980' FEL, Section 10, T-22-S, R-27-E

CO/PARISH Eddy STATE New Mexico

ACCT # \_\_\_\_\_ PROSPECT # Esperanza PROPOSED WELL DEPTH 3600'

DESCRIPTION (INTANGIBLES)	ACCT #	DRILLING	ACTUAL
PERMITS & SURVEYING		\$ 500	\$
DIRT WORK, ROADS - PAD - PITS - SURFACE DAMAGE		15,000	
CONTRACT DRILLING 3600 FT @ \$15.00 /FT		54,000	
DAYWORK W/DRILLPIPE 2 DAYS @ \$5500.00 /DAY		11,000	
FUEL		250	
WATER		7,500	
BITS			
CASING CREWS & TOOLS		450	
CEMENT & SERVICE - SURFACE SX		3,000	
- INTERMEDIATE SX			
- SX			
- SX			
CORE & ANALYSIS			
DRILLING FLUIDS		6,000	
DRILL STEM TEST TEST @ /TEST		3,000	
ELECTRIC LOGS - RUN 1		6,000	
- RUN 2			
- RUN 3			
- RUN 4			
MUD LOGGER DAYS @ \$ /DAY			
EXP. BANDER		1,500	
RENTAL TOOLS			
SUPERVISION - ENGINEERING 5 DAYS @ \$300.00 /DAY + EXP		1,500	
SUPERVISION - GEOLOGICAL 5 DAYS @ \$300.00 /DAY + EXP		1,500	
TRUCKING		250	
MISC. LABOR			
MISC. & CONTINGENCIES (10%)		10,000	
OVERHEAD			
INFLATION FACTOR			
TOTAL INTANGIBLE DRILLING COST (1)		\$ 121,450	\$
DESCRIPTION (TANGIBLES)			
CASING HEAD		\$ 1,000	\$
SURFACE CASING 500 FT 8-5/8" SIZE @ \$ /FT		6,200	
INT. CASING FT SIZE @ \$ /FT			
TRUCKING		250	
CATTLEGUARD		1,500	
MISC. & CONTINGENCIES (10%)		600	
INFLATION FACTOR			
TOTAL TANGIBLE DRILLING COST (2)		\$ 9,550	\$
TOTAL DRILLING COST (1 + 2)		\$ 131,000	\$
DESCRIPTION (INTANGIBLE ABANDONMENT)			
CEMENT & SERVICES		\$ 1,000	\$
LOCATION CLEAN UP DAY RIG TIME +		6,000	
MISC. & CONTINGENCIES (10%)		850	
TOTAL INTANGIBLE ABANDONMENT (3)		\$ 7,850	\$
TOTAL DRY HOLE COST (1 + 2 + 3)		\$ 138,850	\$
OWNER	%	PREPARED BY	DATE
		Richard A. Mendenhall	April 30, 1981
		OPERATOR APPROVAL	DATE
		PARTNER INTEREST	DRY HOLE COST
		PARTNER APPROVAL	DATE
		REMARKS:	

**AUTHORIZATION FOR EXPENDITURE  
COMPLETION**

OPERATOR R. A. Mendenhall Associates, Ltd. WELL NAME #1 Tracy  
 LOCATION 2310' FSL & 1980' FEL, Section 10, T-22-S, R-27-E  
 CO/PARISH Eddy STATE New Mexico  
 AFE # \_\_\_\_\_ PROSPECT # Esperanza PROPOSED WELL DEPTH 3600'

DESCRIPTION (INTANGIBLES)		ACCT #	FLOWING	PUMPING	ACTUAL
DIRT WORK, SURFACE DAMAGES, LEGAL			\$	\$ 7,500	\$
DAYWORK W/DRILLPIPE	1 DAYS @ \$ 5,500 /DAY			5,500	
COMPLETION UNIT	5 DAYS @ \$ 1,400 /DAY			7,000	
CEMENT & SERVICE - PRODUCTION		SX		3,000	
CASING CREW & TOOLS				1,750	
ELECTRIC LOG				1,500	
PERFORATION				1,250	
ROUSTABOUT LABOR					
STIMULATION	\$ ACID \$ FRAC			2,500	
SUPERVISION - ENG. DAYS @ \$ /DAY + EXP				3,000	
TRUCKING				1,000	
MISC. & CONTINGENCIES (10%)				2,000	
OVERHEAD				1,100	
RENTAL EQUIPMENT: PACKER, BOP, TEST TANK, ETC.				2,000	
INFLATION FACTOR					
TOTAL INTANGIBLE COMPLETION COST (4)			\$	\$ 39,100	\$
DESCRIPTION (TANGIBLES)					
PRODUCTION CASING	3600 FT 5 1/2" SIZE @ \$ 8.50 /FT		\$	\$ 30,600	\$
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
PRODUCTION TUBING	3600 FT 2-3/8" SIZE @ \$ 3.35 /FT			12,060	
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
HANGER ASSEMBLY				1,500	
X-MAS TREE					
PACKER & PRODUCTION ACCESSORIES				4,500	
SUCKER RODS	FT SIZE @ \$ /FT			7,500	
MISC. & CONTINGENCIES (10%)					
GUYLINE-ANCHOR				400	
INFLATION FACTOR					
TOTAL TANGIBLE COMPLETION COST (5)			\$	\$ 56,560	\$
TOTAL COST THROUGH X-MAS TREE (4+5)			\$	\$ 95,660	\$
OWNER	%	PRODUCTION EQUIPMENT			
		STORAGE TANKS 2-250 Bbl + 1-285 Bbl	\$	\$ 9,000	\$
		WALKWAYS & STAIRWAYS		---	
		SEPARATORS		---	
		DEHYDRATORS		---	
		TREATING EQUIPMENT		5,000	
		METERS & REGULATING EQUIPMENT		---	
		FIELD PIPELINES		6,000	
		LEASING BLDG - DWELLING		---	
		FACILITY INSTALLATIONS		5,000	
		MISC. & CONTINGENCIES (10%)		6,000	
		PUMPING UNIT & ENGINE		32,000	
		HEATER/TREATER		7,000	
		INFLATION FACTOR		---	
TOTAL PRODUCTION EQUIPMENT (6)			\$	\$ 70,000	\$
TOTAL COMPLETION COST (4 + 5 + 6)			\$	\$ 165,660	\$
TOTAL DRILLING & COMPLETION COST (1+2+4+5+6)			\$	\$ 296,660	\$
PREPARED BY		DATE	OPERATOR APPROVAL		DATE
Richard A. Mendenhall		April 30, 1981			
PARTNER INTEREST		COMPLETION COST	PARTNER APPROVAL		DATE
REMARKS:					

A.A.P.L. FORM 610 - 1977

# MODEL FORM OPERATING AGREEMENT



## OPERATING AGREEMENT

DATED

May 4, 1981,

OPERATOR R. A. MENDENHALL ASSOCIATES, Ltd.

CONTRACT AREA Covering all wells to be drilled in the SE/4 of

Section 10, T-22-S, R-27-E

COUNTY OR PARISH OF Eddy STATE OF New Mexico

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TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	DEFINITIONS	1
II.	EXHIBITS	1
III.	INTERESTS OF PARTIES	2
	A. OIL AND GAS INTERESTS	2
	B. INTEREST OF PARTIES IN COSTS AND PRODUCTION	2
IV.	TITLES	2
	A. TITLE EXAMINATION	2
	B. LOSS OF TITLE	2
	1. Failure of Title	2-3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	OPERATOR	3
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	3
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	DRILLING AND DEVELOPMENT	4
	A. INITIAL WELL	4
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6
	C. RIGHT TO TAKE PRODUCTION IN KIND	6-7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	7
	E. ABANDONMENT OF WELLS	7
	1. Abandonment of Dry Holes	7
	2. Abandonment of Wells that have Produced	7-8
VII.	EXPENDITURES AND LIABILITY OF PARTIES	8
	A. LIABILITY OF PARTIES	8
	B. LIENS AND PAYMENT DEFAULTS	8
	C. PAYMENTS AND ACCOUNTING	8
	D. LIMITATION OF EXPENDITURES	9
	1. Drill or Deepen	9
	2. Rework or Plug Back	9
	3. Other Operations	9
	E. ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	9
	F. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	9-10
	G. TAXES	10
	H. INSURANCE	10
VIII.	ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST	10
	A. SURRENDER OF LEASES	10-11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. ACREAGE OR CASH CONTRIBUTION	11
	D. SUBSEQUENTLY CREATED INTEREST	11-12
	E. MAINTENANCE OF UNIFORM INTEREST	12
	F. WAIVER OF RIGHT TO PARTITION	12
	G. <del>PREFERENTIAL RIGHT TO PURCHASE</del>	<del>12</del>
IX.	INTERNAL REVENUE CODE ELECTION	12-13
X.	CLAIMS AND LAWSUITS	13
XI.	FORCE MAJEURE	13
XII.	NOTICES	13
XIII.	TERM OF AGREEMENT	13-14
XIV.	COMPLIANCE WITH LAWS AND REGULATIONS	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
XV.	OTHER PROVISIONS	14
XVI.	MISCELLANEOUS	15

## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between R. A. MENDENHALL ASSOCIATES, LTD., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

## WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

## ARTICLE I.

## DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

## ARTICLE II.

## EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ ~~XXXXXXXXXXXXXXXXXXXX~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☐ ~~XXXXXXXXXXXXXXXXXXXX~~

☐ ~~XXXXXXXXXXXXXXXXXXXX~~

If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.  
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties which will be borne by the Joint Account, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby, and any burdens of record that as of the date of this Agreement may exist against leasehold estate.

ARTICLE IV.  
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including Federal Lease Status Reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto upon request. The cost incurred by Operator in this title program shall be borne as follows:

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

1 or operating costs which it may have theretofore paid, but there shall be no monetary liability on its  
2 part to the other parties hereto for drilling, development, operating or other similar costs by reason of  
3 such title failure; and

4 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the  
5 operation of the interest which has been lost, but the interests of the parties shall be revised on an acre-  
6 age basis, as of the time it is determined finally that title failure has occurred, so that the interest of  
7 the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract  
8 Area by the amount of the interest lost; and

9 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled  
10 on the Contract Area is increased by reason of the title failure, the party whose title has failed shall  
11 receive the proceeds attributable to the increase in such interests (less costs and burdens attributable  
12 thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;  
13 and

14 (d) Should any person not a party to this agreement, who is determined to be the owner of any in-  
15 terest in the title which has failed, pay in any manner any part of the cost of operation, development,  
16 or equipment, such amount shall be paid to the party or parties who bore the costs which are so refund-  
17 ed; and

18 (e) Any liability to account to a third party for prior production of oil and gas which arises by  
19 reason of title failure shall be borne by the party or parties in the same proportions in which they shared  
20 in such prior production; and

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection  
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties  
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.

24  
25 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight,  
26 any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously  
27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against  
28 the party who failed to make such payment. Unless the party who failed to make the required payment  
29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-  
30 ure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of  
31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-  
32 volved, and the party who failed to make proper payment will no longer be credited with an interest in  
33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event  
34 the party who failed to make the required payment shall not have been fully reimbursed, at the time of  
35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an  
36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it  
37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the  
38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following  
39 as is necessary to effect reimbursement:

40 (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost  
41 interest, on an acreage basis, up to the amount of unrecovered costs;

42 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an  
43 acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production  
44 from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable  
45 to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said  
46 portion of the oil and gas to be contributed by the other parties in proportion to their respective in-  
47 terests; and

48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or  
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-  
50 coming a party to this agreement.

51  
52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.  
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties  
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
55 the Contract Area.

## 56 57 ARTICLE V. 58 OPERATOR

### 59 60 A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

61  
62 R. A. MENDENHALL ASSOCIATES, LTD. shall be the  
63 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on  
64 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-  
65 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator  
66 to the other parties for losses sustained or liabilities incurred, except such as may result from gross  
67 negligence or willful misconduct.

2. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection and the hours of labor and the compensation for services performed, shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

As soon as a rig is made available  
On or before the \_\_\_\_\_ day of \_\_\_\_\_, 1981, Operator shall commence the drilling of a well for oil and gas at the following location:

A legal location in the NW/4 of the SE/4 of Section 10, T22S, R27E, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Esperanza Field pay at an approximate depth of 3425'

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

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

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

## B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to ~~forty-eight (48) hours~~ <sup>twenty-four (24) hours</sup>, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ~~sixty (60) days~~ <sup>thirty (30) days</sup> after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the ~~forty-eight (48) hour~~ <sup>twenty-four (24) hour</sup> period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2. shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within ~~forty-eight (48) hours~~ <sup>twenty-four (24) hours</sup> (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, ~~reworked, deepened or plugged back~~ <sup>completed</sup> under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, ~~reworking, deepening or plugging back~~ <sup>completing</sup> of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) ~~100%~~ <sup>200%</sup> of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(b) ~~100%~~ <sup>300%</sup> of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C; and

1 300% of that portion of the cost of newly acquired equipment in the well (to and including the well-  
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-  
3 pated therein.

4  
5 Gas production attributable to any Non-Consenting Party's relinquished interest upon such Party's  
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-  
7 tract. Such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from  
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-  
9 ered from the Non-Consenting Party's relinquished interest. If such Non-Consenting Party has not  
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-  
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-  
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13  
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share  
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of  
16 all production, severance, gathering and other taxes, and all royalty, overriding royalty and other  
17 burdens applicable to Non-Consenting Party's share of production.

18  
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall  
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of  
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,  
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the  
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of  
24 salvage.

25  
26 Within sixty (60) days after the completion of any operation under this Article, the party con-  
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-  
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,  
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,  
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed  
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being  
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-  
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the  
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the  
35 amount of proceeds realized from the sale of the well's working interest production during the preceding  
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties  
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any  
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any  
39 such operation which would have been owned by a Non-Consenting Party had it participated therein  
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,  
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;  
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43  
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest  
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-  
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same  
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-  
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,  
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be  
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in  
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52  
53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent  
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well  
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing  
56 well spacing pattern for such source of supply.

57  
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial  
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)  
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall  
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article  
62 VI.A.

#### 63 64 C. Right to Take Production in Kind:

65  
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of  
67 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-  
68 velopment and producing operations and in preparing and treating oil for marketing purposes and  
69 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-  
70 sition by any party of its proportionate share of the production shall be borne by such party. Any



1 party taking its share of production in kind shall be required to pay for only its proportionate share  
2 of such part of Operator's surface facilities which it uses.

3  
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its  
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled  
6 to receive payment direct from the purchaser thereof for its share of all production.

7  
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately  
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have  
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such  
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking  
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-  
13 erator shall be subject always to the right of the owner of the production to exercise at any time its  
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a  
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for  
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the  
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the  
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's  
19 share of gas production without first giving such other party thirty (30) days notice of such intended  
20 sale.  
21 prior written

22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-  
23 liveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not  
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the  
25 balancing or accounting between the respective accounts of the parties shall be in accordance with  
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as  
27 Exhibit "E", or is a separate Agreement.

#### 28 D. Access to Contract Area and Information:

29 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect  
30 or observe operations, and shall have access at reasonable times to information pertaining to the de-  
31 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon  
32 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-  
33 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports  
34 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings  
35 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to  
36 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the  
37 information.  
38  
39

#### 40 E. Abandonment of Wells:

41  
42  
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well  
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole  
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent  
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours  
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and  
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All  
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,  
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-  
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct  
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

53  
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-  
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-  
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and  
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense  
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment  
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-  
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvageable  
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated  
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall  
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,  
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-  
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the  
67 formation or formations then open to production. If the interest of the abandoning party is or includes  
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an  
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-  
70 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-



vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

## ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

### B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

### C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

## 1 D. Limitation of Expenditures:

2  
3 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, ex-  
4 cept any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being  
5 understood that the consent to the drilling or deepening shall include:

6  
7 ☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and  
8 equipping of the well, including necessary tankage and/or surface facilities.

9  
10 ☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When  
11 such well has reached its authorized depth, and all tests have been completed, Operator shall give im-  
12 mediate notice to the Non-Operators who have the right to participate in the completion costs. The parties  
13 receiving such notice shall have ~~forty-eight (48) hours~~ <sup>twenty-four (24) hours</sup> ~~(exclusive of Saturday, Sunday and legal holi-~~  
14 ~~days)~~ in which to elect to participate in the setting of casing and the completion attempt. Such election,  
15 when made, shall include consent to all necessary expenditures for the completing and equipping of such  
16 well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice  
17 to reply within the period above fixed shall constitute an election by that party not to participate in  
18 the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and  
19 to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or  
20 plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to  
21 the operations thereafter conducted by less than all parties.

22  
23 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged  
24 back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agree-  
25 ment, it being understood that the consent to the reworking or plugging back of a well shall include  
26 consent to all necessary expenditures in conducting such operations and completing and equipping of  
27 said well, including necessary tankage and/or surface facilities.

28  
29 3. Other Operations: Operator shall not undertake any single project reasonably estimated to require  
30 an expenditure in excess of Ten thousand and no/100----- Dollars (\$ 10,000.00 )  
31 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plug-  
32 ging back of which has been previously authorized by or pursuant to this agreement; provided, how-  
33 ever, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different  
34 nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with  
35 the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emer-  
36 gency to the other parties. If Operator prepares "Authority for Expenditures" for its own use,  
37 Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project  
38 costing in excess of Ten thousand and no/100----- Dollars (\$ 10,000.00 ).

## 40 E. Royalties, Overriding Royalties and Other Payments:

41  
42 Each party shall pay or deliver, or cause to be paid or delivered, all royalties ~~XXXXXX~~  
43 ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX~~ due on its share of production and shall hold the other parties free  
44 from any liability therefor. If the interest of any party in any oil and gas lease covered by this agree-  
45 ment is subject to any royalty, overriding royalty, production payment, or other charge over and above  
46 the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account  
47 for or cause to be accounted for, such interest to the owners thereof.

48  
49 No party shall ever be responsible, on any price basis higher than the price received by such party,  
50 to any ~~XXXXXX~~ lessor or royalty owner; and if any such ~~XXXXXX~~ lessor or royalty owner should  
51 demand and receive settlements on a higher price basis, the party contributing such lease shall bear the  
52 royalty burden insofar as such higher price is concerned.

## 54 F. Rentals, Shut-in Well Payments and Minimum Royalties:

55  
56 Rentals, shut-in well payments and minimum royalties which may be required under the terms of  
57 any lease shall be paid by the party or parties who subjected such lease to this agreement at its ~~or~~ their  
58 expense. In the event two or more parties own and have contributed interests in the same lease to this  
59 agreement, such parties may designate one of such parties to make said payments for and on behalf of all  
60 such parties. Any party may request, and shall be entitled to receive, proper evidence of all such pay-  
61 ments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum  
62 royalty through mistake or oversight where such payment is required to continue the lease in force,  
63 any loss which results from such non-payment shall be borne in accordance with the provisions of Article  
64 IV.B.2.

65  
66 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well or the shut-  
67 ting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sun-  
68 day and holidays), or at the earliest opportunity permitted by circumstances, prior to ~~taking such action~~  
69 but assumes no liability for failure to do so. In the event of failure by Operator ~~to so notify Non-~~  
70 Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments.

1 of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article  
2 IV.B.3.

3  
4 G. Taxes:

5  
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad  
7 valorem taxation all property subject to this agreement which by law should be rendered for such  
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-  
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be  
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-  
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its  
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in  
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold  
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such  
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-  
16 ner provided in Exhibit "C".

17  
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within  
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all  
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative  
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and  
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay  
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then  
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25  
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-  
27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-  
28 duced under the terms of this agreement.

29  
30 H. Insurance:

31  
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's  
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-  
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge  
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have  
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the  
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.  
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the  
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain  
40 such other insurance as Operator may require.

41  
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently  
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for  
44 such insurance for Operator's fully owned automotive equipment.

45  
46 ARTICLE VIII.

47 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

48  
49 A. Surrender of Leases:

50  
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall  
52 not be surrendered in whole or in part unless all parties consent thereto.

53  
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and  
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express  
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and  
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties  
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-  
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas  
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas  
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".  
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,  
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,  
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-  
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties  
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells  
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance  
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plug-  
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

1 be shared by the parties assignee in the proportions that the interest of each bears to the interest of all  
2 parties assignee.

3  
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or  
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract  
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter  
7 be subject to the terms and provisions of this agreement.

8  
9 **B. Renewal or Extension of Leases:**

10  
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties  
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt  
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such  
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper  
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,  
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17  
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it  
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of  
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages  
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23  
24 Each party who participates in the purchase of a renewal lease shall be given an assignment of its  
25 proportionate interest therein by the acquiring party.

26  
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest  
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease  
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after  
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted  
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal  
32 lease and shall not be subject to the provisions of this agreement.

33  
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas  
35 leases.

36  
37 **C. Acreage or Cash Contributions:**

38  
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling  
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who  
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or  
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is  
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling  
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto  
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and  
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and  
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-  
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or  
49 any other operation on the Contract Area.

50  
51 If any party contracts for any consideration relating to disposition of such party's share of substances  
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this  
53 Article VIII.C.

54  
55 **D. Subsequently Created Interest:**

56  
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent  
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-  
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently  
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as  
61 follows:

62  
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the  
64 party conducting such operations becomes entitled to receive the production attributable to the interest  
65 out of which the subsequently created interest is derived, such party shall receive same free and clear  
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently  
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and  
68 all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

#### E. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or
2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interests within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds hereof.

#### F. Waiver of Right to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

#### G. Preferential Right to Purchase:

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

### ARTICLE IX. INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

1 such party shall give any notices or take any other action inconsistent with the election made hereby.  
 2 If any present or future income tax laws of the state or states in which the Contract Area is located or  
 3 any future income tax laws of the United States contain provisions similar to those in Subchapter "K",  
 4 Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that  
 5 provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as  
 6 may be permitted or required by such laws. In making the foregoing election, each such party states that  
 7 the income derived by such party from Operations hereunder can be adequately determined without the  
 8 computation of partnership taxable income.

9  
 10 **ARTICLE X.**  
 11 **CLAIMS AND LAWSUITS**

12  
 13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-  
 14 penditure does not exceed Five Thousand and no/100 Dollars  
 15 (\$ 5,000.00) and if the payment is in complete settlement of such claim or suit. If the amount  
 16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the  
 17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-  
 18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense  
 19 of the parties. If a claim is made against any party or if any party is sued on account of any matter  
 20 arising from operations hereunder over which such individual has no control because of the rights given  
 21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall  
 22 be treated as any other claim or suit involving operations hereunder.

23  
 24 **ARTICLE XI.**  
 25 **FORCE MAJEURE**

26  
 27 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations  
 28 under this agreement, other than the obligation to make money payments, that party shall give to all  
 29 other parties prompt written notice of the force majeure with reasonably full particulars concerning it;  
 30 thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure,  
 31 shall be suspended during, but no longer than, the continuance of the force majeure. The affected party  
 32 shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

33  
 34 The requirement that any force majeure shall be remedied with all reasonable dispatch shall not  
 35 require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its  
 36 wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party  
 37 concerned.

38  
 39 The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other  
 40 industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood,  
 41 explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment,  
 42 and any other cause, whether of the kind specifically enumerated above or otherwise, which is not  
 43 reasonably within the control of the party claiming suspension.

44  
 45 **ARTICLE XII.**  
 46 **NOTICES**

47  
 48 All notices authorized or required between the parties, and required by any of the provisions of  
 49 this agreement, unless otherwise specifically provided, shall be given in writing by United States mail  
 50 or Western Union telegram, postage or charges prepaid, or by teletype and addressed to the party to  
 51 whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any  
 52 provision hereof shall be deemed given only when received by the party to whom such notice is directed,  
 53 and the time for such party to give any notice in response thereto shall run from the date the originat-  
 54 ing notice is received. The second or any responsive notice shall be deemed given when deposited in  
 55 the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid,  
 56 or when sent by teletype. Each party shall have the right to change its address at any time, and from  
 57 time to time, by giving written notice hereof to all other parties.

58  
 59 **ARTICLE XIII.**  
 60 **TERM OF AGREEMENT**

61  
 62 This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas in-  
 63 terests subjected hereto for the period of time selected below; provided, however, no party hereto shall  
 64 ever be construed as having any right, title or interest in or to any lease, or oil and gas interest con-  
 65 tributed by any other party beyond the term of this agreement.

66  
 67 ☒ **Option No. 1:** So long as any of the oil and gas leases subject to this agreement remain or are con-  
 68 tinued in force as to any part of the Contract Area, whether by production, extension, renewal or other-  
 69 wise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.



☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of \_\_\_\_\_ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within \_\_\_\_\_ days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

#### ARTICLE XIV.

##### COMPLIANCE WITH LAWS AND REGULATIONS

#### A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

#### B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

#### ARTICLE XV.

##### OTHER PROVISIONS

A. If the operator is required hereunder to pay ad valorem taxes based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the percentage of tax value generated by each party's working interest.

B. When there is no party in default hereunder, and after a period of one(1) year from the date of this agreement, should any of the Non-Operators be of the opinion that it can operate the Unit Area more economically than Operator, such Non-Operators shall give thirty (30) days' written notice to Operator, and subject to the requirements set forth hereafter in this Section, on the first day of the calendar month following the end of such thirty (30) day period, said Non-Operator shall take charge of such operations under the terms of this agreement. Prior to such Non-Operator being permitted to exercise such right to assume operations, said Non-Operator must agree, in writing, to maintain the average production trend, and efficiency rate as had been established by the Operator, and must agree, in writing, to immediately reduce operating expenses by not less than ten percent (10%), and to continue to operator the Unit Area on such agreed basis. In like manner and upon like notice, any then Non-Operator shall have the right to assume operations hereunder, providing it receives approval of a total of more than 50% in interest of the working interest owners.



ARTICLE XVI.  
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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

IN WITNESS WHEREOF, this agreement shall be effective as of 4 day of May, 1981.

## OPERATOR

R. A. MENDENHALL ASSOCIATES Ltd.,

BY \_\_\_\_\_  
RICHARD A. MENDENHALL, GENERAL PARTNER

## NON-OPERATORS

UNION OIL COMPANY OF CALIFORNIA

BY \_\_\_\_\_

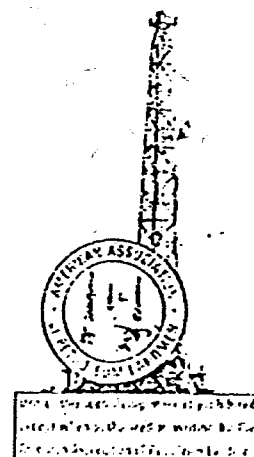




EXHIBIT "A"

Attached to and made a part of the Operating Agreement by and between R. A. Mendenhall Associates, Ltd., as Operator, and Union Oil Company of California et al., as Operator.

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LANDS AND DEPTHS SUBJECT TO THIS AGREEMENT

All lands which are owned by R. A. Mendenhall Associates, Ltd., and Union Oil Company of California et al. will be committed by each to all Drilling Units located in the SE/4 of Section 10, T-22-S, R-27-E, Eddy County, New Mexico, from surface of the ground to and including all depths down to 100' below the deepest depth drilled which is estimated to be 3425'.

PARTIES TO AGREEMENT, ADDRESS, AND INTERESTS

R. A. Mendenhall Associates, Ltd.  
Suite 230 Western United Life Building  
Midland, Texas 79701

NW/SE 40 acres	30%
SW/SE 40 acres	95%
SE/SE 40 acres	25%

Union Oil Company of California  
P. O. Box 671  
Midland, Texas 79702

NW/SE 40 acres	70%
SW/SE 40 acres	5%
SE/SE 40 acres	75%

## EXHIBIT " C "

Attached to and made a part of Operating Agreement dated May 4, 1981  
between R. A. Mendenhall Associates, Ltd., as Operator, and  
Union Oil Company of California et al., as Non-Operators

## ACCOUNTING PROCEDURE JOINT OPERATIONS

### I. GENERAL PROVISIONS

#### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

#### 2. Statement and Billings

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

#### 3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

#### 4. Adjustments

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

#### 5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

#### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

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

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

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

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

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

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

### 3. Employee Benefits

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

### 4. Material

Council of Petroleum Accountants Societies of North America.

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 Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not ( X ) 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 \$ 2500.00  
Producing Well Rate \$ 275.00

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

**B. Overhead - Percentage Basis**

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

(a) Development

\_\_\_\_\_ Percent ( %) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

\_\_\_\_\_ Percent ( %) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

**2. Overhead - Major Construction**

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

- A. \_\_\_\_\_ % of total costs if such costs are more than \$ \_\_\_\_\_ but less than \$ \_\_\_\_\_; plus  
 B. \_\_\_\_\_ % of total costs in excess of \$ \_\_\_\_\_ but less than \$1,000,000; plus  
 C. \_\_\_\_\_ % of total costs in excess of \$1,000,000. \*To be negotiated if applicable.

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.

**2. 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.

outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

- B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.
- C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

## V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be agreed to by Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from Joint Property.

### 1. Material Purchased by the Operator or Non-Operators.

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

### 2. Division in Kind

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator to the Joint Account.

### 3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

## VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless agreed to by Operator and Non-Operators shall be priced on the following basis:

### 1. New Price Defined

New price as used in this Section VI shall be the price specified for new Material in Section IV.

### 2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

### 3. Good Used Material

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

- A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
- B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five per cent (75%) of new price.

### 4. Other Used Material

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

- A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
- B. Is serviceable for original function but not suitable for reconditioning.

### 5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

### 6. Junk Material

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

### 7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

## VII. 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 inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operators 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 Operator and Non-Operators.



EXHIBIT "D"

INSURANCE

Attached to and made a part of that Operating Agreement dated May 4, 1981, between R. A. Mendenhall Associated, Ltd., as Operator, and Union Oil Company of California et al., as Non-Operators.

---

Operator shall carry for the benefit and the expense of the Joint Account insurance with responsible insurance carrier as follows:

1. Workman's Compensation and Employer's Liability Insurance as may be required by the laws of the State in which premises are located.
2. General Public Liability and Property Damage Insurance with limits of not less than \$250,000 covering injury to or death of one person, and not less than \$500,000 covering injury to or death of more than one person by reason of one accident, and not less than \$100,000 covering accidental loss of or damage to property of third person.
3. Automobile Public Liability and Property Damage Insurance with limits of not less than \$250,000 covering injury to or death of one person, and \$500,000 covering injury to or death of more than one person by reason of one accident and not less than \$100,000 covering damage to property of third persons.



Union Oil Company of California  
500 North Marienfeld, Midland, Texas 79701  
P.O. Box 671, Midland, Texas 79702  
Telephone (915) 682-9731



Robert V. Lockhart  
District Land Manager  
Midland District

June 9, 1981

Mr. R. A. Mendenhall  
R. A. Mendenhall Associates, Ltd.  
Suite 230  
Western United Life Building  
Midland, Texas 79701

Re: Proposed #1 Tracy  
1980' FEL & 2310' FSL, Sec. 10  
T-22-S, R-27-E, Eddy County, New Mexico  
Carlsbad Prospect (7382)

Dear Mr. Mendenhall:

This will acknowledge receipt of your letter dated May 5, 1981, proposing the drilling of the above referenced well.

Please be advised that your proposal is presently being evaluated and we will be back to you as soon as possible.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script that reads "Linda H. Hicks".

Linda H. Hicks  
Landman

LHH/s

Received 6/10/81

**AUTHORIZATION FOR EXPENDITURE  
DRILLING**

OPERATOR R. A. Mendenhall Associates, Ltd. WELL NAME #1 Tracy  
 LOCATION 1650' FSL & 2140' FEL, Section 10, T-22-S, R-27-E  
 CO/PARISH Eddy STATE New Mexico  
 AFE # \_\_\_\_\_ PROSPECT # Esperanza PROPOSED WELL DEPTH 3600'

DESCRIPTION (INTANGIBLES)	ACCT #	DRILLING	ACTUAL
PERMITS & SURVEYING		\$ 550	\$
DIRT WORK, ROADS - PAD - PITS - SURFACE DAMAGE		16,000	
CONTRACT DRILLING FT. @ \$ 16.50 /FT		59,400	
DAYWORK W/DRILLPIPE DAYS @ \$5800.00 /DAY		11,600	
FUEL		250	
WATER		7,500	
BITS		---	
CASING CREWS & TOOLS		500	
CEMENT & SERVICE - SURFACE SX		3,500	
- INTERMEDIATE SX		---	
- SX		---	
- SX		---	
CORE & ANALYSIS		---	
DRILLING FLUIDS		7,000	
DRILL STEM TEST TEST @ \$3000.00 /TEST		3,000	
ELECTRIC LOGS - RUN 1		7,300	
- RUN 2		---	
- RUN 3		---	
- RUN 4		---	
MUD LOGGER DAYS @ \$ /DAY		---	
PIT LINER		1,500	
RENTAL TOOLS		---	
SUPERVISION - ENGINEERING 5 DAYS @ \$ 350.00/DAY + EXP		1,750	
SUPERVISION - GEOLOGICAL 5 DAYS @ \$ 350.00/DAY + EXP		1,750	
TRUCKING		500	
MISC. LABOR		---	
MISC. & CONTINGENCIES (10%)		12,200	
OVERHEAD		1,200	
INFLATION FACTOR		---	
<b>TOTAL INTANGIBLE DRILLING COST (1)</b>		<b>\$ 135,500</b>	<b>\$</b>
DESCRIPTION (TANGIBLES)			
CASING HEAD		\$ 1,250	\$
SURFACE CASING 500 FT 8-5/8" SIZE @ \$ 13.50/FT		6,750	
INT. CASING FT SIZE @ \$ /FT		250	
TRUCKING		1,750	
MISC. & CONTINGENCIES (10%)			
INFLATION FACTOR			
<b>TOTAL TANGIBLE DRILLING COST (2)</b>		<b>\$ 10,000</b>	<b>\$</b>
<b>TOTAL DRILLING COST (1 + 2)</b>		<b>\$ 145,500</b>	<b>\$</b>
DESCRIPTION (INTANGIBLE ABANDONMENT)			
CEMENT & SERVICES		\$ 3,000	\$
LOCATION CLEAN UP DAY RIG TIME +		6,000	
MISC. & CONTINGENCIES (10%)		1,000	
<b>TOTAL INTANGIBLE ABANDONMENT (3)</b>		<b>\$ 10,000</b>	<b>\$</b>
<b>TOTAL DRY HOLE COST (1 + 2 + 3)</b>		<b>\$ 155,500</b>	<b>\$</b>
OWNER	PREPARED BY	DATE	
	Richard A. Mendenhall	August 21, 1981	
	OPERATOR APPROVAL	DATE	
	RECORD EXAMINER STAMETS		
	OIL CONSERVATION DIVISION		
	EXHIBIT NO. 3		
	PARTNER INTEREST	DRY HOLE COST	
	CASE NO. 7334		
	Submitted by R.A. Mendenhall		
	PARTNER APPROVAL	DATE	
	Hearing Date Aug 26 1981		
REMARKS:			

**AUTHORIZATION FOR EXPENDITURE  
COMPLETION**

OPERATOR R. A. Mendenhall Associates, Ltd. WELL NAME #1 Tracy  
 LOCATION 1650' FSL & 2140' FEL, Section 10, T-22-S, R-27-E  
 CO/PARISH Eddy STATE New Mexico  
 AFE # \_\_\_\_\_ PROSPECT # Esperanza PROPOSED WELL DEPTH 3600'

DESCRIPTION (INTANGIBLES)		ACCT #	FLOWING	PUMPING	ACTUAL
DIRT WORK, SURFACE DAMAGES, LEGAL			\$	\$ 8,000	\$
DAYWORK W/DRILLPIPE	1 DAYS @ \$ 5800.00 /DAY			5,800	
COMPLETION UNIT	5 DAYS @ \$ 1500.00 /DAY			7,500	
CEMENT & SERVICE - PRODUCTION		SX		4,000	
CASING CREW & TOOLS				2,250	
ELECTRIC LOG				1,500	
PERFORATION				1,500	
ROUSTABOUT LABOR					
STIMULATION	\$ ACID \$ FRAC			3,000	
SUPERVISION - ENG. 10 DAYS @ \$350.00/DAY + EXP				3,500	
TRUCKING				1,000	
MISC. & CONTINGENCIES (10%)				4,000	
OVERHEAD				1,200	
RENTAL EQUIPMENT: PACKER, BOP, TEST TANK, ETC.				2,500	
INFLATION FACTOR					
TOTAL INTANGIBLE COMPLETION COST (4)			\$	\$ 45,750	\$
DESCRIPTION (TANGIBLES)					
PRODUCTION CASING	3600 FT 5 1/2" SIZE @ \$ 9.95 /FT		\$	\$ 35,820	\$
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
PRODUCTION TUBING	3600 FT 2-3/8" SIZE @ \$ 4.20 /FT			15,120	
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
	FT SIZE @ \$ /FT				
HANGER ASSEMBLY				1,750	
X-MAS TREE					
PACKER & PRODUCTION ACCESSORIES				5,000	
SUCKER RODS	3500 FT SIZE @ \$ 2.15 /FT			7,500	
MISC. & CONTINGENCIES (10%)				6,500	
GUYLINE-ANCHOR				400	
INFLATION FACTOR					
TOTAL TANGIBLE COMPLETION COST (5)			\$	\$ 72,090	\$
TOTAL COST THROUGH X-MAS TREE (4+5)			\$	\$ 117,840	\$
OWNER	%	PRODUCTION EQUIPMENT			
		STORAGE TANKS 2-250 Bbl + 1 285 Bbl	\$	\$ 11,850	\$
		WALKWAYS & STAIRWAYS		---	
		SEPARATORS		---	
		DEHYDRATORS		---	
		TREATING EQUIPMENT		5,000	
		METERS & REGULATING EQUIPMENT		---	
		FIELD PIPELINES		6,000	
		LEASING BLDG - DWELLING		---	
		FACILITY INSTALLATIONS		5,000	
		MISC. & CONTINGENCIES (10%)		6,000	
		PUMPING UNIT & ENGINE		32,000	
		HEATER/TREATER		7,000	
		INFLATION FACTOR		---	
TOTAL PRODUCTION EQUIPMENT (6)			\$	\$ 72,850	\$
TOTAL COMPLETION COST (4 + 5 + 6)			\$	\$ 190,690	\$
TOTAL DRILLING & COMPLETION COST (1+2+4+5+6)			\$	\$ 336,190	\$
PREPARED BY		DATE	OPERATOR APPROVAL		DATE
Richard A. Mendenhall		August 21, 1981			
PARTNER INTEREST		COMPLETION COST	PARTNER APPROVAL		DATE
REMARKS:					

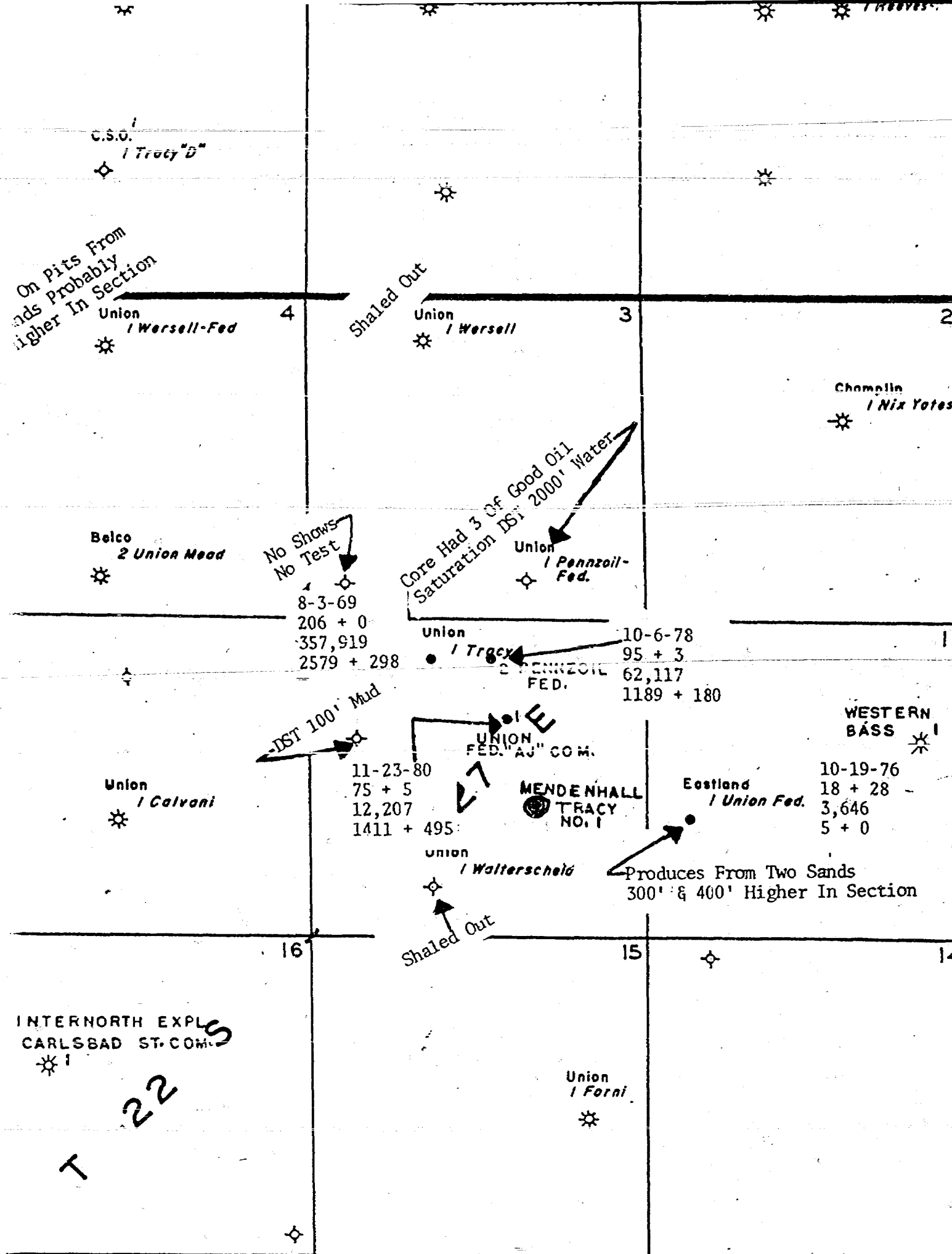
Dockets Nos. 27-81 and 28-81 are tentatively set for September 9 and September 23, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 26, 1981

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,  
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

- CASE 7329: Application of Loco Hills Water Disposal Company for an exception to Order No. R-3221, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221 to permit the commercial disposal of produced brine into several unlined surface pits located in the S/2 SW/4 SW/4 of Section 16, Township 17 South, Range 30 East.
- CASE 7330: Application of Union Oil Company of California for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Atoka and Morrow formations underlying the E/2 of Section 16, Township 22 South, Range 33 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7331: Application of Bass Enterprises Production Company for an unorthodox location and possible dual completion or downhole commingling, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Bass State Well No. 2, a Wolfcamp test located 554 feet from the South and East lines of Section 16, Township 7 South, Range 35 East, to be plugged back and completed in the Todd Upper and/or Todd Lower San Andres Pools. Applicant further seeks authority to dually complete said well in both of said pools or, if of similar nature, i.e., gas-gas or oil-oil, to commingle the production from said pools in the wellbore. The SE/4 SE/4 of said Section 16 would be dedicated to an oil completion and the E/2 of the section to a gas completion.
- CASE 7332: Application of Bass Enterprises Production Company for directional drilling and possible unorthodox location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to directionally drill its James Ranch Well No. 13 from a surface location 660 feet from the South line and 1340 feet from the East line of Section 36, Township 22 South, Range 30 East, in such a manner as to penetrate the various pays in the Pennsylvania formation at various distances from the outer boundary of the proposed proration unit, being the S/2 of Section 31, Township 22 South, Range 31 East, but in no event closer than an unorthodox location 660 feet from the outer boundary of said unit.
- CASE 7333: Application of Coquina Oil Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 14, Township 24 South, Range 28 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7334: Application of R. A. Mendenhall Associates, Ltd. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Delaware Mountain Group formation underlying the NW/4 SE/4 of Section 10, Township 22 South, Range 27 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.
- CASE 7315: (Continued and Readvertised)
- Application of Rhema Oil Processing for an oil treating plant permit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority for the construction and operation of an oil treating plant for the purpose of treating and reclaiming sediment oil at a site in the SW/4 NE/4 NW/4 of Section 14, Township 20 South, Range 38 East.



August 19, 1981

Curiosity Map

Esperanza Delaware Field  
Eddy County, New Mexico

Proposed Location

1. Completion Date
2. Initial Potential (BOPD+BKPD)
3. Cumulative Prod, 7-1-81
4. Current Prod (BOPM+BKPM)



LAW OFFICES

HINKLE, COX, EATON, COFFIELD & HENSLEY

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600 HINKLE BUILDING

(505) 682-6510

AMARILLO, TEXAS OFFICE

1001 AMERICAN NATIONAL BANK BUILDING

(806) 372-5569

\*NOT LICENSED IN

**RECEIVED**  
AUG - 3 1981

OIL CONSERVATION DIVISION  
SANTA FE

July 28, 1981

*Case 7334*

W. E. BONDURANT, JR.

(1914-1973)

OF COUNSEL

CLARENCE E. HINKLE\*

ROBERT A. STONE

LEWIS C. COX, JR.\*

PAUL W. EATON, JR.

CONRAD E. COFFIELD

STUART D. SHANOR\*

C. D. MARTIN

PAUL J. KELLY, JR.\*

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DOUGLAS L. LUNSFORD\*

PAUL M. BOHANNON

ERNEST R. FINNEY, JR.

J. DOUGLAS FOSTER

K. DOUGLAS PERRIN\*

C. RAY ALLEN

T. CALDER EZZELL, JR.\*

WILLIAM B. BURFORD

JOHN S. NELSON\*

RICHARD E. OLSON\*

ANDERSON CARTER, II

STEVEN V. ARNOLD

JEFFREY L. BOWMAN

JOHN C. HARRISON\*

Mr. Dan Nutter  
Oil Conservation Division  
Post Office Box 2088  
Santa Fe, New Mexico 87501

Re: R. A. Mendenhall Associates, Ltd.  
Compulsory Pooling in Eddy County,  
New Mexico  
August 26, 1981

Dear Dan:

I am transmitting herewith, executed in triplicate, copies of an Application for R. A. Mendenhall Associates, Ltd. for compulsory pooling the NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 10, Township 22 South, Range 27 East, N.M.P.M., Eddy County, New Mexico.

If anything in addition to this application needs to be furnished, please advise.

We would appreciate having this case set on the August 26, 1981 docket.

Very truly yours,

HINKLE, COX, EATON,  
COFFIELD & HENSLEY

*Conrad E. Coffield*  
Conrad E. Coffield

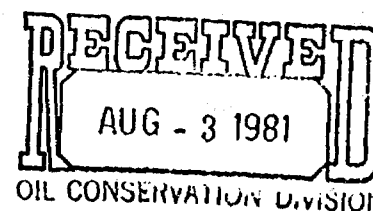
CEC:rh  
Enclosures

xc: R. A. Mendenhall Associates, Ltd.

BEFORE THE OIL CONSERVATION DIVISION  
OF THE ENERGY AND MINERALS DEPARTMENT

STATE OF NEW MEXICO

APPLICATION OF R. A. MENDENHALL )  
ASSOCIATES, LTD. FOR COMPULSORY )  
POOLING, EDDY COUNTY, NEW MEXICO )



APPLICATION

R. A. Mendenhall Associates, Ltd., by its undersigned attorneys, hereby makes application for an Order pooling all interests in the Delaware Mountain Group formation underlying the NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 10, Township 22 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show:

1. Applicant is entitled to proceed with the drilling of a well located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 10, Township 22 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, under the authority of Applicant's ownership of an oil and gas leasehold interest therein.

2. Applicant proposes to drill its #1 Hillger 1650 feet from the South line and 2140 feet from the East line of Section 10, to a depth sufficient to test the Delaware Mountain Group formation at approximately 3,600 feet beneath the surface and seeks to dedicate the NW $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 10 to the well. Applicant has requested Union Oil Company of California, a leasehold owner of mineral interests in NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 10 to agree to participate in the drilling of said well or to farmout or otherwise commit its interest to said well, but Union so far has refused to do so. Union Oil Company's address is Midland District, 500 North Marienfeld, Midland, Texas, 79701.

3. The pooling of all interests in the Delaware Mountain Group formation in NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 10 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

4. Applicant respectfully requests the setting of this matter for a hearing on August 26, 1981.



DATED this 28th day of July, 1991.

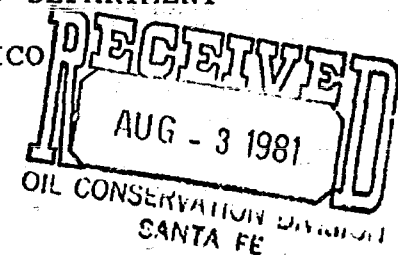
HINKLE, COX, EATON, COFFIELD & HENSLEY

By: 

Conrad E. Coffield  
Post Office Box 3580  
Midland, Texas 79702  
Attorneys for R. A. Mendenhall  
Associates, Ltd.

BEFORE THE OIL CONSERVATION DIVISION  
OF THE ENERGY AND MINERALS DEPARTMENT  
STATE OF NEW MEXICO

APPLICATION OF R. A. MENDENHALL )  
ASSOCIATES, LTD. FOR COMPULSORY )  
POOLING, EDDY COUNTY, NEW MEXICO )



APPLICATION

Case 7334

R. A. Mendenhall Associates, Ltd., by its undersigned attorneys, hereby makes application for an Order pooling all interests in the Delaware Mountain Group formation underlying the NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 10, Township 22 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show:

1. Applicant is entitled to proceed with the drilling of a well located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 10, Township 22 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, under the authority of Applicant's ownership of an oil and gas leasehold interest therein.

2. Applicant proposes to drill its #1 Hillger 1650 feet from the South line and 2140 feet from the East line of Section 10, to a depth sufficient to test the Delaware Mountain Group formation at approximately 3,600 feet beneath the surface and seeks to dedicate the NW $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 10 to the well. Applicant has requested Union Oil Company of California, a leasehold owner of mineral interests in NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 10 to agree to participate in the drilling of said well or to farmout or otherwise commit its interest to said well, but Union so far has refused to do so. Union Oil Company's address is Midland District, 500 North Marienfeld, Midland, Texas, 79701.

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4. Applicant respectfully requests the setting of this matter for a hearing on August 26, 1981.

DATED this 28th day of July, 1981.

HINKLE, COX, EATON, COFFIELD & HENSLEY

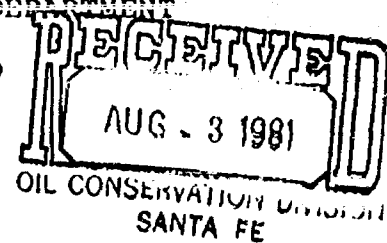
By: 

Conrad E. Coffield  
Post Office Box 3580  
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Attorneys for R. A. Mendenhall  
Associates, Ltd.

BEFORE THE OIL CONSERVATION DIVISION  
OF THE ENERGY AND MINERALS DEPARTMENT

STATE OF NEW MEXICO

APPLICATION OF R. A. MENDENHALL )  
ASSOCIATES, LTD. FOR COMPULSORY )  
POOLING, EDDY COUNTY, NEW MEXICO )



APPLICATION

Case 73.34

R. A. Mendenhall Associates, Ltd., by its undersigned attorneys, hereby makes application for an Order pooling all interests in the Delaware Mountain Group formation underlying the NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 10, Township 22 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, and in support thereof would show:

1. Applicant is entitled to proceed with the drilling of a well located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 10, Township 22 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, under the authority of Applicant's ownership of an oil and gas leasehold interest therein.

2. Applicant proposes to drill its #1 Hillger 1650 feet from the South line and 2140 feet from the East line of Section 10, to a depth sufficient to test the Delaware Mountain Group formation at approximately 3,600 feet beneath the surface and seeks to dedicate the NW $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 10 to the well. Applicant has requested Union Oil Company of California, a leasehold owner of mineral interests in NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 10 to agree to participate in the drilling of said well or to farmout or otherwise commit its interest to said well, but Union so far has refused to do so. Union Oil Company's address is Midland District, 500 North Marienfeld, Midland, Texas, 79701.

3. The pooling of all interests in the Delaware Mountain Group formation in NW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 10 will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

4. Applicant respectfully requests the setting of this matter for a hearing on August 26, 1981.

DATED this 28th day of July, 1981.

HINKLE, COX, EATON, COFFIELD & HENSLEY

By: 

Conrad E. Coffield  
Post Office Box 3580  
Midland, Texas 79702  
Attorneys for R. A. Mendenhall  
Associates, Ltd.

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Element 10

DRAFT

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT

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

CASE NO. 7334

Order No. R- 6794

*Application of R.A. Mendenhall Associates, Ltd.  
For Compulsory Pooling, Eddy County, New Mexico*

ORDER OF THE DIVISION

BY THE DIVISION:

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

NOW, on this        day of October, 19 81, the Division Director, having considered the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

That the applicant's request for dismissal should be granted.

IT IS THEREFORE ORDERED:

That Case No. 7334 is hereby dismissed.

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

*Don*  
*MS*