

READVERTISE

CASE 7509: SUPRON ENERGY CORPORATION
FOR NON-STANDARD PRODUCTION UNIT OR COM-
PULSORY POOLING, SAN JUAN COUNTY, NEW
MEXICO

Flanery -
we need the names
& addresses of the
parties.

DOCKET MAILED

Date 3/5/82 (Riggs)
4/12/82

CASE NO.

7509

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

**Union Texas
Petroleum**

Suite 1010 Lincoln Tower
1860 Lincoln Street
Denver, Colorado 80295

December 15, 1982

Mr. Joe D. Ramey
Director
Oil Conservation Division
New Mexico Dept. of Energy and Minerals
P.O. Box 2088
Santa Fe, New Mexico 87501

RE: New Mexico Conservation Division Case 7509: Order No.
R-7033 Compulsory Pooling

Dear Mr. Ramey:

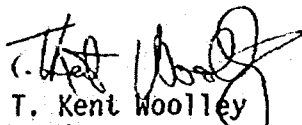
Pursuant to the above order No. and the pooling order, please find enclosed revised cost estimates for the State Com 31-8 well. The estimates are for single Dakota and Mesaverde wells and for a dual Mesaverde/Dakota well. These estimates although similar to those previously sent represent the cost savings that are apparent in the present economy.

Pursuant to the order we have also forwarded amended estimates to Mr. Riggs. The Dakota Formation has been completed and we are at the present time running compression test on the Mesaverde Formation prior to FRAC.

We have not been able as of this date to put together actual costs for the Dakota Formation and obviously not for the Mesaverde.

Should you have any questions, please feel free to contact me.

Yours truly,


T. Kent Woolley
Landman

TKW/rbk

Enclosure

☒ UNION TEXAS PETROLEUM
☐ OTHER _____

WELL COST ESTIMATE

SOURCE 12 (1-2)		DATE 11/9/1982	
LEASE NAME WELL NO. FIELD OR AREA		COUNTY	STATE
State Com 31-8 #1 Blanco Mesaverde		San Juan	New Mexico
LOCATION		GROSS ACRES IN LEASE	
SW 1/4, SW 1/4, Section 2, T31N-R8W		SUPPLEMENT NO.	
<input type="checkbox"/> NZW	<input type="checkbox"/> EXPLORATORY	<input checked="" type="checkbox"/> DEVELOPMENT	W/O NO.
		EST. TOTAL DEPTH	ATT. NO. (3-7)
		6300'	
DIRECTIONS TO LOCATION		LEASE NO.	

TANGIBLE EQUIPMENT						SOURCE 13 (1-2)	
CASING	ACCOUNT (8-14)	DESCRIPTION	UNIT	QUANTITY	PRICE	PRODUCER COST (15-23)	DRY HOLE COST (24-32)
		8-5/8" 24# K-55 ST&C		250	14.14	3,600	3,600
		5-1/2 15.5# K-55 LT&C		6300	9.64	60,700	
		Casing Hardware				3,600	800
	10-509-13	TOTAL CASING				67,900	4,400
TUBING AND EQUIPMENT OTHER THAN CASING		Casing Head				1,500	1,500
		Wellhead & Tree				10,000	
		2-3/8" 4.70# J-55 EUE Tbg		6300	4.17	26,300	
		300 Bbl Tanks		2	4000	8,000	
		Production Unit		1	12,500	12,500	
		Misc & Contingency				5,700	
	10-509-70	TOTAL EQUIPMENT OTHER THAN CASING				64,000	1,500
		TOTAL TANGIBLE COSTS				131,900	5,900

DEC 80 1982
OIL COMMISSION
SANTA FE

WELL COST ESTIMATE—CONTINUATION SHEET

WELL NAME

State Com 31-8 #1

INTANGIBLE COSTS

	ACCOUNT	DESCRIPTION	MO	QUANTITY	PRICE	PRODUCER COST (11-11)	DRY HOLE COST (11-11)
DRILLING CONTRACTOR SERVICES		Turnkey Drilling Cost					
		Footage 6300 Ft. @ 10.50 Per Ft.				66,200	66,200
		Day Work W/DP 4 Days @ 5250 Per Day				21,000	21,000
		Day Work WO/DP Days @ Per Day					
	18-310-21	TOTAL DRILLING CONTRACTOR SERVICES				87,200	87,200
MATERIAL AND SUPPLIES	18-310-31	Bits and Drilling Equipment Rental				1,000	-0-
	18-310-32	Drilling Mud and Chemicals				14,500	9,500
	18-310-32	Power, Fuel and Water				13,000	8,000
	18-310-33	Other Materials and Supplies				3,000	2,000
		TOTAL MATERIALS AND SUPPLIES				31,500	19,600
CONTRACTOR SERVICES	18-310-34	Drillsite Preparation				10,000	10,000
	18-310-36	Equipment Rental				6,000	2,000
	18-310-35	Logging and DST				14,000	14,000
	18-310-37	Cementing Services and Cement				13,000	2,500
	18-310-38	Fracing Services				25,000	
	18-310-39	Perforating Services				10,000	
	18-310-40	Squeezing Services				5,000	
	18-310-41	Acidizing Services				7,000	
	18-310-42	Trucking Services				12,000	5,000
	18-310-44	Welding and Roustabout				10,000	
	18-310-47	Customs Clearance					
	18-310-48	Diving Services					
	18-310-49	Supply Boat Expense					
	18-310-50	Drilling Consultants / Wellsite Geologists					
	18-310-51	Mobilization					
	18-310-52	Demobilization					
	18-310-43	Other Services				11,000	3,500
		TOTAL CONTRACTOR SERVICES				123,000	37,000
COMPLETION & CLEANUP SERVICES		Backfill Pits—Restore Location					
		Completion Unit 10 Days @ 2250 Per Day				22,500	
	18-310-24	TOTAL COMPLETION & CLEANUP SERVICES				22,500	-0-
COMPANY LABOR EXPENSE & OVERHEAD		Field Supervision 22 Days @ \$200 /Day 12 drlg				4,400	2,400
		Houston, Overhead 22 Days @ \$100 /Day				2,200	1,200
		TOTAL OVERHEAD				6,600	3,600
		District Expense Days @ \$ /Day					
		Geological Expense Days @ \$ /Day					
	18-310-45	TOTAL COMPANY LABOR AND EXPENSES				-0-	-0-
		TOTAL COMPANY LABOR, EXPENSE, OVERHEAD				6,600	3,600
PA X	18-310-00	TOTAL SALES TAX				-0-	-0-
		TOTAL INTANGIBLE COSTS				270,800	147,400
		TOTAL TANGIBLE COSTS (From Page 1)				131,900	5,900
		GRAND TOTAL (GROSS)				402,700	153,300
		UNION TEXAS (8-12) %				(12-21)	(22-30)

☒ UNION TEXAS PETROLEUM

☐ OTHER _____

WELL COST ESTIMATE

SOURCE 12 (1-2)		DATE 11/9/1982	
LEASE NAME WELL NO. FIELD OR AREA		COUNTY	STATE
State Com 31-8 #1 Basin Dakota		San Juan	New Mexico
LOCATION		GROSS ACRES IN LEASE	
SW 1/4, SW 1/4, Section 2, T31N-R8W		SUPPLEMENT NO.	
<input type="checkbox"/> NZW	<input type="checkbox"/> EXPLORATORY	<input checked="" type="checkbox"/> DEVELOPMENT	W/O NO.
EST. TOTAL DEPTH		APC NO. (3-7)	LEASE NO.
8300'			
DIRECTIONS TO LOCATION			

TANGIBLE EQUIPMENT					SOURCE 13 (1-2)	
ACCOUNT (8-14)	DESCRIPTION	QTY	PRICE	PRODUCER COST (15-23)	DRY HOLE COST (24-32)	
CASING	8-5/8" 24# K-55 ST&C	250	14.14	3,600	3,600	
	5-1/2 15.5# K-55 LT&C	8300	9.64	80,000		
	Casing Hardware			5,000	800	
18-528-12	TOTAL CASING			88,600	4,400	
TUBING AND EQUIPMENT OTHER THAN CASING	Casing Head			1,500	1,500	
	Wellhead & Tree			10,000		
	2-3/8" 4.70# J-55 EUE Tbg	8300	4.17	34,600		
	300 Bbl Tanks	2	4,000	8,000		
	Production Unit	1	12,500	12,500		
	Misc & Contingency			6,600		
18-529-20	TOTAL EQUIPMENT OTHER THAN CASING			73,200	1,500	
	TOTAL TANGIBLE COSTS			161,800	5,900	

WELL COST ESTIMATE - CONTINUATION SHEET

WELL NAME State Com 31-8 #1

INTANGIBLE COSTS

	ACCOUNT	DESCRIPTION	MO	QUANTITY	PRICE	PRODUCER COST (11-12)	DRY HOLE COST (14-15)
DRILLING CONTRACTOR SERVICES		Turnkey Drilling Cost					
		Footage 8300 Ft. @ 90.50 Per Ft.				87,200	87,200
		Day Work W/DP 4 Days @ 5250 Per Day				21,000	21,000
		Day Work WO/DP Days @ Per Day					
	18-310-21	TOTAL DRILLING CONTRACTOR SERVICES				108,200	108,200
MATERIAL AND SUPPLIES	18-310-31	Bits and Drilling Equipment Rental				1,000	
	18-310-30	Drilling Mud and Chemicals				16,000	12,000
	12-310-32	Power, Fuel and Water				15,000	10,000
	18-310-33	Other Materials and Supplies				3,200	2,200
		TOTAL MATERIALS AND SUPPLIES				35,200	24,200
CONTRACTOR SERVICES	18-310-34	Drillsite Preparation				10,000	10,000
	18-310-36	Equipment Rental				8,000	2,000
	18-310-35	Logging and DST				15,000	15,000
	18-310-37	Cementing Services and Cement				14,000	2,500
	18-310-38	Fracing Services				55,000	
	18-310-39	Perforating Services				10,000	
	18-310-40	Squeezing Services				5,000	
	18-310-41	Acidizing Services				8,500	
	18-310-42	Trucking Services				15,000	5,000
	18-310-44	Welding and Roustabout				10,000	
	18-310-47	Customs Clearance					
	18-310-48	Diving Services					
	18-310-49	Supply Boat Expense					
	18-310-50	Drilling Consultants / Wellsite Geologists					
	18-310-51	Mobilization					
	18-310-52	Demobilization					
	18-310-43	Other Services				15,000	3,500
		TOTAL CONTRACTOR SERVICES				165,500	38,000
COMPLETION & CLEANUP SERVICES		Backfill Pits - Restore Location					
		Completion Unit 10 Days @ 2250 Per Day				22,500	
COMPANY LABOR EXPENSE & OVERHEAD	18-310-24	TOTAL COMPLETION & CLEANUP SERVICES				22,500	-0-
		Field Supervision 25 Days @ \$ 200 Day 15 drlg				5,000	3,000
		Houston, Overhead 25 Days @ \$ 100 Day				2,500	1,500
	12-310-48	TOTAL OVERHEAD				7,500	4,500
		District Expense Days @ \$ /Day					
TAX		Geological Expense Days @ \$ /Day					
	18-310-45	TOTAL COMPANY LABOR AND EXPENSES				-0-	-0-
		TOTAL COMPANY LABOR, EXPENSE, OVERHEAD				7,500	4,500
	18-838-00	TOTAL SALES TAX				-0-	-0-
		TOTAL INTANGIBLE COSTS				338,900	174,900
		TOTAL TANGIBLE COSTS (From Page 1)				161,800	5,900
		GRAND TOTAL (GROSS)				500,700	180,800
		UNION TEXAS (8-12) %				(11-21)	(22-30)

☒ UNION TEXAS PETROLEUM
☐ OTHER _____

WELL COST ESTIMATE

SOURCE 13 (1-2)		DATE 11/9/1982	
LEASE NAME WELL NO. FIELD OR AREA		COUNTY	
State Com 31-8 #1 Blanco Mesaverde & Basin Dakota		San Juan	
LOCATION		STATE New Mexico	
SW 1/4, SW 1/4, Section 2, T31N-R8W		GROSS ACRES IN LEASE	
<input type="checkbox"/> N2W <input type="checkbox"/> EXPLORATORY <input checked="" type="checkbox"/> DEVELOPMENT		W/O NO.	EST. TOTAL DEPTH 8300'
DIRECTIONS TO LOCATION		APPROX. NO. (3-7)	SUPPLEMENT NO. LEASE NO.

TANGIBLE EQUIPMENT						SOURCE 13 (1-2)	
	ACCOUNT (8-14)	DESCRIPTION	HOW	QUANTITY	PRICE	PRODUCER	DRY HOLE
						COST (15-23)	COST (24-32)
CASING		10-3/4" 40.5# K-55 ST&C		250	22.83	5,700	5,700
		7 5/8" 26.4# K-55 LT&C		5050	15.81	79,800	79,800
		5 1/2" 15.5# K-55 LT&C		3400	9.64	32,800	
		Casing Hardware				6,800	6,300
		Liner Hanger				5,000	
		18-509-13	TOTAL CASING				130,100
TUBING AND EQUIPMENT OTHER THAN CASING		Casing Head				1,800	1,800
		Wellhead & Tree				18,000	
		2-3/8" 4.70# J-55 EUE Tbg		14200	4.17	59,200	
		Tank Batteries		2	4000	8,000	
		Production Units		2	12,500	23,000	
		Downhole Equipment				15,000	
		Misc & Contingency				7,500	
		18-509-20	TOTAL EQUIPMENT OTHER THAN CASING				132,500
		TOTAL TANGIBLE COSTS				262,600	93,600

WELL COST ESTIMATE - CONTINUATION SHEET

WELL NAME State Com 31-8 #1

INTANGIBLE COSTS

	ACCOUNT	DESCRIPTION	HOW	QUANTITY	PRICE	PRODUCER COST (11-13)	DRY HOLE COST (14-15)
DRILLING CONTRACTOR SERVICES		Turnkey Drilling Cost					
		Footage 8300 Ft. @ 12.50 Per Ft.				103,800	103,800
		Day Work W/D 4 Days @ 5250 Per Day				21,000	21,000
		Day Work WO/D 4 Days @ Per Day					
	18-310-21	TOTAL DRILLING CONTRACTOR SERVICES				124,800	124,800
MATERIAL AND SUPPLIES	19-310-31	Bits and Drilling Equipment Rental				1,000	
	12-310-30	Drilling Mud and Chemicals				20,000	15,000
	12-310-32	Power, Fuel and Water				17,000	12,000
	18-310-33	Other Materials and Supplies				3,800	2,700
		TOTAL MATERIALS AND SUPPLIES				41,800	29,700
CONTRACTOR SERVICES	18-310-34	Drillsite Preparation				10,000	10,000
	18-310-35	Equipment Rental				10,000	2,000
	12-310-35	Logging and DST				15,000	15,000
	18-310-37	Cementing Services and Cement				19,000	12,000
	18-310-38	Fracing Services				77,000	
	19-310-39	Perforating Services				16,000	
	12-310-40	Squeezing Services				10,000	
	18-310-41	Acidizing Services				14,000	
	18-310-42	Trucking Services				18,000	10,000
	15-310-42	Welding and Roustabout				10,000	
	18-310-47	Customs Clearance					
	12-310-48	Diving Services					
	18-310-49	Supply Boat Expense					
	12-310-50	Drilling Consultant / Well-site Geologists					
	18-310-51	Mobilization					
	18-310-52	Demobilization					
	18-310-43	Other Services				20,000	5,000
		TOTAL CONTRACTOR SERVICES				219,000	54,000
COMPLETION & CLEANUP SERVICES		Backfill Pits—Restore Location					
		Completion Unit 20 Days @ 2250 Per Day				45,000	
	18-310-24	TOTAL COMPLETION & CLEANUP SERVICES				45,000	-0-
COMPANY LABOR EXPENSE & OVERHEAD		Field Supervision 38 Days @ \$ 200/Day 18 drls				7,600	3,600
		Houston, Overhead 38 Days @ \$ 100/Day				3,800	1,800
	18-310-46	TOTAL OVERHEAD				11,400	5,400
		District Expense Days @ \$ /Day					
		Geological Expense Days @ \$ /Day					
	18-310-45	TOTAL COMPANY LABOR AND EXPENSES				-0-	-0-
		TOTAL COMPANY LABOR, EXPENSE, OVERHEAD				11,400	5,400
TAX	18-638-00	TOTAL SALES TAX				-0-	-0-
		TOTAL INTANGIBLE COSTS				442,000	213,900
		TOTAL TANGIBLE COSTS (From Page 1)				262,600	93,600
		GRAND TOTAL (GROSS)				704,600	307,500
		UNION TEXAS (8-12) %				(13-21)	(22-24)

NEW MEXICO OIL CONSERVATION COMMISSION

COMMISSION HEARINGSANTA FE, NEW MEXICOHearing Date APRIL 22, 1982 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
William A. Farr	Pamphlet, Syd and Clark	Santa Fe
Elliott A. Riggs	Riggs Oil Gas	from NM
GARY PAULSON	Amoco Production Co.	DENVER, Colo.
Steven C. James	Mesa Petroleum Co.	Midland, TX
Gudbrand Bjerke	SUPCON ENERGY CORP	DALLAS TX
W V Kellerlin	Kellerlin & Kellerlin	Santa Fe
Gene Galle	Burgberg & Assoc	Santa Fe
John Kilee	FRED POOL Operating Co	ROSWELL
Fred F. Pool III	FRED POOL OR CO.	ROSWELL, N.M.
Union Pierce	Amoco Production Co.	DENVER, Colo
Bob Hahn	Byram	Santa Fe
SIM LAW	NEW MEXICO STATE LAND OFFICE	SANTA FE
TH. W. H. H.	Union Texas petroleum	DENVER
Calvin D. North	Supcon Energy Corp	Farmington

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
22 April 1982

COMMISSION HEARING

IN THE MATTER OF:

Application of Supron Energy Corpor-
ation for a non-standard proration
unit or compulsory pooling, San Juan
County, New Mexico.

CASE
7509

BEFORE: Commissioner Ramey and Commissioner Armijo

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:

William F. Carr, Esq.
CAMPBELL, BYRD, & BLACK P. A.
Jefferson Place
Santa Fe, New Mexico 87501

A P P E A R A N C E S

For Riggs Oil and Gas:

W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
500 Don Gaspar
Santa Fe, New Mexico 87501

For Amoco Production Co.:

Gary Paulson, Esq.
Amoco Production Company
Denver Region
Amoco Building
17th & Broadway
Denver, Colorado 80202

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2 MR. RAMEY: The hearing will come to order.
3 I've had a request to -- what we planned on this morning was
4 taking the first Case 7535 and then Case 7553, but what I'm
5 going to do is call Case 7509 so that we can accept a state-
6 ment from Amoco and then -- and then go to those two cases.

7 So we'll just open Case 7509 for a state-
8 ment and then proceed to the other two cases.

9 MR. PEARCE: Case 7509 is the application
10 of Supron Energy Corporation for a non-standard proration
11 unit or compulsory pooling, San Juan County, New Mexico.

12 MR. PAULSON: Thank you.

13 MR. RAMEY: Give your name and --

14 MR. PAULSON: Gary Paulson appearing in
15 association with Mr. Tom Kellahin, Santa Fe, representing
16 Amoco Production Company.

17 If it please the Chairman and members
18 of the Commission, we appear in Cause 7509, the application
19 of Supron Energy for a non-standard proration unit or in the
20 alternative compulsory pooling.

21 Amoco Production Company does not have
22 an interest in the proration unit is question. We do have
23 an interest in the Dakota and Mesaverde Pools in the area
24 and we are for that reason concerned about one aspect of this
25 particular cause.

1
2 Supron's request, as we understand it, in
3 this cause is to form a non-standard proration unit, 160-acre
4 unit, within the 320-acre designated unit for the reason that
5 they're unable to secure voluntary agreement for the drilling
6 of the unit well, and for no other reason, as we understand
7 it.

8 Our concern is that this would be an im-
9 proper use of the non-standard unit provision provided under
10 the rules and regulations of the State of New Mexico.

11 It's our feeling that the non-standard
12 unit provision is not intended to permit an operator in a
13 unit to subdivide the unit, if you would, based simply upon
14 his inability to secure voluntary agreement for the drilling
15 of the unit well. The statute concerning spacing provides
16 that the Division may establish a proration unit for each
17 pool, such being an area that can economically drain and
18 develop by one well, and in so doing the Division shall con-
19 sider the economic loss caused by the drilling of unnecessary
20 wells, the protection of correlative rights, including those
21 of royalty owners, the prevention of waste, the avoidance of
22 the augmentation of risk arising from the drilling of an ex-
23 cessive number of wells.

24 It's our feeling that if the -- this Com-
25 mission were to permit Supron Energy Corporation to subdivide

1
2 this 320-acre unit based simply upon an inability to secure
3 voluntary participation, that that would in fact adversely
4 affect correlative rights in the unit by depriving the working
5 interest owner in the other 160, as well as the underlying
6 royalty interest from participating in the well, and will also
7 encourage the drilling of unnecessary wells and concomitantly
8 would encourage waste in the unit.

9 Now, our concern, obviously, is based
10 upon the precedent that would be established by such an action.
11 It's our understanding that this would be a matter of first
12 impression with the Commission, that there is no other instance
13 where the Commission has permitted a non-standard unit be
14 formed in this manner, simply because the operator cannot
15 secure voluntary agreement.

16 Now there is, in fact, an infill drilling
17 program in effect as to this acreage, such that although there
18 is a 320-acre unit an additional well is permitted, and I
19 understand that the argument is going to be that -- that in-
20 asmuch as this Commission has already established a develop-
21 ment plan based upon 160's, that this should then permit
22 Supron to divide it officially into 160's.

23 Our argument there would simply be that
24 the establishment initially of a 320-acre unit vested certain
25 rights in both working interest and royalty owners within that

1
2 unit and that after those rights are vested it's not appro-
3 priate for the Commission to go back and to deprive the
4 owners within that unit of the right to participate pursuant
5 to compulsory pooling or voluntary participation within the
6 unit.

7 If in fact two wells were drilled on a
8 unit, a 320-acre unit, and those wells had disparate rates
9 of production, in this instance if the additional unit, the
10 additional 160-acre unit that would be left after subdivision
11 were to have a lesser rate of production, then there's no
12 question that the owners who formerly had a vested interest
13 in that unit had been deprived of some share of production
14 from the other well and thus have suffered an economic loss.

15 Our feeling is that compulsory pooling is
16 the appropriate remedy here. Amoco takes no position with
17 respect to the terms of that compulsory pooling. We simply
18 feel that the -- to the extent that this application, the
19 request, the formation of a non-standard proration unit, based
20 simply upon an inability to agree, that we feel that's inap-
21 propriate and would be such that it would encourage the
22 drilling of unnecessary wells and waste within the common
23 source of supply affected.

24 That's all I really have. If you have
25 any questions I'd be happy to attempt to answer them as to

1
2 our area of concern.

3 MR. RAMEY: Any questions of Mr. Paulson?

4 Okay, thank you, Mr. Paulson.

5 MR. PAULSON: Thank you, Mr. Chairman.

6 MR. RAMEY: We'll now call the next case.

7
8 (Thereupon this hearing was
9 continued until later in the day
10 on the same date, 22 April, 1982.)
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2 MR. RAMEY: The hearing will come to order.
3 We will recall Case 7509.

4 We will call for appearances at this time.

5 MR. CARR: May it please the Commission,
6 my name is William F. Carr with the law firm Campbell, Byrd,
7 and Black, P.A., of Santa Fe, appearing on behalf of the ap-
8 plicant, Supron Energy Corporation.

9 I have two witnesses who need to be sworn.

10 MR. KELLAHIN: Mr. Chairman, I'm Tom
11 Kellahin of Santa Fe, New Mexico, appearing on behalf of Riggs
12 Oil and Gas Corporation, and I have one witness to be sworn.

13
14 (Witnesses sworn.)

15
16 MR. RAMEY: All right, Mr. Carr, you may
17 proceed.

18 MR. CARR: We will call Mr. Bjerke.

19
20 GUDBRAND BJERKE
21 being called as a witness and being duly sworn upon his oath,
22 testified as follows, to-wit:

23
24 DIRECT EXAMINATION

25 BY MR. CARR:

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2 Q Would you state your full name and place
3 of residence?

4 A My name is Gudbrand Bjerke. I live in
5 Dallas, and I am employed by Supron Energy Corporation. I was
6 yesterday when I left. Today I don't know.

7 Q And would you explain that last statement,
8 please?

9 A Supron has been taken over by Allied and
10 Continental Group, so it could be Union Texas Petroleum or
11 Florida Exploration from now on.

12 Q But it is the same entity and they are --
13 you are representing the applicant in this case?

14 And in what capacity have you been em-
15 ployed by Supron Energy Corporation?

16 A I'm a landman with Supron.

17 Q Have you previously testified before this
18 Commission or one of its examiners?

19 A Yes, sir.

20 Q Your credentials have been accepted and
21 made a matter of record?

22 A Yes, sir.

23 Q Are you familiar with the application
24 filed on behalf of Supron Energy Corporation in this case?

25 A Yes, sir, I am.

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Q

Are you familiar with the subject area and the proposed location and the proposed well?

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A

Yes, sir.

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MR. CARR: Are the witness' qualifications acceptable?

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MR. RAMEY: They are.

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Q

Mr. Bjerke, will you briefly state what Supron seeks with this application?

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Supron is seeking to drill a well and Supron has 200 acres in the south half of Section 2, Township 21 North, Range 8 West, and we are trying to form a 320-acre Dakota-Mesaverde unit.

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And that again is to be comprised of the south half of --

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It will be the south half of Section 2.

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Have you also requested an alternative in this application? In addition to the compulsory pooling?

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A

Yeah, we also have unorthodox spacing.

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Q

So as an alternative you're requesting a non-standard spacing unit?

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Yeah, 160 acres in the southwest quarter of Section 2.

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Who are the other interest owners in the south half of Section 2?

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A. The interest owner is -- Riggs Oil and Gas Company owns the north half of the southeast and Crown Central Petroleum, the northwest of the southwest quarter.

The remaining acreage belongs to Supron.

Q. Now, what formations are you seeking to pool in this application?

A. We are seeking to pool the formations from surface to the base of the Dakota formation.

Q. Are your primary objectives are what formations?

A. This is the Mesaverde and the Dakota.

Q. Will the proposed well be drilled at a standard location?

A. Yes, sir.

Q. And is a south half spacing unit a standard spacing unit for Dakota and Mesaverde production in this area?

A. Yes, sir.

Q. What percentage of the ownership does Supron hold in the south half?

A. We own 63-1/2 percent in the south half.

Q. What percentage of the acreage would Surpon control in a 160-nonstandard unit comprised of the southwest quarter?

A. In the southwest quarter we will own 75

1
2 percent.

3 Q Would you please refer to what has been
4 marked for identification as Supron Exhibit One, which is a
5 packet of correspondence and review this for the Commission?

6 A Exhibit One is correspondence that started
7 back in July of 1981 where Supron proposed to drill a well in
8 the south half going to the Dakota Formation, and --

9 MR. RAMEY: Excuse me, Mr. Bjerke. Mr.
10 Carr, may we have a copy of these exhibits?

11 MR. CARR: Yes, sir, you're holding it in
12 your hand.

13 MR. RAMEY: It says Riggs Oil and Gas?

14 MR. CARR: This is all Exhibit One.

15 MR. RAMEY: Okay, thank you. Sorry to
16 interrupt.

17 A And we sent it. Then we have the Riggs
18 reply of July the 23rd. Riggs decided that he didn't want --
19 he wanted more information.

20 In August I sent a copy of the pooling
21 agreement, extra copies of the -- copy of the operating agree-
22 ment, the AFE, and a copy of the title opinion.

23 I got the refusal and a request from Riggs
24 Oil and Gas Company in August for more information.

25 In September I received executed copies

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2 of AFE, pooling and operating agreement, from Crown Central,
3 and then I had some conversations with Riggs Oil and Gas Cor-
4 poration. They did not want to join in the Dakota formation
5 but they would consider participating in a single completion
6 Mesaverde.

7 So we revised our AFE's and circulated
8 them again. In Exhibit Number Two -- am I ahead of you?

9 Exhibit Number Two is our first AFE, as
10 dated 7-13-81, and that covers a dual Mesaverde and Dakota.

11 Exhibit Number Three is the revised AFE
12 covering the Mesaverde formation only and that one was circu-
13 lated the first of February, 1982.

14 Q At the hearing today what formations are
15 you planning to -- in what formations are you planning to
16 complete the well?

17 A The Dakota and the Mesaverde.

18 Q Now, when you obtained approval from Crown
19 Central, was that for a south half spacing unit?

20 A South half spacing unit.

21 Q Have you conferred with Crown Central con-
22 cerning your alternative 160-acre unit?

23 A I gave them a call last week and told them
24 that we might be -- their interest might be increased from
25 12-1/2 percent to 25 percent if we got the 160 southwest spacing

1
2 for a Mesaverde-Dakota and they told me that that would be
3 okay with them. They'd rather see it that way.

4 Q Would their interest be proportionately
5 increased in a 160 --

6 A That would be -- it would be doubled. It
7 would be 25 percent to Crown Central in that case.

8 Q Now does Exhibit One contain all of your
9 written correspondence with Riggs Oil and Gas Corporation?

10 A Right.

11 Q In addition to this correspondence did
12 you talk with Mr. Riggs concerning this proposal?

13 A Yes, from time to time.

14 Q And how recently did you last talk with
15 him?

16 A The last time I talked with Mr. Riggs,
17 according to my telephone long distance, was March the 9th,
18 1982.

19 Q Mr. Bjerke, do the AFE's which are marked
20 Exhibits Two and Three, are these costs in line with what is
21 being charged by other operators in the area?

22 A Yes, sir.

23 Q Would you please refer to what has been
24 marked for identification as Supron Exhibit Number Four and
25 identify this for the Commission?

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2 A. This is the pooling agreement that was
3 circulated to Crown Central and to the Riggs Oil and Gas Cor-
4 poration, and it was approved by Crown Central and returned on
5 the --

6 Q On what date was it returned?

7 A. It was returned on September the 29th,
8 1981.

9 Q And did Mr. Riggs --

10 A. Mr. Riggs never did return it.

11 Q And declined to execute the agreement.

12 A. Right.

13 Q Would you now refer to what has been
14 marked for identification as Exhibit Number Five and identify
15 that?

16 A. The Exhibit Number Five is a model form
17 operating agreement that was also sent in the first and that
18 has been signed by Supron and by Crown Central but not by
19 Mr. Riggs.

20 Q Does this joint operating agreement con-
21 tain estimates for overhead and administrative costs while
22 drilling and while producing the well?

23 A. Yes, sir, at has \$2500 for drilling rate
24 and \$250 for operating rate.

25 Q And these are monthly figures?

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A. These are monthly figures.

Q. Are these in line with what's being charged by other operators in the area?

A. Yeah, and they're lower than most of the operators in the area.

Q. Do you recommend that these figures be incorporated by reference into any order which results from this hearing?

A. Yes, sir.

Q. Do you also request that this operating agreement be incorporated by reference into any order which results from this hearing?

A. Yes, sir.

Q. Is Supron Energy Corporation, or its successor, confronted with any lease expiration problems?

A. Yes, sir. Supron's State Lease V-100, will expire on May the 1st, 1982.

Q. Do you therefor request that the order be expedited?

A. Please.

Q. Does Supron plan to call an additional witness who will testify concerning the risk involved in drilling this well?

A. Yes, sir.

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2 Q Were Exhibits One through Five prepared
3 by you or compiled under your supervision and direction?

4 A Yes, they were prepared by me.

5 MR. CARR: At this time we would offer
6 Supron Exhibits One through Five.

7 MR. RAMEY: Supron's Exhibits One through
8 Five will be admitted.

9 MR. CARR: I have nothing further of Mr.
10 Bjerke on direct.

11 MR. RAMEY: Any questions of Mr. Bjerke?

12 MR. KELLAHIN: Yes, Mr. Ramey.

13 MR. RAMEY: Mr. Kellahin.
14

15 CROSS EXAMINATION

16 BY MR. KELLAHIN:

17 Q Mr. Bjerke, you testified as a petroleum
18 landman before the Oil Conservation Division on quite a num-
19 ber of occasions, have you not, sir?

20 A Yes, sir.

21 Q And you have testified on prior compulsory
22 poolings as a landman?

23 A Yes, sir.

24 Q Are you familiar with the general terms and
25 conditions of a compulsory pooling order? Are you not, sir?

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A. Yes, sir.

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Q. How long have you been a landman with

4

Supron, Mr. Bjerke?

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A. I have been landman for about four years,

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five years. Prior service, though eighteen years.

7

Q. In what capacity?

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A. Lease Records Supervisor.

9

Q. Now, if I understood --

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MR. RAMEY: Excuse me, Tom, what --

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A. Lease Record Supervisor.

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MR. RAMEY: Okay.

13

Q. All right, if I understand your Exhibits

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here, Mr. Bjerke, the first communication that Supron had with

15

Mr. Riggs and Crown Central was your letter of July 16th, 1981?

16

A. That is right.

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Q. And with that letter you enclosed the first

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of the two AFE's that are attached as exhibits?

19

A. Yes, sir.

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Q. And that first AFE is dated July 13th, 1981.

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A. That is right.

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Q. And it was that AFE that proposed a dually

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completed Mesaverde-Dakota test?

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A. Yes.

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Q. What were the reasons, as you understood

1
2 them, that Supron at that time back in July of '81 was seeking
3 to put together a south half proration unit for a Mesaverde-
4 Dakota test?

5 A. That I cannot -- the reason I cannot ex-
6 plain is because I am not a geologist or an engineer. I can
7 only testify to the land situation.

8 Q. I understand. Were you provided with a
9 geologic or an engineering prospectus from your engineers or
10 geologists requesting that this looks like an appropriate
11 proration unit for which you ought to proceed with getting
12 agreements?

13 A. I was provided with an AFE. They did re-
14 quest that I prepare necessary operating agreements and pooling
15 agreement and circulate it to the owners of the other part of
16 the section, the south half of Section 2.

17 Q. Did your Engineering Department or your
18 geological people provide you with any reports or explanations
19 as to why they were seeking a Mesaverde-Dakota dual well?

20 A. No, sir.

21 Q. And so you circulated the July 16th letter
22 to Mr. Riggs and Crown Central.

23 A. Yes.

24 Q. And the next correspondence is a July 23rd
25 letter back from Mr. Riggs to you, Mr. Bjerke, is that right?

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A. Uh-huh.

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Q And in that letter Mr. Riggs has requested that you provide him with some geologic justification for drilling and completion of the Mesaverde-Dakota well, has he not?

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A. That's right.

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Q Were you ever able to give him that information?

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A. That request was turned over to the Engineering Department and Geological Department.

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Q To your knowledge was that request ever responded to by furnishing him that information?

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A. No, sir.

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Q In fact subsequently he has made repeated requests to you to supply that information?

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A. Right, and I turned that over to the Geological and the Engineering Department.

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Q If Supron is designated the operator of this proration unit, under your proposed operating agreement or any of these documents that you have submitted, will Supron have the option to make the election as to who the gas purchaser is?

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A. No, sir. That acreage is not dedicated to anybody.

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Q Will Mr. Riggs, if you're successful in pooling his interest, will he still be allowed to determine who the gas purchaser is for his share of production from the well?

A. Most certainly.

Q Do you have any -- I believe you've just told me that this acreage is not dedicated to any pipeline at this point.

A. That's right.

Q Do you have plans to make a dedication to any particular pipeline?

A. I do not know what kind of pipeline is available in that territory.

Q Do you know what the custom and practice is of Supron with regards to the dedication of gas to any particular pipeline in this area?

A. No, sir.

Q You don't know whether they use Southern Union Gas Company or El Paso or someone else?

A. The Southern Union have got the first right of refusal.

Q On this property?

A. On all the property that we have that's not dedicated.

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Q If they execute their first right of refusal, will that be a dedication to the intrastate market or to the interstate market?

A That I couldn't tell you.

Q You don't know? You don't know whether it will make a difference as to the price paid depending upon who the pipeline purchaser is?

A No, sir.

Q You do not know? What kind of commitment can you make to Mr. Riggs with regards to Supron's position concerning the qualification of this well for tight sand designation?

A I cannot make any guarantees on tight sand because we haven't filed for it, and if it is not purchased in the area that is willing to pay the tight gas sand, I don't know anything about that.

Q Do you as operator intend to pursue the necessary efforts to qualify this well for a tight sand designation?

A I can't answer that question either.

Q In fact that was one -- in fact all those are questions that Mr. Riggs has asked you in his July 23rd letter, was it not?

A In March the 2nd.

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Q To your knowledge, Mr. Bjerke, were you ever able to provide Mr. Riggs with answers to those questions?

A. No.

Q Why not?

A. Because I didn't know.

Q Yes, sir, but you work for a company that has people that did know.

A. Right, and the questions were turned over to the proper departments for them to answer.

Q Let's turn to Mr. Riggs' letter of January 6th, 1982, Mr. Bjerke.

A. Okay.

Q Mr. Riggs says, as you have told us under direct examination, that Mr. Riggs did not desire to participate in a Dakota well, and sets forth some particular reasons. Were you ever able to respond to him with regards to answers to any of those questions?

A. No.

Q In light of his concern with regards to the fact that there is no geological-engineering justification for a Dakota well, Mr. Bjerke, did you not submit to him then a revised AFE for a single Mesaverde completion?

A. Yes, sir.

Q And that revision was February 1st of '82?

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A. That is right.

Q So at that point you had abandoned plans to seek agreement as to the Dakota formation?

A. No.

Q That's not reflected on your AFE.

A. That's right, but we tried --

Q Yes, sir.

A. -- on the February 5th letter to get -- to change our plans and drill a single Mesaverde in order for Mr. Riggs to join us in drilling this well.

Q And did Mr. Riggs convey to you some options in terms of negotiating a way that he might participate or farm out or somehow arrange a relationship with you that he could participate in the well?

A. Yes, sir.

Q And what were the terms and conditions that he offered to you?

A. 12-1/2 percent override with a back in at payout.

Q A 50 percent back in after payout?

A. Right.

Q And a 12.5 percent overriding royalty for which he would assume his existing overriding royalty burden?

A. Yes, sir.

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Q. Okay. All right. And what, if any, response did you make to that proposal?

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A. I called Mr. Riggs and told him that that was not acceptable to us; that we could -- he could either join, farm out, or be force pooled.

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Q. In what way was it not acceptable? Was the overriding royalty interest too high?

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A. Too high, --

Q. What did you offer him?

A. -- with 50 percent back in, in connection

with a 50 percent back in.

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We offered him 1/8th override, no back in.

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Q. 1/8th override is 12.5 percent.

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A. That's right.

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Q. Override. So the difference is you wouldn't give him the back in.

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A. That's right.

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Q. All right. Doesn't Supron ask for farm outs of their acreage for a back in under certain conditions and terms?

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A. Not in the San Juan Basin.

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Q. Is it not the custom and practice with dealing between operators and working interest owners in the San Juan Basin to trade on the basis of a back in?

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A. Not Supron. We do not have any back ins with any other farm out that we have made in the San Juan Basin.

Q Is not the custom and practice within the industry, excluding Supron, to allow knowledgeable operators in the San Juan Basin to farm out on a basis of a 50 percent back in after payout?

A. Not --

Q You don't know, or --

A. Not in the San Juan Basin.

Q You don't think that's the custom and practice in the San Juan Basin?

A. No, not by Supron.

Q Yes, sir, but by anyone else?

A. They have to answer for themselves. I can't answer for them.

Q What's the reason for seeking a non-standard 160-acre proration unit, Mr. Bjerke?

A. For the simple reason that if we -- if we can't get it force pooled, fine, and if we could get the 160 acres, then it will be used, the 160 acres to renegotiate some future other deals with Riggs Oil and Gas.

Q So the statement this morning by Amoco's attorney from Denver that the reason for the non-standard pro-

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2 ration unit is that it would be a way to exclude Mr. Riggs
3 from participating in the production from this well, that's
4 true, then, isn't it?

5 A. No.

6 Q. Why not?

7 A. We want to drill this well in order to hold
8 our lease. I said that the lease expired May the 1st, 1982.

9 Q. What kind of lease is it?

10 A. This is a State lease.

11 Q. Have you applied to Ray Graham of the Land
12 Commissioner's office for permission to extend beyond the
13 primary term if you commence drilling operations before the
14 end --

15 A. Yes.

16 Q. -- of the primary term?

17 A. Yes, sir, we --

18 Q. And has that request been approved?

19 A. It has been approved.

20 Q. So you're not up against the deadline, are
21 you?

22 A. Most certainly up against the deadline, have
23 to get started.

24 Q. You'll have to help me, Mr. Bjerke, I still
25 can't understand the reason you would seek 160-acre non-standard

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proration unit when you have the option of the compulsory pooling provisions.

A. What that implied I cannot answer. That decision was made for me.

Q. Is it your understanding that that decision is based only upon an exclusion of Mr. Riggs from participation in the 160-acre proration unit?

A. No. It's my understanding that Crown Central, and us, we can get to an agreement, operating agreement and everything, without any problems.

Q. Certainly -- excuse me, go ahead.

A. With Mr. Riggs we have not been able to. There's three parties now and we haven't been able to get together with Mr. Riggs.

Q. If you get 160-acre proration unit it will increase, as you told us, the share of Supron in the well as well as Crown Central.

A. That is right.

Q. Let me ask you your understanding of -- of the pooling order, how it works, Mr. Bjerke.

If the Commission enters a pooling order that pools formations from the surface down to the base of the Dakota and let's assume only the Mesaverde is productive, that's the one you produce from.

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A. Yes, sir.

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Q. Would you want that order to hold any other formations but the producing formation?

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A. We want the order to -- from surface to the base of the Dakota. This is what they're asking.

7

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Q. Under the hypothetical that would assume only the Mesaverde is productive and you would still want to hold any other formations that weren't producers?

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A. In case the Dakota is producing we want all formations from the surface to the base of the Dakota.

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Q. I'm having trouble understanding why you would submit a revised AFE for the Mesaverde only, Mr. Bjerke, when it appears to be your intention to drill to a deeper depth.

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A. It was not -- we submitted a revised AFE for the Mesaverde only in order to appease Riggs Oil and Gas Company and see if we could get Riggs Oil and Gas to join us in drilling this well.

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He had objection to the Dakota formation, so we said let's drop the Dakota and just go to the Mesaverde, single completion.

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Q. Your approvals from Crown Central show an approval of the AFE that shows the Mesaverde test? That's the November 18th, '81 letter?

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A. Right.

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Q. Is this well still currently on your drilling program despite the fact that your company is being sold?

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A. Yes, it's ready to go.

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We will start drilling, we have a rig coming, I don't know, in a day or two or three, but prior to May 1, 1982.

9

10

Q. Are you familiar with Mr. Tom Dugan in Farmington?

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A. No, sir.

12

Q. You don't know who he is?

13

A. I've heard of him but I don't know him.

14

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Q. You haven't done business with him in the San Juan Basin?

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A. Yeah, we have some -- we've had some joint ventures in -- in drilling. I think right now we have got a communitization agreement in the mill with Dugan Properties.

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MR. KELLAHIN: I don't have any further questions.

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MR. RAMEY: Any other questions? Mr. Carr?

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REDIRECT EXAMINATION

24

BY MR. CARR:

25

Q.

Mr. Bjerke, there are a number of various

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2 proposals that have been discussed here today. A revised
3 AFE only going to the Mesaverde is one.

4 A. Right.

5 Q Including only a 160-acre spacing unit.
6 Why have you proposed all of these methods, different approaches?

7 A. We have got a lease that is expiring May
8 the 1st, 1982, and we want to do something to perpetuate that
9 lease if it's a producing status.

10 Q Have all these proposals been pursued in
11 attempting a voluntary agreement with Mr. Riggs?

12 A. Yes, sir.

13 Q If Mr. Riggs was opposed to having a well
14 drilled to the Dakota, even if it was pooled, he wouldn't
15 look at any costs if you were only on a 160-acre unit, would
16 he?

17 A. That's right.

18 Q And to date you have been unable to reach
19 voluntary agreement, is that correct?

20 A. That is right.

21 MR. CARR: I have nothing further.

22 MR. RAMEY: Any other questions of Mr.
23 Bjerke?

24 He may be excused.

25 A. Thank you.

MR. CARR: I'd call Mr. Motto.

RUDY MOTTO

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

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your name and place of residence?

A My name is Rudy Motto, Post Office Box 254, Bloomfield, New Mexico.

Q By whom are you employed?

A I'm employed by Supron Energy Corporation.

Q In what capacity?

A As the Area Superintendent in the northwest New Mexico district.

Q Have you previously testified before this Commission or one of its examiners and had your credentials as an engineer accepted and made a matter of record?

A I have.

Q Are you familiar with the subject spacing unit?

A I am.

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2 Q Are you familiar with the application filed
3 on behalf of Supron?

4 A I am.

5 Q Are you familiar with the proposed well?

6 A I am.

7 MR. CARR: Are the witness' qualifications
8 acceptable?

9 MR. RAMEY: They are.

10 Q Have you prepared certain exhibits for in-
11 troduction in this case?

12 A I have.

13 Q Would you please refer to what has been
14 marked for identification as Supron Exhibit Number Six, ident-
15 ify this and explain what it shows.

16 A Exhibit Number Six is a New Mexico Oil Con-
17 servation Commission Form C-101, Revised 1-1-65. I prepared
18 this form myself, and the exhibit is asking for permission to
19 drill a gas well, multiple zone, to the Dakota and Mesaverde
20 zones, in the northwest of the southwest quarter of Section 2,
21 Township 31 North, Range 8 West, San Juan County.

22 Q When you filed this did you attach a Form
23 C-102?

24 A I did.

25 Q And what acreage was proposed to be dedicated

1
2 to this well?

3 A. The south half of Section 2.

4 Q Will you now refer to what has been marked
5 for identification as Exhibit Number Seven, identify this, and
6 explain what it shows?

7 A. Exhibit Number Seven is a plat showing the
8 proposed proration unit, Supron's acreage, the proposed loca-
9 tion, and the offset Mesaverde wells in the area of our pro-
10 posed wellsite.

11 Q Now you have not spotted the wells, is that
12 correct?

13 A. No, sir, we have just gone in and shown
14 the cumulative production through 1980 of all the wells that
15 we can find in each section around this proposed well, and also
16 the 1980 yearly production immediately above the cumulative
17 production.

18 Q So if we go to Section 3, immediately to
19 the west of the proposed unit, and we go to the northeast
20 quarter, we have 48/130, I believe.

21 A. That's right.

22 Q That means that there is a Mesaverde well
23 in that quarter section and those are the cumulative production
24 figures?

25 A. That's right, yearly and cumulative.

1
2 Q Okay, now the area shaded in yellow re-
3 presents Supron's leasehold interest in the proposed unit,
4 is that correct?

5 A That is correct.

6 Q What does this exhibit tell you about the
7 formation?

8 A It indicates to me that it's in -- our
9 acreage is in the area that is a high risk area to drill a
10 well in and, as you can see on the exhibit, the farther south
11 and west you go the higher the density of the drilling, and
12 in most cases after you get away from our acreage a way.
13 there's four wells drilled in each section; also to the north
14 and west the density decreases; north and east it decreases
15 close to our acreage, with density higher in about a six-mile
16 area away from our acreage; and to the south east the density
17 is very, very thin.

18 Q How would you characterize the quality of
19 the wells in the area?

20 A I would -- I would say that they are of
21 questionable quality in the immediate area of our acreage.

22 Q From this information can you make any
23 generalization as to the characteristics of the producing
24 formation as you move toward the north and east?

25 A I would say it is a very high risk area.

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Q

Do you believe it is possible that a well drilled at the proposed location would be dry in the Mesaverde formation?

A

There is that possibility. The risk is high.

Q

Now will you refer to what has been marked for identification as Supron Exhibit Number Eight, identify this, and explain what it shows?

A

Exhibit Number Eight is the same acreage as shown on Exhibit Number Seven. It shows the density of the locations of the wells drilled by quarter section to the Dakota formation.

Shown immediately around our acreage there

are no wells drilled. To the south and west there is some wells drilled of questionable producing ability, and then to the northeast there are no wells immediately adjacent to our well. Approximately five miles to the northeast there are some wells that are questionable, have questionable producing ability and some that probably are pretty good wells.

Q

How would you characterize the Dakota in this area?

A

I would characterize it as a high risk venture.

Q

And why is Supron proposing to dually com-

1
2 plete the well?

3 A. We're proposing to dually complete the
4 well because we think that you can drill both formations for
5 approximately 30 percent less cost than you could afford to
6 drill both wells separately.

7 Q Are you prepared to make a recommendation
8 to the Commission as to the risk factor which should be as-
9 sessed against any operator or any interest owner who does
10 not voluntarily join in the drilling of this well?

11 A. Yes, sir, we think we should -- should be
12 allowed the maximum risk factor allowed by the Commission.

13 Q So you're requesting a 200 percent penalty?

14 A. That's correct.

15 Q Has infill drilling been approved for the
16 Mesaverde and Dakota formations?

17 A. It has.

18 Q And are you familiar with the Oil Commis-
19 sion's order approving infill drilling?

20 A. I am.

21 Q I believe Mr. Bjerke has testified that
22 the application shows that Supron is also proposing, as an
23 alternative in this case, the creation of a 160-acre non-
24 standard spacing unit to be comprised of the southwest quarter
25 of Section 2, is that correct?

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A. That's correct.

3

4

Q. Do you believe that a well drilled at this location would effectively drain that spacing unit?

5

A. 160-acre spacing, yes.

6

7

Q. Are you aware if any 160-acre spacing or proration units have been approved by this Commission in either the Mesaverde or Dakota formations?

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A. Yes, sir, I'm aware of two 160 non-standard proration units in the Mesaverde; one of them being in San Juan County and one in Rio Arriba County; and in the Dakota I'm aware of one well that is in Rio Arriba County to the Dakota, 160 non-standard.

14

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16

Q. If a 160-acre non-standard spacing unit was approved, would that approval prevent the drilling of additional wells in Section 2 to fully develop that section?

17

A. No, sir.

18

19

Q. Does Supron request to be designated the operator of the proposed well?

20

A. Yes, sir.

21

22

23

Q. In your opinion will granting this application be in the best interest of conservation, the prevention of waste, and the protection of correlative rights?

24

A. Yes, sir.

25

Q. In your opinion would approval of either

1
2 of the alternatives impair the correlative rights of any in-
3 terest owner in the immediate area?

4 A. No, sir.

5 Q Were Exhibits Six through Eight prepared
6 by you or under your direction and supervision?

7 A. Yes, sir.

8 Q And can you testify as to the accuracy
9 of these exhibits?

10 A. Yes, sir.

11 MR. CARR: At this time, Mr. Ramoy, wo
12 would offer Supron Exhibits Six through Eight.

13 MR. RAMEY: Supron Exhibits Six through
14 Eight will be admitted.

15 MR. CARR: I have nothing further on direct
16 of Mr. Motto.

17 MR. RAMEY: Any questions of Mr. Motto?
18

19 CROSS EXAMINATION

20 BY MR. KELLAHIN:

21 Q Mr. Motto, you've made reference to the
22 existence of two Mesaverde non-standard proration units.
23 Could you tell us the order numbers, if you have those, and
24 who the operator is?

25 A. We have Order Number 1672 in the Mesaverde.

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MR. CARR: Aren't those --

3

A. Oh, I'm sorry.

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MR. CARR: Those are the orders approving
infill drilling, 1672.

6

7

A. Right. Okay, I do not know the order num-
bers that approved these. I can give --

8

9

MR. CARR: I can provide them, if you'd
like.

10

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12

Q. Well, my question, Mr. Motto, is you said
that there were two non-standard proration units approved in
the Mesaverde.

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A. That's right.

Q. Do you know who the operator is?

A. Supron Energy Corporation.

Q. Supron has obtained those.

A. Yes, that's right.

Q. Were those the subject of a contested Oil
Commission hearing?

20

21

22

A. I can't answer that honestly.

Q. And the Dakota non-standard proration unit,
is that also a Supron operated --

23

24

25

A. No, sir, that's Dugan Production Company,
and I can -- let's see if I can give you the order number on
that. Case Number 5508. I don't see the order number here.

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Q Do you have a transcript on that hearing,
Mr. Motto?

A Yes, sir.

Q Is that a protested hearing? Does it show
any opposition to it?

A No, sir, I don't see any.

Q How many Dakota wells do you figure there
are in the San Juan Basin, Mr. Motto?

A I can't answer that question honestly I
think in the area of 3000, possibly.

Q So there is one uncontested non-standard
proration unit that you're aware of out of some 3000 Dakota
wells?

A That's an estimate. I do not know the
exact number.

Q And how many Mesaverde wells are there in
the San Juan Basin?

A And again I'd guess, and it would probably
be in the vicinity of 5-to-8000, in that area.

Q Do you have any -- I believe you're a pet-
roleum engineer, are you not, sir?

A Yes, sir.

Q And you're an Area Superintendent for
Supron?

1

2

A. I'm the Area Superintendent.

3

Q. What does that mean, Mr. Motto? What is

4

your --

5

A. I'm responsible for the application, pipe design for the drilling, the drilling and completing of the wells, and the production of approximately 550 wells in north-west New Mexico.

9

Q. These are San Juan Basin wells that --

10

A. Yes, plus about 50 wells in Colorado immediately north of the state line.

11

12

Q. Are you aware of any engineering or geological justification for the creation of a 160-acre non-standard proration unit, Mr. Motto?

13

14

15

A. Geological or engineering. I'm not sure what you're asking me. Strictly that?

16

17

Q. Yes, sir, I want to know if you've got a reason to create a non-standard proration unit?

18

19

A. Yes. We think that this well could possibly be an economical well and it also gives us the opportunity to survey all of the zones between the Dakota and the Mesaverde and the surface while we're drilling this well.

20

21

22

23

Q. You can accomplish that objective without the aid of 160-acre non-standard proration unit, can you not?

24

25

A. We can accomplish it either way, yes, if

1
2 we can drill it.

3 Q So that won't make a difference, then?

4 A No, but we do have to drill it immediately
5 because our lease is about to expire.

6 Q Let me ask you about Exhibits Seven and
7 Eight, Mr. Motto.

8 A Uh-huh.

9 Q When were those exhibits prepared?

10 A They were prepared starting in, I believe,
11 February.

12 Q Of this year?

13 A Yes.

14 Q Were these prepared by some member of your
15 staff?

16 A They were prepared at my instructions by
17 an engineer in our home office in Dallas.

18 Q You've had an opportunity to review both
19 of those exhibits and satisfy yourself that they're correct?

20 A I am, and this can be confirmed -- the
21 figures can be confirmed by the annual report, New Mexico Oil
22 and Gas Engineering Committee, dated 1980. That's where the
23 figures are from.

24 Q Have you attempted to update this informa-
25 tion beyond the annual report of 1980?

1
2 A. No, sir, because I'm almost blind from just
3 doing this.

4 Q. So your opinion, based upon the risk in-
5 volved in drilling a Mesaverde and Dakota test, is based upon
6 the information you've derived from an examination of the
7 annual report put out by the Commission for 1930?

8 A. That's the Oil and Gas Engineering Commit-
9 tee's --

10 Q. Let's turn to Exhibit Eight, if you don't
11 mind.

12 A. Right.

13 Q. Why would Supron as a prudent operator, Mr.
14 Motto, want to try a Dakota test here?

15 A. We think the economics of drilling just to
16 the Mesaverde would not allow us ever to drill to the Dakota
17 unless we did that while we were drilling to the Mesaverde.
18 The cost saving to dually complete and drill to the Dakota
19 while we're drilling the Mesaverde well there is -- makes it--
20 makes it feasible and prudent to us to do that.

21 Q. The economic difference between the AFE's,
22 between the Mesaverde test and the Dakota-Mesaverde dual, is
23 about \$100,000, isn't it?

24 A. Yes, sir.

25 Q. Dry hole cost?

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A. I believe. I haven't seen the AFE's but I would guess that would be about right.

Q. Well, where is the nearest producing Dakota well?

A. The nearest producing Dakota well is -- let me count sections here, it's probably in 31, 7 in the northeast corner of Section 21, or in Section 28 in the southeast corner of -- of 28 of 31, 8.

Q. The indicated Supron acreage in Section 2 --

A. Uh-huh.

Q. -- is that the only acreage that you have in --

A. That is --

Q. -- this area?

A. That's a State lease. It's a 200 acre lease and expires next week.

Q. So if you are successful in a Dakota or even a Mesaverde test, you don't have any other area -- acreage in the area from which to make a step out and further develop it?

A. Yes, sir, we have the opportunity to infill drill in the east half of that section providing we have a 320-acre proration unit.

Also -- also --

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Q Except for that south half, then, you don't have any other acreage position.

A. That's right, uh-huh.

Oh, I might point out, too, that up in Section, let's see, I've got to count again, 26 of 32, 8, there is a Dakota well in the northeast corner of that section, which may be closer than the other two that I testified to.

Q What is the 1980 production on that well?

A. Yes, uh-huh.

Q What is the number?

A. Two.

Q Two?

A. Uh-huh, 2-million.

Q Two million Mcf?

A. Yes, Mcf, uh-huh.

Q Let's look at Exhibit Number Seven, Mr. Motto.

A. Uh-huh, okay.

Q The closest offset Mesaverde well to the proposed location looks like the well immediately to the west. I guess that's Section 5 up in the northeast quarter.

A. That would be Section 3.

Q Section 3. It shows 1980 production of 48,000 Mcf, is that right?

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A. Yes, uh-huh.

Q And in fact, that other number back there wasn't 2-million Mcf. It was 2000 Mcf.

A. Yes, yes, excuse me, I'm sorry.

Q How would this well in the northeast quarter of Section 3, in your opinion, you know, what kind of well is that?

A. Well, it's a questionable economic well, I think, but the thing that I can't tell you about, I can see one year's production.

Now the figure under that, I don't know whether that's two years or ten years or twenty years, so I'm at a loss to answer your question honestly.

Q It would be important to know what --

A. Time frame.

Q -- the date of first production was, whether it's --

A. Yes, that's the only way I could answer --

Q -- 1965 or 1980.

A. -- your question, uh-huh.

Q And you haven't made a study to determine when these wells were first put on production?

A. No, sir.

Q All right.

1
2 A. The economic factor, I think, involved in
3 this is the four well drilling in each section thinning to
4 a lesser density as we go towards our acreage.

5 MR. KELLAHIN: I have nothing further,
6 thank you.

7 MR. RAMEY: Any other questions? Mr. Carr?

8
9 REDIRECT EXAMINATION

10 BY MR. CARR:

11 Q Mr. Motto, did you attempt to locate all
12 Mesaverde and Dakota wells that were producing on 160-acre
13 non-spacing units -- non-standard spacing units in the area?

14 A. In this particular area, uh-huh.

15 Or no, I did not. I -- I only know per-
16 sonally of two Mesaverde wells on non-standard and one Dakota.
17 That's the only three.

18 Q There might be others that you wouldn't
19 know about?

20 A. That's right.

21 MR. CARR: I have nothing further.

22 MR. RAMEY: Any other questions? The wit-
23 ness may be excused.

24 A. Thank you.

25 MR. RAMEY: Anything further, Mr. Carr?

MR. CARR: Nothing further on direct.

MR. RAMEY: Mr. Kellahin.

MR. KELLAHIN: Mr. Chairman, we'd call Elliott Riggs.

ELLIOTT A. RIGGS

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q Mr. Riggs, would you please state for the record your name and address?

A My name is Elliott Riggs. I live in Farmington, New Mexico, P. O. Box 711, 87401.

Q What is your occupation, Mr. Riggs?

A I'm a petroleum geologist, independent operator.

Q What is your relationship with Riggs Oil and Gas Company?

A I created the company and I am President of it.

Q And you operate out of Farmington, New Mexico?

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2

A. Yes, sir.

3

4

Q. Mr. Riggs, what is your educational background?

5

6

A. I have a Bachelor of Science in geology from the University of Wisconsin.

7

8

Q. When did you obtain your Bachelor of Science degree?

9

10

A. 1951. I have a Master's in geology from Wisconsin, also.

11

12

Q. When did you obtain your Master's degree, Mr. Riggs?

13

14

A. 1953, and then I got drafted.

15

16

Q. You served in the Armed Forces in Korea for a period of time?

17

18

A. Four years.

19

20

Q. Other than your Master's degree have you obtained any other degrees, Mr. Riggs?

21

22

A. After the war I returned to college and did some graduate work.

23

24

Q. In what particular field of study did you do graduate work, Mr. Riggs?

25

A. Geology.

Q. Were you able to successfully complete your graduate study for the degree?

1
2 A. Yes, I did. I acquired another Master's
3 degree and a PhD in --

4 Q. When did you acquire your PhD, Mr. Riggs?

5 A. About 1960.

6 Q. Is that also in geology?

7 A. Yes, sir.

8 Q. Would you describe for us what has been
9 your employment experience as a geologist?

10 A. During college I worked for Ohio Oil Com-
11 pany summers.

12 I came to the Four Corners after the boom
13 with Texaco; worked my way up to Exploitation Geologist; got
14 promoted to Division Staff Geologist; resigned, and went into
15 business for myself in 1966.

16 Q. Is that when you became involved with Riggs
17 Oil and Gas Company, 1966?

18 A. Riggs Oil and Gas was created about 1968
19 to buy out a bankrupt entity that owned some poor, small wells
20 in the San Juan Basin.

21 Q. Would you describe the type of company
22 you have in terms of what your activity is in the San Juan
23 Basin?

24 A. Well, I operate several different entities
25 in the San Juan Basin that were created for different reasons,

1
2 but Riggs Oil and Gas was created to buy out a bankrupt, and
3 has since acquired some interests, small marginal interests,
4 that they continue to operate. It's grown very slowly but has
5 prospered over the years.

6 Q Do you have working interest ownership in
7 the wells in the San Juan Basin?

8 A Yes, sir, I do.

9 Q Could you approximate for us how big in
10 size your company is in terms of wells?

11 A Well, if you're talking about my personal
12 interest, I probably have an interest in somewheres between
13 100 and 150 wells, maybe 50 or 100 of them in the San Juan
14 Basin.

15 Q Have you ever been force pooled before, Mr.
16 Riggs?

17 A No, sir.

18 Q Have you ever had dealings with Supron be-
19 fore?

20 A Not businesswise. Well, yes, I have.
21 Well, pardon my hesitancy. I can't hardly separate -- they
22 change names, Southern Union, Supron; I've done business over
23 the years with some of the entities that have some apparent
24 common relationship.

25 Q Would you describe what your acreage posi-

1
2 tion is with regards to Section 2?

3 A. Riggs Oil and Gas owns 200 acres of HBP
4 acreage in Section 2, and that --

5 Q. When did you acquire that interest?

6 A. That interest was acquired in about 1970.

7 What have been your hopes and expectations
8 for your acreage position in Section 2?

9 A. At the time it was acquired it was consi-
10 dered marginal acreage. It was HBP. I hoped -- I made the
11 investment hoping that at some time we could drill a well in
12 there.

13 Q. When did you first become aware that Supron
14 held an acreage position in Section 2?

15 A. I was aware of the State sale in April of
16 '77, I believe, where they were successful bidders on that
17 tract.

18 Q. When did you first discuss with them the
19 possibility of drilling wells in Section 2 for both of your
20 common interests?

21 A. I believe the first contact I had was when
22 I got a letter from Mr. Bjerke, probably July of last year.
23 If you need the exact date, I'd have to look in the file.

24 Q. That's fine. Let me show you Mr. Bjerke's
25 exhibits, Mr. Riggs.

1
2 I believe the exhibits are arranged in
3 such a fashion the newest correspondence is on the top.

4 A. Okay.

5 Q. And the oldest is on the bottom.

6 A. I believe this is the letter I received
7 July 16th, 1981.

8 Q. And that was the letter in which Supron
9 proposed to you a dual Mesaverde-Dakota test?

10 A. Yes, sir.

11 Q. And what, if any, response did you make to
12 that, Mr. Riggs?

13 A. It's my recollection -- well, here it is
14 right here. Within the week I responded to Mr. Bjerke asking
15 him some questions with regard to the proposed drillsite.

16 Q. Did you seek further information from
17 Supron with regards to what their plans were and how they
18 had reached their plans and what you would do with your pro-
19 perty?

20 A. At the time I was very busy and I -- with
21 some programs that we had, and I did, I asked them some ques-
22 tions. Number one, I wanted to know the -- their justifica-
23 tion for drilling the Mesaverde-Dakota well, geology and en-
24 gineeringwise.

25 Q. Have you ever received any of that justifi-

1
2 cation, Mr. Riggs?

3 A. Not with regard to geology or engineering.

4 Q. What, if any, proposals did you make to
5 them with regards to their proposal, in terms of what you'd
6 be willing to do in order to voluntarily participate?

7 A. Well, that came quite a bit later. It was
8 last fall or last summer when Mr. Bjerke and I talked on the
9 phone a number of times. We did discuss the number of options
10 that were available, which -- sale, farm out, forced pooling,
11 joinder, and it was only in January or February that -- that
12 they actually made me an offer for a -- on a farm out basis.
13 If you need the exact date I'd have to refer to the --

14 Q. No, sir. Generally, Mr. Riggs, what was
15 offered to you by Supron on a farm out basis?

16 A. They offered me a 12-1/2 percent overriding
17 royalty interest, absorbing -- my absorbing the existing over-
18 rides; no back in after payout.

19 Q. And what, if any, response did you make to
20 them?

21 A. I said, no, that was not acceptable to me.
22 I didn't think it was an industry standard.

23 Q. And what counter-proposal did you make to
24 Supron concerning a farmout?

25 A. I responded to them in writing, saying that

1
2 I would consider farming it out to them on a 12-1/2 percent
3 override; my absorbing existing overrides; convertible at our
4 option to 50 percent back in after payout, proportionately
5 reduced, obviously.

6 MR. KELLAHIN: Mr. Chairman, at this time
7 we tender Mr. Riggs as an expert petroleum geologist.

8 MR. RAMEY: He is so qualified.

9 Q Mr. Riggs, in your opinion, based upon your
10 experience in this area, was the proposed farmout arrangement
11 you offered to Supron consistent with industry standards?

12 A It is my belief that was -- it is an in-
13 dustry standard at the present time.

14 Q How do you reach that conclusion, Mr. Riggs?

15 A Well, I don't have a large acreage interest.
16 Whatever deals small independents make, it's based on trade,
17 normally with people, the old established companies that have
18 interests, and that just seems to be the trading medium today.

19 If you want me to recite some examples, I
20 can do that. I got a farmout the other day, proposal from
21 Amoco on a wildcat, and they propose a 40 percent back in after
22 payout on a wildcat prospect.

23 Q Mr. Riggs, I show you what I've marked as
24 Riggs Exhibit One, which is a package of correspondence, and
25 ask if you'd identify that for me, please?

1
2 A. This top letter is a letter to me from
3 Dugan Production Corporation, offering to take a farmout on
4 my acreage under the terms I've just recited, participate in
5 the Supron well.

6 Q. What has been your experience with Mr. Dugan,
7 Mr. Riggs?

8 A. Well, my experience with Dugan, he's one of
9 my competitors but I have a high degree of admiration for him.
10 If there's ever a guy that pulled himself up by the bootstraps
11 and took marginal production and made money at it and made a
12 science out of it, he's the one that did it. He's an excel-
13 lent engineer and an excellent operator.

14 Q. In your opinion is Mr. Dugan a knowledgeable
15 oil and gas operator in the San Juan Basin?

16 A. Extremely so.

17 Q. And what is the substance of his letter of
18 April 20th, 1982, to you, sir?

19 A. He offers to take over that acreage and
20 drill with Supron on the basis of which I offered it to
21 Supron.

22 Q. Okay. Let's turn to the next piece of
23 correspondence in the package of exhibits, Mr. Riggs, and
24 have you identify that for me, please.

25 A. This is a letter from the president of

1
2 Kimbark Oil and Gas Company, who operates a number of wells
3 in the San Juan Basin, and I posed a question to Mr. Arbuckle
4 at one time. I didn't tell him where the tract was but I
5 gave him the bare bones parameters and asked him what a fair
6 and equitable trade might be, and his response is that, in
7 my opinion a fair and equitable farmout arrangement would be
8 1/8th override convertible to a 50 percent working interest
9 back in after payout.

10 Q The parameters of the hypothetical you pro-
11 posed to Mr. Arbuckle are attached under your March 10th, '82
12 letter to Mr. Arbuckle?

13 A Yes, that's correct.

14 Q All right, sir, and then turning to the
15 next correspondence, it's a letter from Mr. Curtis Little?

16 A Yes. I -- I went to see Curtis after Mr.
17 Bjerke turned me down, and I said -- Curtis Little has made
18 a large number of trades in the San Juan Basin the last couple
19 of years, and I asked him, I said, "Curtis, I'm not really
20 interested in delving into your business here, but I kind of
21 have a need to know what kind of trades you've been making,"
22 and he just sat down and enumerated them, some of them for me,
23 and I believe the flavor is -- you can look at them in detail,
24 but the flavor is generally in what we've been discussing here.

25 Q What kind of drilling budget does Riggs Oil

1
2 and Gas Company have on an annual basis to either drill its
3 own wells or to contribute its share of cost towards other
4 wells?

5 A. About \$40,000 a year.

6 Q. And how many wells do you actually drill in
7 a given year?

8 A. I don't --

9 Q. Under the name of Riggs Oil and Gas Company?

10 A. Very few; one every couple of years.

11 Q. As a matter of fact, your principal business
12 is one of successfully making deals with different operators in
13 the San Juan Basin, where you commit your working interest to
14 wells in some fashion, usually a farmout agreement?

15 A. As well as other places.

16 Q. And you've not been unsuccessful in those
17 efforts until you have reached this impasse with Supron con-
18 cerning this case, is that not true?

19 A. I've suffered my share of setbacks over the
20 years.

21 Q. But you've not been compulsory pooled by
22 any other operator?

23 A. No.

24 Q. Mr. Riggs, I'm going to show you what we've
25 marked as your Exhibit Number Two.

1
2 Mr. Riggs, let me direct your attention to
3 what I have marked as your Exhibit Number Two, which is your
4 Mesaverde production map. Is that an exhibit that you prepared?

5 A. Yes, sir.

6 Q. Would you identify generally what that ex-
7 hibit displays?

8 A. It's a base map in the general area of
9 Section 2 of 31 North, 8 West, which is the section under dis-
10 cussion, and it extends two or three miles in all directions
11 and has spotted on it all the wells within the outlines of that
12 map.

13 Q. Let me direct your attention to how you
14 have identified the Mesaverde wells in the area.

15 A. The Mesaverde wells are colored in green
16 and have the little figure "M" next to the well symbol.

17 Q. And how have you identified any Dakota
18 wells in the area?

19 A. The Dakota wells are identified with a blue
20 outer ring and have a "D" near the well symbol.

21 Q. Let's direct your attention to Section 13,
22 to the Dakota well in that section, and have you tell us a
23 little bit about that well.

24 A. That was a well drilled in 1960 by El Paso
25 Natural Gas Company. It's the number, what is it, San Juan

1
2 32-8 Well, Well No. 35, drilled 8156 to test the Dakota.
3 Spudded in the 8th month, plugged in the 9th month, 1960;
4 cored continuously about the upper feet of the Dakota.

5 Q That's one of the wells on the cross sec-
6 tion. Let's turn to the cross section that's Exhibit Number
7 Three, Mr. Riggs.

8 All right, sir, tell us about that well
9 in the Dakota.

10 A All right, that was -- back in the late
11 fifties and early sixties El Paso had a exploratory program
12 to test the Dakota and this was one of them. They're one of
13 the early companies to acquire lots of data on the Dakota,
14 primarily through coring, and were one of the leaders in de-
15 veloping the Dakota production in the Basin. This was one of
16 their projects and they cored the upper 100 feet, approximately,
17 and not all of the Core Lab core analysis is enumerated on
18 the righthand side of the log, but I picked out what I thought
19 was representative, fairly representative. You can see the
20 water saturations are fairly high, plus the major sands were --
21 contained vertical fractures; for the most part it was labeled
22 nonproductive by Core Lab. Apparently El Paso agreed with
23 that analysis and they plugged and abandoned the well.

24 Q Let's go up your cross section to Section
25 36 and have you tell us about that Dakota test.

1
2 A. That's just northeast of Section 2. That
3 well was drilled in 1969 by Aztec Oil and Gas, which is now
4 Southland Royalty, and they ran pipe to -- it went to 8480
5 feet. They ran pipe all the way to TD, perforated and fraced
6 it. You can see all the different sand zones they -- they
7 completed in. The drilling report showed that the Dakota made
8 water, no gas. The Dakota was abaonded by placing a bridge
9 plug at 6258 feet. The well now produces out of the Mesaverde,
10 the Dakota interval being abandoned.

11 Q. In your opinion, Mr. Riggs, would it be
12 prudent for an operator to drill a well as proposed in the
13 south half of Section 2 to test the Dakota?

14 A. In my opinion it is not prudent expenditure
15 of funds.

16 Q. Are you opposed to the compulsory pooling
17 by Supron that would compel the drilling of a Dakota test?

18 A. I also think it's a mistake to dually com-
19 plete wells, particularly where you've got one troublesome
20 zone or one marginal zone.

21 I'm not opposed to the forced pooling of
22 the Dakota but I can see no merit in spending exploratory
23 dollars on the Dakota when you've got no place to go.

24 Q. Would the Dakota test in the south half
25 of 2 adversely affect your correlative rights, Mr. Riggs?

1

2

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A. Not in the Dakota because I predict they're going to get a dry hole.

4

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Q If you participated and joined them in the Dakota test, contributed funds to that well, would that have an adverse effect upon you?

7

8

A Yeah, because I don't think it's a prudent expenditure of exploratory dollars.

9

10

11

Under the acreage circumstances that exist here, if you had 1000 acres, under some circumstances you might -- might merit a Dakota test.

12

13

Q Are you opposed to the approval of 160-acre nonstandard proration unit?

14

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A For the Mesaverde, yes.

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19

A We drilled a Mesaverde well in the southwest quarter and get a weak well, it will probably prevent the southeast quarter from being drilled under present economic conditions.

20

21

22

Q Are you in a position that you can voluntarily pay your proportionate share of the costs of a Mesaverde-Dakota test?

23

24

25

A At this point in time we'd have to borrow the money, Riggs Oil and Gas would have to borrow the money.

But that could be done.

1
2 Q Let me direct your attention to the Mesa-
3 verde information, Mr. Riggs. Let me direct your attention
4 to the northeast quarter of Section 10 and have you identify
5 that well.

6 A It's a well drilled in 19 -- it's a well
7 drilled and completed in 1981 by Northwest Pipeline as part
8 of their 32-8 Unit operation. It's the No. 42 Well, completed
9 in the Mesaverde. First six months on production, through
10 December of this past year, it made 79-million cubic feet of
11 gas.

12 Q What's your opinion with regards to that
13 well?

14 A Looks like a good well.

15 Q Have you had an opportunity to review Mr.
16 Motto's Exhibit Number Seven?

17 A No, it's never been officially submitted
18 to me. I've seen it floating around, looking over shoulders.

19 Q Let me show you a copy of that exhibit,
20 then, Mr. Riggs. Has Mr. Motton included that well in his
21 exhibit?

22 A Northeast of 10?

23 Q Yes, sir.

24 A No, it's not on there.

25 Q Let me direct your attention to the well.

1
2 In the northeast quarter of Section 3 and have you describe
3 for me your opinion of that well.

4 A. That's the Northwest Pipeline 39, San Juan
5 Unit 32-8. It was drilled and completed in 1979, AOF'd for
6 almost 3-million cubic feet. It's a little bit difficult to
7 tell when it was put on production, but we could go back and
8 look at the annual reports; you can see first production there.
9 It's obviously been on the line, maybe two years, and last
10 year it made 48-million cubic feet of gas. That's a fairly
11 decent well at 103 gas prices, 48,000 and -- there's no oil
12 up here but they did a few BTU adjustments and taxes, so last
13 calendar year that well probably grossed in the neighborhood
14 of \$140,000. It's a commercial well, if it maintains its
15 productivity.

16 Q Mr. Riggs, would you describe for us what
17 are your principal objections to the application of Supron?
18 What are your objections to the compulsory pooling, Mr. Riggs?

19 A. I think I made them a fair offer, an in-
20 dustry standard offer, one of which, in any of my other com-
21 panies, we'd be willing to take the other side of that trade.

22 Q In order to treat you fairly in terms of
23 the compulsory pooling, Mr. Riggs, do you have any recommenda-
24 tion to the Commission how to handle that matter?

25 A. Are we talking with regard to risk?

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Q. Yes, sir, I think so.

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A. There's always risk in drilling operations but as far as the geology of the drillsite goes, I consider it a low risk location. The risk under the drilling operations is either higher or lower depending on skill and expertise of people involved.

Q. If you should go nonconsent as a working interest owner in this proration unit, Mr. Riggs, do you have a recommendation to the Commission with regards to a penalty factor to be assessed against you?

A. I think it should be low, primarily because I thought I made a fair trade offer to them. That's been rejected. You want a number?

Q. Yes, sir, if you can place that in a percentage for me.

A. Five percent.

Q. Do you have any other concerns with regards to the operation or proposed operation by Supron of this proration unit?

A. I have some questions that I would -- if I were to participate that I would bring up, yes, sir.

Q. And what are those questions and concerns?

A. If it involved -- you know my feeling with regard to the Dakota well, Dakota location. In order to be

1
2 successful on the Dakota they've got -- Supron has to do what
3 nobody else has been able to do in the area.

4 With regard to the Mesaverde, now, I ques-
5 tion whether -- I don't know whether we want to pick nits here
6 or not, but I question -- I question the 5-1/2 casing, for
7 example. I think 4-1/2 would do.

8 I also bring up the question as to whether
9 everybody's considered -- isn't this in an area in which we
10 really need to consider gas or air drilling as opposed to mud
11 drilling? The AFE calls for \$30,000 a month.

12 Q. Based upon your experience, Mr. Riggs,
13 would you recommend the use of mud in drilling this well?

14 A. I don't think so. I think it's an area
15 where mud drilling is hazardous.

16 Q. What, if any, concern do you have about
17 this well qualifying for a tight sand designation?

18 A. I have major concerns. This is the only
19 acreage we have in the area. It is impossible to buy acreage
20 in the middle of the San Juan Basin. It's necessary that Riggs
21 Oil and Gas maximize its return from this acreage and it did
22 concern me at the time when I talked to Mr. Bjerke originally
23 that Supron was not aware of -- of what the status of the
24 tight sand application was in the area.

25 As it turns out, it does not cover Section

1
2 2, it stops at the township line a mile off to the east. But
3 I felt as operator they should have been knowledgeable about
4 those things.

5 The difference in price between 103 price
6 and tight sand gas price is almost double; current price is
7 \$5.18, \$5.18 plus BTU, plus taxes, and the reason Congress
8 created the NGPA of 1978 and the tight gas sand category was
9 to take care of situations such as this.

10 Q In your opinion, Mr. Riggs, would it pro-
11 perly protect your correlative rights insofar as potential to
12 qualify this well for tight sands designation if there were
13 a provision in the pooling order requiring the operator to
14 conduct the necessary tests prior to stimulation in order to
15 preserve the necessary data for an application of that sort?

16 A Yes, I do. I think it's in their best
17 interests, in my best interests, and being State acreage, it's
18 in the best interests of the State of New Mexico.

19 Q What, if any, concerns do you have, Mr.
20 Riggs, with regards to the formations that Supron proposes
21 to have subject to the pooling order?

22 A If I'm force pooled, I really don't think
23 it's fair and equitable to capture all my rights from the
24 surface to the base of the Dakota. I would acquiesce and
25 agree to force pooling of formations that are completed in.

1
2 Take for example, we've not even discussed
3 the shallower gas zones here today, and there is shallower
4 gas zones in the area, but if I'm force pooled and they -- and
5 they get from the surface to the base of the Dakota, I don't
6 even have the chance to consider a Pictured Cliffs Fruitland
7 or a Fruitland Coal well or any other shallow zone that may or
8 may not be productive.

9 Q In your opinion, Mr. Riggs, will it appro-
10 priately protect your correlative rights if a pooling order
11 was drafted in such a fashion as the only formation to be
12 pooled is the one in which Supron completes the well?

13 A I think that's fair and equitable.

14 If you take a farmout from El Paso Natural
15 Gas Company, that's all you get from them. You earn only
16 what is completed in.

17 Q In fact that type of provision would not
18 be unusual in the industry in the San Juan Basin, would it?

19 A I don't believe it would be unusual. We
20 have many horizontal splits of ownership, so say somebody
21 else owned the Pictured Cliffs rights here, that situation
22 would exist.

23 Q Mr. Riggs, do you have anything else that
24 you would like to address with regards to your opposition to
25 the Supron application?

1
2 A. I do have some concerns about the -- about
3 the dedication of this gas acreage. There are not very many
4 places in the Basin where we have undedicated gas reserves.
5 This is one of them, both Supron's and mine.

6 And I do view with concern Supron's inability to,
7 number one, tell me who they're going to sell the
8 gas to if they're to be the operator, which market it's going
9 to go into, and all the questions that go along with that.

10 Now some of the other companies that have
11 drilling operations, production operations, also have pipeline
12 operations; they can make money every step of the way.

13 Small independents lose title to their
14 product at the wellhead or at the meterhouse.

15 Now, I independently investigated the ques-
16 tion. If you want the details I can refer to my notes; how-
17 ever I have a contact with El Paso Natural Gas Company and as
18 of the date that I contacted them, they said they would pay
19 tight sand gas price if we qualified, and they sent me a --
20 in fact sent me a contract to sign.

21 Northwest Pipeline says the same thing. I
22 don't know whether their position has changed in the interim
23 or not, but I have also received a gas contract from Northwest
24 Pipeline to sign, and they said they would pay tight gas sand
25 price if it's qualified.

1
2 And the gathering system in the area is
3 Northwest Pipeline's system. In fact it crosses the northwest
4 corner of Section 2.

5 And once this acreage is dedicated, it is
6 almost impossible to ever undo it, and I've been part and
7 parcel of some Southern Union Gas contracts that expired after
8 twenty years, and boy, they won't turn you loose, so it is a
9 major concern when you drill one of these wells where that gas
10 is going to go and -- and if you sit in my chair very often,
11 you'd better believe you'd better stay out of the New Mexico
12 intrastate market.

13 Q In your opinion, Mr. Riggs, what would be
14 the best market conditions that would protect your economic
15 interest in this property as well as the royalty interests of
16 the State of New Mexico?

17 A In my opinion at this time it should be
18 dedicated to one of the major interstate gas pipelines.

19 Q And what is the economic difference as you
20 understand it between the two markets?

21 A About twice the price if you can qualify
22 for a tight gas price.

23 Now, no purchaser has to pay tight gas sand
24 price. If this gas gets dedicated to Southern Union or Gas
25 Company of New Mexico, there's -- we have no assurance that

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2 they'll pay that, and they don't have to pay it.

3 Q Would it satisfy your concern, Mr. Riggs,
4 if there was a provision in the pooling order that set forth
5 some requirement that Supron would not take action that would
6 otherwise commit or jeopardize your ability to dedicate your
7 share of production to the interstate market?

8 A Yes. I think it would be fair and equitable
9 if we executed our own gas contract. In fact, it might make
10 the well pay out faster.

11 Q All right, sir, were Exhibits One, which
12 is the correspondence, and Two which is the production map,
13 and Three, which was the cross section, were those prepared
14 under your direction and supervision?

15 A Yes, the two cross -- what was the other
16 one?

17 Q The cross section and the production map
18 were prepared by you, were they not?

19 A Yes.

20 Q And the correspondence was compiled by you
21 in relation to these other operators?

22 A Yes.

23 MR. KELLAHIN: We move the introduction
24 of Exhibits One, Two, and Three.

25 MR. CARR: We object to the admission of

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2 Exhibit Number One. It amounts to testimony by a number of
3 individuals who are not here to subject themselves to cross
4 examination. We have testimony from Mr. Curtis Little in the
5 form of a letter. We do not know with whom he was dealing;
6 whether these were individual deals; whether they were part of
7 a package deal; whether -- any of the terms surrounding this.
8 They were obviously solicited for the purpose of the hearing,
9 and although that doesn't impeach them, we do believe that if
10 individuals are testifying as to the kinds of deals that they
11 would be willing to enter, that they should come forward and
12 submit themselves to cross examination.

13 We don't quarrel with Mr. Riggs being an
14 experienced operator in the area and being able to testify
15 that in his experience what he's offered is reasonable.

16 But we do object to the form of these
17 letters.

18 MR. RAMEY: Let me ask Mr. Riggs a question
19 if I might.

20 MR. KELLAHIN: Yes, sir.

21 MR. RAMEY: The letter of April 20 from
22 Dugan, is that an offer to --

23 A. I'm sorry, I didn't hear your question.

24 MR. RAMEY: The letter of April 20th, 1982,
25 from Tom Dugan --

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A. Yes.

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MR. RAMEY: Is that an offer to farm invitation from you for this very acreage?

5

6

A. Let me describe the circumstances that led up to that letter.

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Several days ago I went to see Tom and I told him I had to come down here to a forced pooling hearing and I said, "Tom, I want to show you something. I want your opinion." So I laid out these maps and I said, "Am I so far off base here? Is my proposal to Supron out of line?"

12

13

And his response was, "Gee, I don't know why they turned that deal down. I'll take it right now."

14

15

And he called in his attorney and wrote that letter.

16

17

Now I didn't tell him whether I was going to accept this offer or not.

18

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MR. CARR: Mr. Ramey, we think it's appropriate if that's Mr. Dugan's decision, that he be here. Mr. Riggs could have accepted the offer and they could have presented that as an accomplished fact.

22

23

MR. RAMEY: Well, I think I'll accept the exhibits and consider them for what they're worth.

24

25

COMMISSIONER ARMIJO: Does my opinion have anything to do here? As far as I'm concerned, I think you

1
2 are correct. I hate to butt in but we could have a hundred
3 or two hundred of these letters as far as that's concerned,
4 and I don't think they'd be relevant as far as the case is
5 concerned.

6 That's just my opinion.

7 MR. KELLAHIN: We tender Mr. Riggs for
8 cross examination.

9
10 CROSS EXAMINATION

11 BY MR. CARR:

12 Q Mr. Riggs.

13 A Yes, sir, had I known those were going to
14 be objectionable, I wouldn't have brought them.

15 MR. RAMEY: You want to take them back?

16 A I thought they had some bearing on the case.
17 I'm sorry, go ahead.

18 Q Is it fair to say that you have not been
19 able to reach an agreement with Supron for a voluntary pooling
20 of this acreage?

21 A I thought I made them a heck of an offer.

22 Q But you've not been able to reach an agree-
23 ment?

24 A No, neither have they.

25 Q I'd like to take a look for a minute with

1
2 you at your Exhibit -- I believe it's Exhibit Number Two, your
3 plat of the area with the trace on it.

4 Is it correct that you are opposed to being
5 pooled to the Dakota and thereby having to share in costs in-
6 curred in drilling to the Dakota?

7 A. Yes, that's correct.

8 Q And based on the data you've presented on
9 the Dakota, as I understood your testimony, it was at best a
10 very poor prospect.

11 A. In my opinion it's a very poor prospect.

12 Q If a well was drilled to and completed as
13 a successful commercial well in the Dakota at this location,
14 your acreage, all of your acreage in Section 2 would be greatly
15 benefitted, is that correct?

16 A. That is correct. However, if it's a dry
17 hole, you've damaged it. There's two sides to that coin.

18 Q If it's a dry hole exactly how is it damaged?
19 There was nothing there to begin with.

20 A. You have proven that it is worthless in
21 the Dakota and right now there's an element of doubt, but
22 Supron's got to do it --

23 Q So you think it's possible that they could
24 get the well there?

25 A. Except they've got to do what nobody else

1
2 has been able to do.

3 Q And yet they're proposing to drill the well
4 to that depth.

5 A That's right.

6 Q If there was a 160-acre nonstandard spacing
7 unit approved, comprising the southwest quarter of Section 2,
8 you would not be called upon to share any of the costs of
9 drilling to the Dakota, is that right?

10 A Normally we talk about Mesaverde proration
11 units and Dakota proration units, and they're not always coin-
12 cident. Sometimes they --

13 Q I'm talking about pooling a nonstandard
14 unit from the surface to the base of the Dakota consisting of
15 just the southwest quarter of 2.

16 A Okay. State the question again now.

17 Q In that situation you do not have any
18 acreage ownership in that spacing unit, do you?

19 A That's right.

20 Q And you would not be asked to take any
21 of the costs of the well.

22 A That is correct.

23 Q And you wouldn't share in any of the pro-
24 ceeds.

25 A That's correct.

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Q And you would either benefit or be harmed by the information that was derived from that well.

A That's correct.

Q Now if we look at your -- the same exhibits in regard to the Mesaverde, I believe you testified that in the northeast of Section 10 there was what appeared to be a fairly good Mesaverde well.

A It would appear to be so.

Q The same is true of the well in the northeast of 3.

A That's correct.

Q Did you testify as to the well in the -- the Mesaverde well in the southwest quarter of 36, which is to the northeast of the proposed location?

A I believe all I said was it had been a Dakota penetration and the Dakota had been abandoned and now it's just a Mesaverde producer. You can see the production numbers there.

Q And in your opinion is that a good Mesaverde well?

A It is not a good Mesaverde well.

Q Is it fair to characterize this situation as we move from the southwest to the northeast we are moving generally to a poorer area in the Mesaverde formation?

1
2 A. Based on what you can see here, that is
3 perhaps correct, with the exception that the proposed drill-
4 site offsets one of the better wells in the area.

5 Q. But that in and of itself would not prove
6 up the acreage in the southwest of 2, would it?

7 A. It enhances it.

8 Q. Likewise the well in the southwest of 36
9 detracts from it, is that correct?

10 A. The well in the southwest of 36 is a mile,
11 mile and a quarter away. The well in the northeast of 10 is
12 an offset drillsite.

13 Q. About half a mile away.

14 A. Quarter; half. Half. It's as close as
15 you can get to that well. Supron drillsite is as close as
16 you can get to the best well in the immediate area.

17 Q. The proposed location is on the northeast
18 flank of what is the established producing area in the Mesa-
19 verde, is that not correct?

20 A. In a general sense.

21 Q. Well. You would like for Supron, I believe,
22 to assure you that they would obtain a 107 price for the gas
23 from the well. Is that one of your requests?

24 A. My original request was what was the status
25 of any application, if any, and in the absence of that, as

operator, what were they going to do to protect everybody's interest in that section with regard to the possibility of applying for that.

Q And did they -- were you asking them only to apply?

A Part and parcel of it as operator is to test the well after it's been perforated and before it's artificially stimulated to make sure that that procedure is properly documented.

Q And then?

A Then the application can go forward.

Q You were not asking them to guarantee that they would obtain the 107 price for the well?

A Oh, no, just -- no, you can't. That's just like --

Q Would you have any objection to an order that resulted from this hearing providing that the formations would remain pooled. Any formations in which there was a potential commercial show of oil or gas?

A I would object to that.

Q So if there were shows in three or four zones and it was required to move up the hole at a later date and recomplete in another zone, you would be opposed to letting them acquire rights in that formation?

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2 A. Well, you're going to have to define what
3 kind of shows you're talking about because this country is
4 full of shows.

5 Q. Well, something that looks like it is a
6 zone capable of commercial production, a third zone that after
7 one is of the Mesaverde and assumed Dakota.

8 A. Let them complete in that and they can have
9 it.

10 Q. But they would have to complete in it at
11 the time the well was drilled.

12 A. Or drill another well.

13 If that circumstance comes about, you've
14 locked up forever my Pictured Cliffs rights. I could never
15 make a trade on a Pictured Cliffs location in the southeast
16 quarter. It would be locked up forever. It's as if I lost
17 it. It's absolutely gone from my control.

18 Q. That would be only if we had a south half
19 dedication?

20 A. Uh-huh.

21 Q. And this acreage.

22 MR. RAMEY: But Pictured Cliffs only 160
23 acres.

24 A. But the forced pooling application is going
25 to take care of everything from the surface to the base of

1
2 the Dakota for the south half of the section, and if somebody
3 proposed a Pictured Cliffs location in the southeast quarter
4 my rights are gone.

5 Q Your problem would be alleviated, would it
6 not, with the creation of a 160-acre non-standard unit com-
7 prised of the southwest quarter from the surface to the base
8 of the Dakota?

9 A It would take care of that but the more
10 important problem are the Mesaverde rights because that's --
11 the gas zone is the thickest, that's where the largest reserves
12 are.

13 Q And you'd be free to drill a well over in
14 the southeast quarter to the Mesaverde, would you not?

15 A But the southeast quarter is not offset
16 to the best well in the area.

17 Q It would be a high risk venture?

18 A Higher risk.

19 Q A 10 percent risk?

20 A 7-1/2.

21 Q If this well -- if this section, excuse
22 me, Section 2 was fully developed being the maximum number
23 of wells authorized in the Dakota and Mesaverde formations,
24 how many wells could be drilled in each of those formations?

25 A Tell me whether they are dual completions

1
2 or single, single wells.

3 Q Let's just talk about the Mesaverde alone.

4 A Mesaverde. If it's developed to its maxi-
5 mum today, you get one well originally on each 320 and then
6 you get an infill and there would be four.

7 Q Do those infill wells have to be drilled
8 in the other quarter section from the original?

9 A It's my understanding they -- they go in
10 the undrilled 160.

11 Q So the effective well density for the area
12 is 160-acre spacing, is that correct?

13 A If you go through the infill program,
14 that's my understanding.

15 MR. CARR: I have no further questions.

16 A Can I make a short comment?

17 MR. CARR: No. If Mr. Kellahin would like
18 to have you make one, he may ask you.

19 A No? He says shut up, okay.

20 MR. RAMEY: Any further questions of this
21 witness? If not, the witness may be excused.

22 MR. CARR: And I would like to recall --
23 do you have any other witnesses?

24 MR. KELLAHIN: Subject to you. Go ahead.

25 MR. CARR: All right.

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2 MR. RAMEY: Who are you going to recall,
3 Mr. Carr?

4 MR. CARR: I'm going to --

5 MR. RAMEY: Or did you have anything further,
6 Mr. Kellahin?

7 MR. KELLAHIN: No, sir.

8 MR. CARR: I'd like to recall Mr. Motto
9 for a couple of very brief rebuttal questions.

10
11 RUDY MOTTO

12 being recalled as a rebuttal witness and being still under
13 oath, testified as follows, to-wit:

14
15 REDIRECT EXAMINATION

16 BY MR. CARR:

17 Q Mr. Motto, are you the individual that
18 designed the drilling program for the proposed well?

19 A I am.

20 Q Are you the person that selected the size of
21 the pipe to be used in going to the Dakota?

22 A I am.

23 Q Why did you select 5-1/2 inch?

24 A That's the only size pipe under this de-
25 sign that you could get to the end of both formations on.

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Q Are you the individual who is proposing to drill this well with mud?

A This well is designed for surface casing to be drilled to 250 feet with a mud base circulated system; then drilled out with a 7-5/8ths -- or 9-7/8ths inch bit with mud to 3820 feet. That is below the Pictured Cliffs. That goes into the Lewis Shale, which is above the Mesaverde formation.

It's also designed to drill out from under -- or out from under that 7-5/8ths with 6-3/4 bit to 8230 feet with gas.

We did not design it to drill with air because if you get oil in that, there's a very good chance that you'll burn your drill pipe off downhole.

Q In your opinion is the proposed completion for the well prudent and sound from an engineering point of view?

A I believe it is prudent and sound.

MR. CARR: I have nothing further.

MR. RAMEY: Mr. Kellahin?

RE CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Motto, --

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A. Yes, sir.

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Q. You wouldn't have any objection, would you, sir, to taking the necessary flow tests in the unstimulated condition of the well in order to preserve the data necessary to file applications to qualify this well for tight sand designation?

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11

A. No, sir, we would not.

MR. KELLAHIN: Nothing further.

MR. RAMEY: The witness may be excused.

Thank you.

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MR. RAMEY: Anything further, Mr. Carr?

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MR. CARR: I have a closing statement.

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MR. RAMEY: I think Mr. Kellahin can go first if he has one.

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MR. KELLAHIN: I think there are two serious difficulties with the compulsory pooling application of Supron, Mr. Chairman. One is that it's undisputed that Mr. Riggs offered to Supron what is a standard industry trade in terms of a farm out and that Supron has refused to do that. The adverse impact on Mr. Riggs is that having refused what is a standard farmout he is then subject to be compulsory pooled. The penalty hanging over his head in terms of the statutory maximum 200 percent risk factor is awesome. It is compounded because we can see from the geolo-

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2 gy -- not from the geology, but from the production history
3 from these offset wells that Mr. Riggs testified to that there
4 is an excellent opportunity for a Mesaverde completion.

5 The impact of the order, however, is that
6 if he should go nonconsent they will have an opportunity to
7 recover from Mesaverde production at very little risk the
8 cost they have expended in excess of \$100,000 to go ahead and
9 speculate on the Dakota, which it's acknowledged is a tre-
10 mendous risk. And so they get to explore, in effect, by
11 using Mr. Riggs' interest in this acreage.

12 I think that's an unfair use of the
13 pooling provisions and it's got to be drafted in such a way
14 that Mr. Riggs' correlative rights can be protected. I
15 think it's onerous for an operator to come before the Com-
16 mission and stand behind the pooling order in the face of what
17 has been offered as a fair opportunity to take a farmout, and
18 simply say we'll pool you.

19 They hold up this straw man of a 160-acre
20 nonstandard proration unit and I think it's ridiculous. It
21 makes no sense at all to further jeopardize Mr. Riggs with
22 the existance of 160-acre non-standard proration unit, which
23 we've seen is not the customary practice in this industry
24 for the San Juan Basin.

25 It's logical to assume that it's much

1
2 better to share in production from two wells as opposed to
3 taking risks on one well.

4 I think in order to fairly treat Mr. Riggs
5 you've got to do some things that are different from the stand-
6 ard pooling order, in order to adequately protect him. I
7 think it's important that the order specifically articulates
8 that the operator will take no action that would jeopardize
9 Mr. Riggs ability to market his share of production in the
10 interstate market. The economic incentive to placing it in
11 the interstate market, as Mr. Riggs has testified, is over-
12 whelming, double the price.

13 It's consented to by Supron that there is
14 no objection to a provision in the order that will require
15 them to preserve the necessary data and to conduct the neces-
16 sary tests to allow this well to be petitioned for tight sand
17 designation, an obvious need in order to protect the corre-
18 lative rights of not only Mr. Ribbs but the royalty interests
19 of the State of New Mexico.

20 I think however, that the way you can best
21 protect the correlative rights of Mr. Riggs is that in light
22 of the circumstances and facts of this case, that a penalty
23 factor is not unreasonable if its set at zero or five percent
24 or something in that neighborhood. I think that is only fair.

25 In light of Mr. Riggs willingness to work

1
2 some reasonable method of --of a voluntary agreement, he
3 should not be jeopardized by a substantial penalty in this
4 well.

5 MR. RAMEY: Thank you, Mr. Kellahin.

6 Mr. Carr?

7 MR. CARR: May it please the Commission,
8 Supron appears before you today seeking an order pooling the
9 south half of a section, or in the alternative, creation of
10 a 160-acre non-standard spacing unit.

11 All the preconditions for a pooling order
12 are present. The parties cannot agree. One party has the
13 right to drill and proposed to drill, is ready to drill, and
14 comes before you asking for the order and the statute pro-
15 vides you shall pool the land. We submit we're entitled to
16 that order.

17 The question then becomes what sort of a
18 risk penalty should be assessed. Now Mr. Kellahin would try
19 and cast this before you as if Supron were coming in and
20 dealing in a heavy-handed fashion with a poor independent,
21 who as an independent has been active in the business for
22 years and participates in a number of wells and is know-
23 ledgeable in the area and has been involved in the area.

24 I don't know who you compare their econ-
25 omic positions but I submit that's not really a question for

1
2 you to consider.

3 I think what you need to look at is was
4 a good faith effort made to obtain voluntary joinder. What
5 did Supron do? They propose to drill a well, he didn't like
6 it. They propose to go to the Mesaverde, he didn't like it.
7 He doesn't want to go to the Dakota. Okay, we'll just drill
8 our acreage and you can get benefit from the data and not share
9 in the cost. Nothing is acceptable. They don't have volun-
10 tary agreement. And in fact an offer has been made to Supron.
11 It may be reasonable and it may not be reasonable but that
12 doesn't bear on the question of risk. The risk is I'm putting
13 money to drill in the ground to drill this well and I assume
14 a risk that somebody who is not putting the money in the ground
15 stands to benefit from.

16 And we submit to you that when you're
17 drilling a Mesaverde-Dakota well in this area and the Mesa-
18 verde is a third of the way between a fairly good, recently
19 drilled Mesaverde well, with not an established production
20 history, and a poor Mesaverde well, that you have a high risk
21 situation, especially when you have a Dakota zone which is
22 definitely, by everyone's testimony, a high risk situation,
23 and I think you have to look at the risks, not the negotia-
24 tions. I think that all we're saying is we've negotiated in
25 good faith and we're willing to take the risk and drill the

1
2 well.

3 We, frankly, would prefer to go on 160
4 acres. We'll take all the risks. We'll drill to the Dakota,
5 but if that isn't acceptable, we have met every condition and
6 are entitled to a compulsory pooling order.

7 Now in this order Mr. Kellahin would sug-
8 gest that you get into marketing matters and things of that
9 nature. I would just suggest that that's probably not wise
10 for this Commission to do. Representations have been made
11 here by representatives of Supron that they will preserve
12 all data to pursue the 107 price. I can assure you they will
13 do everything that they can to fairly market the product, but
14 I don't think that is something that is proper to bring this
15 Commission into, and we therefor would request that the order
16 not contain unique provisions along the lines proposed by
17 Mr. Kellahin.

18 We therefor request that you grant the
19 application creating a 160-acre non-standard spacing unit for
20 all formations from the surface to the base of the Dakota.

21 In the alternative we request that you
22 pool the south half and that you impose the appropriate risk
23 penalty, which we believe the evidence clearly shows is 200
24 percent and not something absurd like five percent.

25 MR. RAMEY: Thank you, Mr. Carr. Does

1 anyone else have anything to offer in this case?

2 If not, we'll take the case under advise-
3 ment and the hearing is adjourned.
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6 (Hearing concluded.)
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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 CSR

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409



BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

August 11, 1982

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Mr. William F. Carr
Campbell, Byrd & Black
Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico

Re: CASE NO. 7509
ORDER NO. R-7033

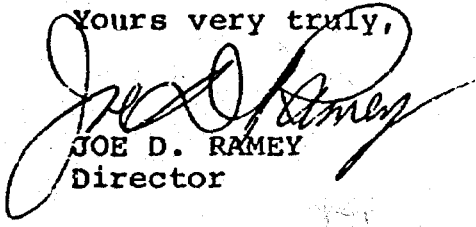
Applicant:

Supron Energy Corporation

Dear Sir:

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

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC x

Other Tom Kellahin, Gary Paulson

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 7509
Order No. R-7033

APPLICATION OF SUPRON ENERGY
CORPORATION FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on April 22, 1982, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 6th day of August, 1982, the Commission, having considered the testimony, the record, and the exhibits, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Supron Energy Corporation, seeks an order pooling all mineral interests down through the Dakota formation underlying the S/2 of Section 2, Township 31 North, Range 8 West, NMPM, San Juan County, New Mexico, to be dedicated to a well to be drilled at a standard location in the SW/4 of said section.
- (3) That the applicant owns an oil and gas lease on the S/2 S/2 and NE/4 SW/4 of said Section 2, and that Crown Central Petroleum who owns the NW/4 SW/4 has agreed to join so that the applicant thereby controls 75 percent of the working interest in the proposed spacing and proration unit and has the right to drill thereon, which it proposes to do.
- (4) That Riggs Oil & Gas Corporation is the owner of the N/2 SE/4 of said Section 2, and appeared at the hearing in opposition to Supron's proposal to pool the S/2 of Section 2 and drill an 8,250-foot well to test the Dakota formation underlying said lands.

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Case No. 7509

Order No. R-7033

(5) That the Mesaverde and Dakota formations in this area require the dedication of 320 acres to each well and that other formations in the area require the dedication of only 160 acres to each well.

(6) That if the applicant drills a well at a standard location in the SW/4 of said section and achieves production in any zone other than the Mesaverde or Dakota formations, the opponent to this application, Riggs, will have no interest in that production.

(7) That both parties agree, and the geological evidence tends to confirm, that the Mesaverde formation underlying the proposed spacing and proration unit is a good prospect for obtaining commercial production.

(8) That the geological evidence concerning the Dakota prospect is somewhat less conclusive, but the evidence appears to preponderate towards the view that prospects for commercial production from the Dakota formation are much more uncertain than such prospects for the Mesaverde and that Riggs is justified in not desiring to participate in going to the Dakota.

(9) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive, without unnecessary expense, his just and fair share of the gas underlying the subject lands, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit, and Supron should be designated operator of the subject well and unit, provided however, that Riggs should be given the opportunity to participate in the drilling of the subject well on a split-risk basis, i.e., (1) to participate in drilling and completion costs to the Mesaverde formation without penalty or to go non-consent to the Mesaverde and participate in the Mesaverde subject to a certain charge for the risk involved in drilling to said formation, and (2), to participate in the additional drilling and completion costs from the Mesaverde to the Dakota without penalty or to go non-consent from the Mesaverde to the Dakota and participate in the Dakota subject to a separate and different charge for the risk involved in the additional drilling.

(10) That it is the intent of this order to break the drilling of the subject well down into two separate and distinctive phases: (1) from the surface of the ground through the Mesaverde pay; and (2) from the base of the Mesaverde pay through the Dakota pay; to provide alternative selections to the pooler, Riggs; and to provide cost accounting for a single

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Case No. 7509
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Mesaverde completion vs. a single Dakota completion or a Mesaverde-Dakota dual completion.

(11) To the above ends, all charges and costs which would be directly attributable to a single Mesaverde completion should be charged to the Mesaverde zone and subject to the Mesaverde risk factor provided herein, if applicable, and paid out of Mesaverde production only; all charges and costs which would be directly attributable to the drilling of a single Dakota completion from the base of the Mesaverde pay through the Dakota pay as well as any extra up-hole charges and costs resulting from drilling the well to the Dakota above and beyond what would normally be spent drilling to the Mesaverde only (such as extra hole size, extra casing and cementing, rig charges, etc.) should be charged to the Dakota zone and subject to the Dakota risk factor provided herein, if applicable, and paid out of Dakota production only; all common charges to a Mesaverde-Dakota dual (including the separation packer, dual Christmas tree, etc.) shall be split between the two zones and each portion made subject to the risk factor for that zone and paid out of production from that zone.

(12) That after the effective date of this order and within 60 days prior to commencing the subject well, Supron should furnish the Division and Riggs itemized schedules of estimated well costs as follows:

- A. A cost estimate for a normal single Mesaverde test well to the anticipated Mesaverde completion depth (6,300 \pm feet).
- B. A cost estimate for a normal single Dakota test well to the anticipated Dakota completion depth (8,250 \pm feet).
- C. A cost estimate for a Mesaverde-Dakota dual completion at the above depths.

(13) That the cost estimate prescribed in Finding No. (12) A above should include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single Mesaverde completion without anticipation of drilling beyond the expected Mesaverde completion depth.

(14) That the cost estimate prescribed in Finding No. (12) B above should include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs

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Case No. 7509

Order No. R-7033

for a single Dakota completion without anticipation of an upper pay (Mesaverde) being present or requiring testing.

(15) That the cost estimate prescribed in Finding No. (12) C above should include normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a Mesaverde-Dakota dual completion.

(16) That within 30 days from the date the above-described schedules of estimated well costs are furnished to it, Riggs should make its election as to whether to participate in the subject well.

(17) That if it elects to participate, Riggs should have the opportunity of choosing its mode of participation, i.e., whether to participate in drilling to and completing in the Mesaverde only, or to participate in drilling and completing in both the Mesaverde and Dakota.

(18) That if it elects to participate, Riggs should be afforded the opportunity of paying its share of estimated well costs for the mode selected in lieu of paying its share of reasonable well costs out of production.

(19) That should Riggs elect not to pay its share of estimated well costs from the surface down through the Mesaverde pay, it should have its share of reasonable well costs for said formation withheld from production from the Mesaverde formation plus a reasonable percentage of such costs as a charge for the risk involved in the drilling of said well to the Mesaverde.

(20) That considering the geological and engineering evidence presented at the hearing, 150 percent of reasonable well costs is an adequate and appropriate charge for the risk involved in drilling said well to the Mesaverde formation.

(21) That should Riggs elect to pay its share of estimated well costs from the surface to the Mesaverde, but elect not to pay its share of estimated well costs from the base of the Mesaverde pay down through the Dakota pay, it should have its share of well costs for drilling from the Mesaverde to the Dakota withheld from production from the Dakota formation plus a reasonable percentage thereof as a charge for the risk involved in the drilling of said well from the Mesaverde to the Dakota.

(22) That considering the geological and engineering evidence presented at the hearing, 200 percent of reasonable well costs from the Mesaverde to the Dakota is an adequate and

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appropriate charge for the risk involved in drilling said well from the Mesaverde to the Dakota.

(23) That should Riggs elect to participate in either of the above-described modes of participation, its payment of its share of estimated well costs for that mode should be made to Supron in accordance with some customary and mutually agreeable system for billing and payment which is common to the industry; that should Riggs so elect to participate and pay its share of estimated well costs for the mode selected, it should remain liable for operating costs but should not be liable for risk charges for that mode of participation. Reasonable drilling and completion costs advanced by Supron beyond the mode selected and prepaid by Riggs should be subject to the risk factors described above and withheld from production from the appropriate formation together with operating costs.

(24) That within 90 days following completion of the well, the operator should furnish the Oil Conservation Division and Riggs an itemized schedule of actual well costs for drilling and completion of the well, broken down into two segments: from the surface through the Mesaverde pay, and from the base of the Mesaverde pay through the Dakota pay; that if no objection to such actual well costs is received by the Division, and the Division has not objected to such actual well costs within 45 days following receipt of said schedule, the actual costs should be considered reasonable costs; provided however, that if there is an objection to actual well costs within said 45-day period, the Division should determine reasonable well costs after public notice and hearing.

(25) That within 60 days following determination of reasonable well costs, should Riggs have paid its share of estimated well costs for either of the above-described modes of participation, it should pay to Supron any amount that its share of reasonable well costs for that mode exceed paid estimated well costs and should receive from Supron any amount that paid estimated well costs exceed reasonable well costs for that mode.

(26) That \$2500.00 per month while drilling and \$250.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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Case No. 7509

Order No. R-7033

(27) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership.

(28) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be in the Mesaverde and Dakota formations underlying the S/2 of Section 2, Township 31 North, Range 8 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of November, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Dakota formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of November, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 90 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Supron Energy Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 60 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit itemized schedules of estimated well costs as follows:

- A. A cost estimate for a normal single Mesaverde test well to the anticipated Mesaverde completion depth (6,300 ± feet).

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Case No. 7509

Order No. R-7033

B. A cost estimate for a normal single Dakota test well to the anticipated Dakota completion depth (8,250 ± feet).

C. A cost estimate for a Mesaverde-Dakota dual completion at the above depths.

(4) That the cost estimate prescribed in Order No. (3) A above shall include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single Mesaverde completion without anticipation of drilling beyond the expected Mesaverde completion depth.

(5) That the cost estimate prescribed in Order No. (3) B above shall include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single Dakota completion without anticipation of an upper pay (Mesaverde) being present or requiring testing.

(6) That the cost estimate prescribed in Order No. (3) C above shall include normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a Mesaverde-Dakota dual completion.

(7) That within 30 days from the date the above-described schedules of estimated well costs are furnished to it, Riggs shall make its election as to whether to participate in the subject well.

(8) That if it elects to participate, Riggs shall have the opportunity of choosing its mode of participation, i.e., whether to participate in drilling to and completing in the Mesaverde only, or to participate in drilling to and completing in both the Mesaverde and Dakota.

(9) That if it elects to participate, Riggs shall be afforded the opportunity of paying its share of estimated well costs for the mode selected in lieu of paying its share of reasonable well costs out of production.

(10) That should Riggs elect not to pay its share of estimated well costs from the surface down through the Mesaverde pay, it shall have its share of reasonable well costs for said formation withheld from production from the Mesaverde formation plus 150 percent thereof as a charge for the risk involved in the drilling of said well to the Mesaverde.

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Case No. 7509
Order No. R-7033

(11) That should Riggs elect to pay its share of estimated well costs from the surface to the Mesaverde, but elect not to pay its share of estimated well costs from the base of the Mesaverde pay down through the Dakota pay, it shall have its share of well costs for drilling from the Mesaverde to the Dakota withheld from production from the Dakota formation plus 200 percent thereof as a charge for the risk involved in the drilling of said well from the Mesaverde to the Dakota.

(12) That should Riggs elect to participate in either of the above-described modes of participation, its payment of its share of estimated well costs for that mode shall be made to Supron in accordance with some customary and mutually agreeable system for billing and payment which is common to the industry; that should Riggs so elect to participate and pay its share of estimated well costs for the mode selected, it shall remain liable for operating costs but shall not be liable for risk charges for that mode of participation. Reasonable drilling and completion costs advanced by Supron beyond the mode selected and prepaid by Riggs shall be subject to the risk factors described above and withheld from production from the appropriate formation together with operating costs.

(13) That within 90 days following completion of the well, the operator shall furnish the Division and Riggs an itemized schedule of actual well costs for drilling and completion of the well, broken down into two segments: from the surface through the Mesaverde pay adjusted downward for any extra up-hole charges and costs per Finding No. (11), and from the base of the Mesaverde pay through the Dakota pay including any extra up-hole charges and costs per Finding No. (11); that if no objection to such actual well costs is received by the Division and the Division has not objected to such actual well costs within 45 days following receipt of said schedule, the actual costs shall be considered reasonable costs; provided however, that if there is an objection to actual well costs for either or both segments within said 45-day period, the Division shall determine reasonable well costs for each segment after public notice and hearing.

(14) That within 60 days following determination of reasonable well costs, should Riggs have paid its share of estimated well costs for either of the above-described modes of participation, it shall pay to Supron any amount that its share of reasonable well costs for that mode exceed paid estimated well costs and shall receive from Supron any amount that paid estimated well costs exceed reasonable well costs for that mode.

(15) That Supron is hereby authorized to withhold the following costs and charges from production:

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Case No. 7509

Order No. R-7033

- (A) The pro rata share of reasonable well costs attributable to Riggs if Riggs has not paid its share of estimated well costs in accordance with the provisions for pre-payment as set forth in this order.
- (B) As a charge for the risk involved in the drilling of the well, the percentage specified elsewhere herein of the pro rata share of reasonable well costs attributable to Riggs if Riggs has not paid its share of estimated well costs in accordance with the provisions for pre-payment as set forth in this order.

(16) That \$2500.00 per month while drilling and \$250.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(17) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(18) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(19) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in San Juan County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

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Case No. 7509
Order No. R-7033

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

EMERY C. ARNOLD, Chairman



Alex J. Armijo
ALEX J. ARMIJO, Member

Joe D. Ramey
JOE D. RAMEY, Member & Secretary

S E A L

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

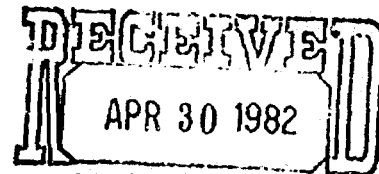
JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
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WILLIAM F. CARR
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April 29, 1982

Mr. Joe D. Ramey
Director
Oil Conservation Division
New Mexico Department of
Energy & Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

HAND DELIVERED



Re: Case 7509: Application of Supron Energy Corporation
for Compulsory Pooling or in the Alternative the
Creation of a Non-Standard Spacing or Proration Unit,
San Juan County, New Mexico

Dear Mr. Ramey:

This letter is in response to the letter of April 29, 1982 from W. Thomas Kellahin on behalf of Riggs Oil and Gas Company and the letter attached thereto from Elliott Riggs to Supron Energy Corporation. As you will note, Mr. Riggs' letter of April 27 states that he executed certain documents on that date which voluntarily commit his interests in the S/2 of Section 2, Township 31, North, Range 8 West, San Juan County, New Mexico to a well to be drilled by Supron to test the Mesaverde formation. Supron made an offer to Mr. Riggs for a well to the Mesaverde as part of its efforts to obtain voluntary joinder in this project on February 5, 1982. This offer was declined and resulted in the Commission hearing on May 22 in the above-referenced case. Having gone to hearing seeking an order pooling Riggs' interest in the S/2 of said Section 2 for the Dakota as well as the Mesaverde formation, Supron is of the opinion that there was no proposal for a well to the Mesaverde formation alone to which Mr. Riggs could commit his interest on April 27, 1982.

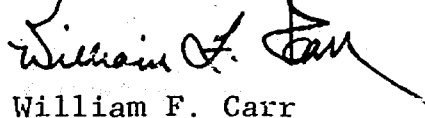
Supron and Riggs have not reached an agreement for the development of the S/2 of Section 2. Supron requests that the Oil Conservation Commission proceed to enter its order based on the evidence offered in Case 7509. Should an agreement be reached by the parties for the development of this spacing unit, Supron Energy Corporation, as the applicant in this case, will advise the Commission and at that time would request

Mr. Joe D. Ramey
Page 2
April 29, 1982

that its application be dismissed. We believe this action by Mr. Riggs is only further evidence of the problems Supron has encountered during the past ten months in attempting to drill a well in the S/2 of Section 2 to test the Mesaverde and the Dakota formations.

As you are aware, on April 26, 1982 Mr. Kellahin filed proposed findings in this case. Should you desire, Supron Energy Corporation will supply a proposed order for the Commission's consideration. We believe, however, that a standard order pooling the Mesaverde and Dakota formations and imposing a 200 percent risk penalty would be the appropriate order to result from the May 22 hearing. Should the Commission feel that pooling both formations will result in some hardship to Mr. Riggs, we believe our alternative proposal for a 160 acre non-standard spacing unit would solve this problem and enable the interest owners in the SW/4 of Section 2 to drill a well to test the Mesaverde and Dakota formations. Mr. Riggs would then be free to develop his acreage as he sees fit.

Very truly yours,


William F. Carr

WFC:jh

cc: Mr. Ed Dunn
Chris S. Record, Esquire
Mr. John R. Womack
Mr. Rudy Motto
Mr. Gaby Bjerke
W. Thomas Kellahin, Esq.

KELLAHIN and KELLAHIN

Attorneys at Law

500 Don Gaspar Avenue

Post Office Box 1769

Santa Fe, New Mexico 87501

Jason Kellahin
W. Thomas Kellahin

Karen Aubrey

Telephone 982-4285
Area Code 505

April 29, 1982

Mr. Joe D. Ramey
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

HAND DELIVERED

Re: NMOCD Case 7509
Supron v. Riggs

Dear Mr. Ramey:

I am enclosing for your information a copy of Mr. Riggs' letter dated April 27, 1982, in which he has voluntarily committed his interest to the drilling of a Mesa Verde test by Supron.

We believe that this voluntary joinder by Mr. Riggs is sufficient to require the dismissal of Supron's application for a compulsory pooling order in the referenced case.

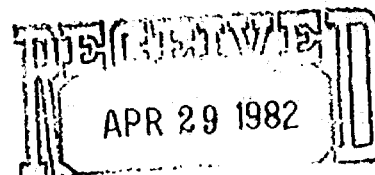
Very truly yours,


W. Thomas Kellahin

WTK:rb

Enclosure

cc: William F. Carr, Esq.
Elliott Riggs





Riggs Oil & Gas Corporation

P. O. Box 711
Farmington, New Mexico 87401

Office: 505/525-9881

April 27, 1982

Supron Energy Corporation
Mr. G. Bjerke
Building V, 5th Floor
10300 N. Central Expressway
Dallas, Texas 75231

Re: Supron #31-8 State Comm
Sec 2-T31N-R8W
San Juan County, New Mexico

Dear Mr. Bjerke:

I am this date signing the Supron revised AFE, dated 2/1/82, for a Mesa Verde well in the SW $\frac{1}{4}$ of Sec 2-T31N-R8W.

I believe the AFE contains a couple of items that are in error. The casing program should probably be a short string of 9-5/8" to 200-300' with 7" being set to approximately 4,000' or into the top of the Lewis shale, and a 4-1/2" liner from about 3,800' to TD. I believe if you check with Rudy Motto in Farmington you will find that this is the standard casing program for a gas drilled Mesa Verde well.

I am returning three signed copies of the pooling agreement. I am also returning the two extra signature pages for the operating agreement, however you should note that under Article VI, Paragraph 2, that the reference to drilling a well to a depth of 8,300' sufficient to test both the Mesa Verde and Dakota; that this should be changed to 6,300' or a sufficient depth to test the Mesa Verde formation.

You will also note that the communitization Agreement has been changed on page 2 to reflect a Mesa Verde single completion.

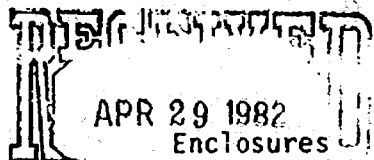
In accordance with previous agreements and statements it is understood that Supron will conduct the necessary testing in order to provide data necessary for a tight gas sand application in Sec 2, and as previously indicated by you, Supron will undertake a tight gas sand application for Sec 2.

Riggs Oil & Gas Corporation retains the option to dedicate its own gas reserves and sign a contract for these reserves since at the present time Supron cannot state with exactness who the gas purchaser will be.

If you have any questions, please feel free to give me a call.

Yours very truly,


Elliott A. Riggs
President



OL

cc: T. Kellahin
J. Morgan

Supron Energy Corporation
 AUTHORITY FOR EXPENDITURE

REVISED
 AFE NO 81-114

LEASE State 31-8 WELL 1 FIELD Blanco
 COUNTY San Juan FORMATION Mesa Verde ESTIMATED TO 6300'
 STATE New Mexico WELL TYPE: DEVELOPMENTAL XXX EXPLORATORY
 LOCATION 905' FSL & 790' FWL, Section 2, Township 31 North, Range 8 West.

	SUB ACCT.	PRODUCING WELL		DRY HOLE
		SUB	TOTAL	
Well Cost - Intangible - 303				
LOCATION, ROAD, & DIRTWORK	101-2	15,000	15,000	15,000
DRILLING CONTRACTOR CHARGES:				
FOOTAGE OR MI-RU-RD-MO \$16/ft.	103-4	100,800		
DAYWORK (INCLUDES BITS)	105	6,000		
TURNKEY	106		106,800	106,800
FUEL, POWER, & WATER	107	8,000		8,000
DRILLING EQUIPMENT-RENTAL - PURCHASE	108-11	2,000		2,000
MUD & CHEMICALS	112	30,000	40,000	30,000
EVALUATION:				
MUD LOGGING & CORING	201			
TESTING	202			
OPEN HOLE LOGGING	203	15,000	15,000	15,000
CEMENTING SERVICES & SUPPLIES	301	15,000	15,000	10,000
SUPERVISION & AUTOMOTIVE	302	4,000	4,000	4,000
WELL SERVICE RIG-COMPLETION	401	10,000		
COMPLETION EQUIPMENT-RENTAL - PURCHASE	402	1,000		
COMPLETION COSTS:				
LOGGING & PERFORATING	403-5	8,000		
STIMULATION	406-7	35,000	54,000	
INSTALLATION COST OF WELL EQUIPMENT	408	2,000		
HAULING	501	2,000	4,000	1,000
OVERHEAD	502	2,000	2,000	2,000
MISCELLANEOUS Completion Gas	503-4	8,000	8,000	---
10% Contingency		26,400	26,400	19,400
SUB TOTAL		290,200	290,200	213,200
Well Cost - Tangible - 304				
CASING:				
CONDUCTOR	101			
SURFACE 300' - 8-5/8"	102	4,200		4,200
INTERMEDIATE	103			
PRODUCTION 6300' - 5 1/2"	104	57,900		
TUBING 6300' - 2-3/8"	201	26,300	88,400	
SUB-SURFACE EQUIPMENT	301-4			
WELLHEAD EQUIPMENT:				
CASINGHEAD & SPOOL	401-2	3,000		
TUBINGHEAD & X-MAS TREE	403	5,000		
ARTIFICIAL LIFT EQUIPMENT	501-4			
SURFACE PRODUCTION EQUIPMENT	601-3	8,000		
CATHODIC PROTECTION	701			
H ₂ S WARNING SYSTEM	702			
OTHER	703		16,000	1,000
SUB TOTAL		104,400	104,400	5,200
ESTIMATED TOTAL COST		\$394,600.00	\$394,600.00	\$218,400.00

Working Interest

SUPRON ENERGY CORPORATION	62.5 %	\$246,625.00	\$136,500.00
Riggs Oil & Gas Corp.	25.0 %	98,650.00	54,600.00
Crown Central Petroleum Corp.	12.5 %	49,325.00	27,300.00

REVISED AFE

Special Instructions

This AFE has been revised to show estimated cost of drilling to
 Mesa Verde formation only.

Operator SUPRON ENERGY CORPORATION

DATE 2-1-82 PREPARED BY J.L. Lee
 APPROVED Haskell Fleetwood Vice President
 APPROVED L. S. Muennink Executive Vice President

PARTNER APPROVAL

DATE 4/27/82

COMPANY

BY Riggs Oil & Gas Corp.

Supron Energy Corporation
AUTHORITY FOR EXPENDITUREREVISED
AFE NO 31-114

LEASE State 31-8 WELL 1 FIELD Blanco WELL NO
COUNTY San Juan FORMATION Mesa Verde ESTIMATED TO 6300'
STATE New Mexico WELL TYPE: DEVELOPMENTAL XXX EXPLORATORY
LOCATION 905' FSL & 790' FWL, Section 2, Township 31 North, Range 8 West.

	SUB ACCT.	PRODUCING WELL		DRY HOLE
		SUB	TOTAL	
Well Cost - Intangible - 303				
LOCATION, ROAD, & DIRTWORK	101-2	15,000	15,000	15,000
DRILLING CONTRACTOR CHARGES:				
FOOTAGE OR MI-RU-RD-MO \$16/ft.	103-4	100,800		
DAYWORK (INCLUDES BITS)	105	6,000		
TURNKEY	106		106,800	106,800
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DRILLING EQUIPMENT-RENTAL-PURCHASE	108-11	2,000		2,000
MUD & CHEMICALS	112	30,000	40,000	30,000
EVALUATION:				
MUD LOGGING & CORING	201			
TESTING	202			
OPEN HOLE LOGGING	203	15,000	15,000	15,000
CEMENTING SERVICES & SUPPLIES	301	15,000	15,000	10,000
SUPERVISION & AUTOMOTIVE	302	4,000	4,000	4,000
WELL SERVICE RIG-COMPLETION	401	10,000		
COMPLETION EQUIPMENT-RENTAL-PURCHASE	402	1,000		
COMPLETION COSTS:				
LOGGING & PERFORATING	403-5	8,000		
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Crown Central Petroleum Corp.	12.5 %	49,325.00	27,300.00

REVISED AFE

Special Instructions

This AFE has been revised to show estimated cost of drilling to
Mesa Verde formation only.

Operator SUPRON ENERGY CORPORATION

DATE 2-1-82 PREPARED BY J.L. Lee
APPROVED Haskell Fleetwood, Vice President
APPROVED L. S. Muennink, Executive Vice President

PARTNER APPROVAL
COMPANY

DATE

BY

KELLAHIN and KELLAHIN

Attorneys at Law

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

500 Don Gaspar Avenue
Post Office Box 1769
Santa Fe, New Mexico 87501

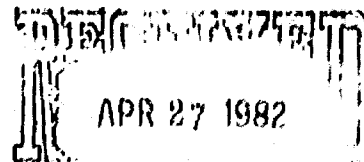
Telephone 982-4285
Area Code 505

April 26, 1982

Mr. Joe D. Ramey
OIL CONSERVATION DIVISION
P. O. Box 2088
Santa Fe, New Mexico 87501

HAND DELIVERED

Re: Case 7509
Supron Energy Corporation



Dear Mr. Ramey:

On behalf of Riggs Oil & Gas Company, please find enclosed our proposed findings which we request be included in any pooling order that is entered in the above-referred case.

Very truly yours,

A large, handwritten signature in cursive script, appearing to read "W. Thomas Kellahin".

W. Thomas Kellahin

WTK:rb
Enclosure
cc: William F. Carr, Esq.
Elliott Riggs

KELLAHIN and KELLAHIN

Attorneys at Law

500 Don Gaspar Avenue

Post Office Box 1769

Santa Fe, New Mexico 87501

Telephone 982-4285

Area Code 505

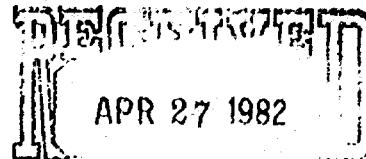
Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

April 26, 1982

Mr. Joe D. Ramey
OIL CONSERVATION DIVISION
P. O. Box 2088
Santa Fe, New Mexico 87501

HAND DELIVERED

Re: Case 7509
Supron Energy Corporation



Dear Mr. Ramey:

On behalf of Riggs Oil & Gas Company, please find enclosed our proposed findings which we request be included in any pooling order that is entered in the above referred case.

Very truly yours,

A handwritten signature in dark ink, appearing to read "W. Thomas Kellahin". The signature is fluid and cursive, with a large initial "W".

W. Thomas Kellahin

WIK:rb

Enclosure

cc: William F. Carr, Esq.
Elliott Riggs

(4) That Riggs Oil & Gas Company has not agreed to pool its interests in the subject well.

(5) That Applicant, first proposed to Riggs Oil & Gas Company a dual Mesa Verde-Dakota test based on estimated well costs of \$537,000.

(6) Thereafter, Applicant proposed a single Mesa Verde test based on an estimated well cost of \$395,000, or \$142,000 less than the Mesa Verde-Dakota Dual completion.

(7) Based upon Applicant's estimated well costs for a Mesa Verde completion, Applicant seeks a 200% risk factor penalty against Riggs Oil & Gas interest which would amount to \$197,500.

(8) That the risk of drilling, and completing a Mesa Verde Well is very low.

(9) That the risk in drilling a Dakota well is highly speculative and constitutes a risk that a reasonably prudent operator would not undertake.

(10) That a risk factor penalty as requested by Applicant would allow Applicant to recover from Riggs Oil & Gas Company's share of production from the Mesa Verde formation sufficient funds to repay Applicant for the risk of a Dakota test and therefor would not equitably apportion the risk and would violate the correlative rights of Riggs Oil & Gas Company.

(11) That Riggs Oil & Gas Company, proposed a farmout agreement to Applicant whereby Riggs Oil & Gas Company would receive a 12.5% Overriding Royalty convertible, at its option, to a 50% working interest after payout.

(12) That said proposal by Riggs was consistent with industry standards in the area.

(13) That Applicant without justification refused the proposed farmout and now seeks a compulsory pooling order against Riggs Oil & Gas Company.

(14) In order to grant the Applicant's requested pooling order without adversely affecting the correlative rights of Riggs Oil & Gas Company the following is required:

(a) That the Applicant be granted a pooling order from the surface to the base of the Mesa Verde Formation for the formation of a 320 acre proration and spacing unit for gas production, provided that said order shall apply only to those formations in which the Applicant obtains production upon completion of the subject well.

(b) That the Applicant's request to pool any formations below the base of the Mesa Verde formation should be denied and in lieu thereof its request for the formation of a 160 acre non-standard gas proration and spacing unit should be granted only for the Dakota formation, being the SW/4 of said Section 2.

(c) That the Applicant be required to apportion all well costs chargeable against the Riggs Oil & Gas Company interest to the reasonable costs of drilling to the base of the Mesa Verde Formation.

(d) That Applicant be granted a risk factor of 5% assessable against the Riggs Oil & Gas Company interest only for those costs involved in the drilling of a single completion Mesa Verde Well.

(e) That Applicant be required to conduct all tests and employ all drilling, completion, and stimulation tests

7509

Gary Pulson

7535

Gene Gallegos

1

Tom Kelliham

3

Wm F Carr Mesa

Steven C James

Drill by May 15

Jack Grynberg

Presented by
Pool of Grynbergs
\$3700⁰⁰ + \$370⁰⁰ charges

36

At standard location

\$238,400

Pool cannot drill by August 15

29 wells - Grynberg operated - 18

Pool

John Klee - Petr. Landman 2/15/80

Overhead

\$3000.⁰⁰ Drilg.

Prod. \$300⁰⁰

Burk Whittenburg

Pool Exhibit 2 be entered

Stewart Hansen

200% risk

Fred F
Sonny Pool III

AFE

13 Prod. Abo wells operated by Pool
31 " " by interest

Grynberg

200% risk

2500 Month drlg
250 " prod.

7509

Cent Supron
2 with.

Halliam Riggs
1-

Gabby Byrke - Landman

Force Pooling or non-standard unit
Surface - base of Dakota including MV
Supron - $62\frac{1}{2}\%$ in $5/2$
SW/4 - 75%

2,500 Drlg
250 Oper

5500

Rudy Motto

MV Non-standard (2 approved)
Case 5508

~~Q~~

Elliott Riggs

Risk - 5%

$$\begin{array}{r}
 4 \overline{) 132,000} \\
 \underline{128} \\
 40 \\
 \underline{32} \\
 80
 \end{array}$$

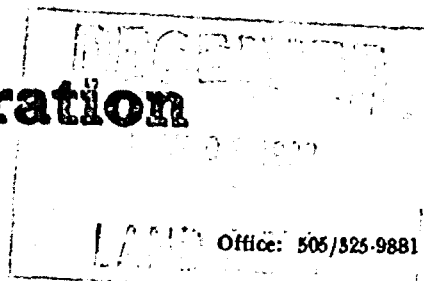
6300' MV

$$\begin{array}{r}
 63 \\
 16 \overline{) 160,800} \\
 \underline{96} \\
 48
 \end{array}$$



Riggs Oil & Gas Corporation

P. O. Box 711
Farmington, New Mexico 87401



March 2, 1982

Supron Energy Corporation
Attention: Mr. G. Bjerke
Building V, 5th Floor
10300 North Central Expressway
Dallas, Texas 75231

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7509 Exhibit No. 1

Submitted by BIERKE

Hearing Date 2/22/82

Re: #31-0 State Com
Sec 2-T31N-R8W
San Juan County, New Mexico

Dear Gaby:

Sorry I wasn't able to get back with you last Friday or the first couple of days this week. I had a deep Pennsylvanian well down to log in addition to muddy roads and access problems, we had casing and cementing problems.

With regards to our conversation several days ago, concerning the Supron well in Sec 2-T31N-R8W, I believe we could be interested in farming out our Mesa Verde rights in the 80 acres in the S $\frac{1}{2}$ of Sec 2, to be dedicated to subject well. Your offer however was not satisfactory. We are aware of recent Supron farmout deals in the San Juan Basin where you apparently required a back-in-after-payout.

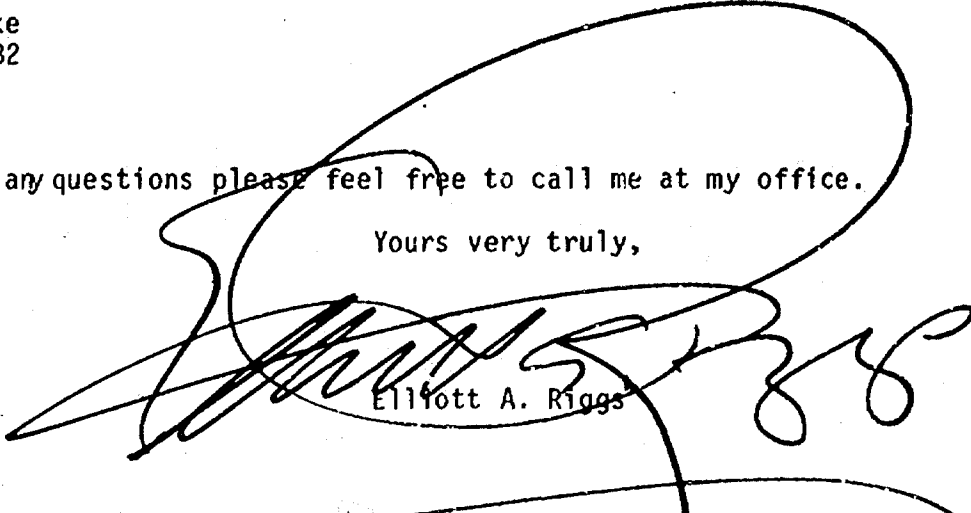
We would be willing to make a trade, which is consistent with recent industry practice in the San Juan Basin on inside and offset development wells, according to the following general terms:

1. Supron to earn Mesa Verde rights upon completion on our 80 acres.
2. 12 $\frac{1}{2}$ % ORR to Riggs Oil & Gas, Riggs Oil & Gas absorbing any existing ORR's.
3. ORR convertible, at our option, upon payout (definition to be agreed upon) to $\frac{1}{2}$ back-in-after-payout.
4. Supron agrees to apply for "tight gas sand" classification for all of Section 2-T31N-R8W upon extension of mutually acceptable definitive agreement. Currently "tight gas sand" price is \$5.18/MCF + BTU adj and taxes.
5. Riggs Oil & Gas to dedicate and execute a gas contract upon its gas reserves effective upon first production with a purchaser that is currently willing to pay "tight gas sand" price when Supron qualifies Section 2-T31N-R8W.

Mr. G. Bjerke
March 2, 1982
Page 2

If you have any questions please feel free to call me at my office.

Yours very truly,



Elliott A. Riggs

EAR/llr

February 5, 1982

Riggs Oil & Gas Company
Post Office Box 711
Farmington, New Mexico 87401

Attention: Elliott Riggs

Crown Central Petroleum Corporation
4747 Bellaire Boulevard
Bellaire, Texas 77401

Attention: J. L. Coover

Re: State 31-8 #1
San Juan County, New Mexico

Gentlemen:

Enclosed you will find two (2) revised copies of our AFE on the above for a single completion Mesa Verde well.

If this meets with your approval please execute and return one (1) copy for our files.

You have previously been furnished Pooling Agreements and Operating Agreements that should also be signed and returned.

Your immediate attention will be appreciated.

Yours very truly,

SUPRON ENERGY CORPORATION

Gaby Bjerke
Landman

GB:tlw

Enclosures

Pu-383



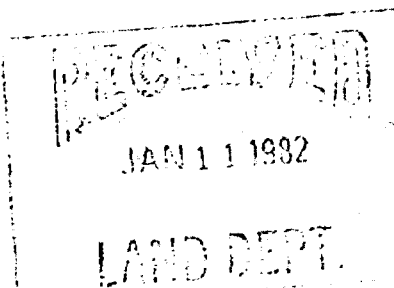
Riggs Oil & Gas Corporation

P. O. Box 711
Farmington, New Mexico 87401

Office: 505/325-9881

January 6, 1982

Supron Energy Corporation
Attention: Mr. G. Bjerke
Building V, 5th Floor
10300 North Central Expressway
Dallas, Texas 75231



Re: Supron #31-8 State Com
Section 2-T31N-R8W
San Juan County, New Mexico

Dear Mr. Bjerke:

As per our telephone conversation this date, please be advised that we do not wish to join Supron in the drilling of a Dakota well at this location, for the following reasons:

- 1) Supron has provided us with no geologic or engineering economic information that indicates a commercial well will result.
- 2) There is no offset Dakota production.
- 3) Most of the nearby Dakota wells, which are several miles distant have been plugged and abandoned. Further, it would appear that drilling a Dakota well at this location would not be prudent since Supron and Riggs Oil & Gas have no further drill sites available to us if production were encountered.

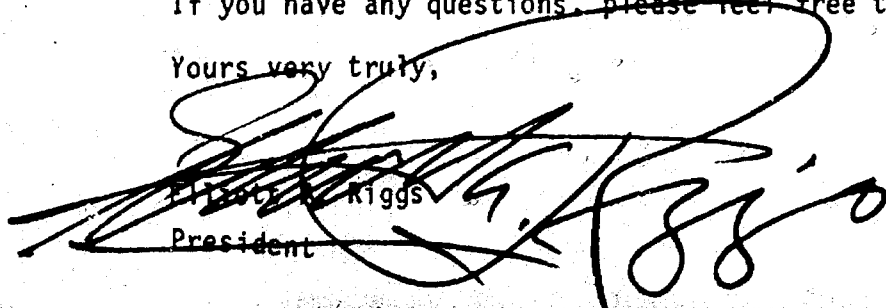
In addition, our experience with dual wells is, that two poor producing sides yield nothing in the future but additional mechanical problem and expense. To work on one side you must kill the other. Not only do you lose the expense of the workover but the production from a non-troublesome side.

We reserve the right to consider joining, or not to join, any proposed Mesa Verde or Pictured Cliff single zone completion well that you may propose.

We understand your problem with an expiring lease and it is not our intention to delay your proposed well. However, we reemphasize, we do not consider a \$500,000 Wildcat well to the Dakota to be a prudent expenditure of funds at this drill site.

If you have any questions, please feel free to call.

Yours very truly,


Elliott A. Riggs
President

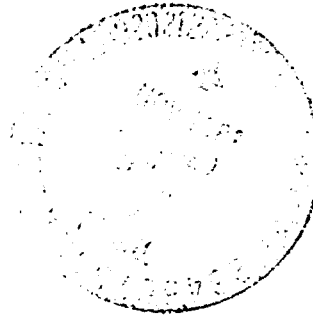
CROWN CENTRAL PETROLEUM CORPORATION



PRODUCERS • REFINERS • MARKETERS OF PETROLEUM PRODUCTS AND PETROCHEMICALS

GENERAL OFFICES • ONE NORTH CHARLES • BALTIMORE, MARYLAND 21203

November 18, 1981



REPLY TO:

SUITE 1002, WILCO BUILDING
MIDLAND, TEXAS 79701
TELEPHONE: 915-683-6251

P

Supron Energy Corporation
Bldg. V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231

Please find enclosed Supron's approved AFE No. 81-114 on behalf of
Crown Central to drill and complete the State Com 31-8, Blanco Mesa
Verde Field, San Juan County, New Mexico.

CROWN CENTRAL PETROLEUM CORPORATION

T. E. Yates
District Production Manager

TEY:wt

November 13, 1981

Oil Conservation Division
1000 Rio Brazos Road
Aster, New Mexico 87410

Attention: Mr. Frank Chavez

Dear Sir:

It is requested that Supron Energy Corporation be granted an extension to the deadline for drilling the State Com 31-8 located 905 feet from the South line and 790 feet from the West line of Section 2, Township 31 North, Range 8 West, (Unit letter M), N.M.P.M. of San Juan County, New Mexico.

The reason for this request is due to our being unable to obtain partner approval to proceed as of this date.

Sincerely yours,

SUPRON ENERGY CORPORATION
Original Signed By
Rudy D. Motto

Rudy D. Motto
Area Superintendent

RDH:bt

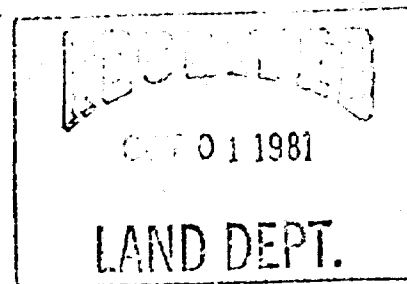
cc: Mr. Haskell Fleetwood
✓ Mr. Gubrand Bjerke
File

CROWN CENTRAL PETROLEUM CORPORATION



PRODUCERS • REFINERS • MARKETERS OF PETROLEUM PRODUCTS AND PETROCHEMICALS

4747 BELLAIRE BOULEVARD • BELLAIRE, TEXAS 77401



September 29, 1981

Supron Energy Corporation
Bldg. V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231

Re: State Com #31-8
San Juan County, New Mexico

Gentlemen:

Please find enclosed all duly executed copies of the above referenced area.

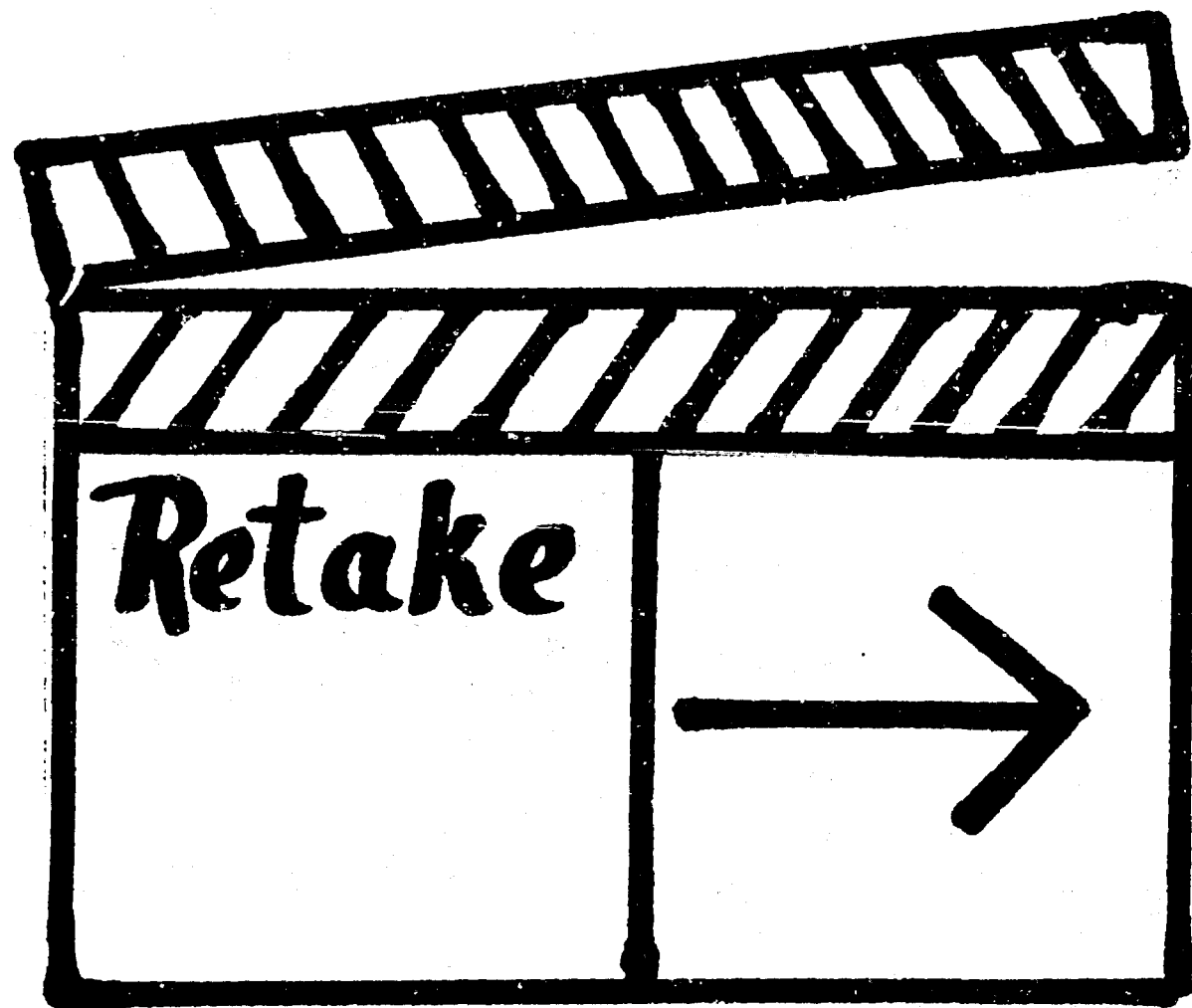
If I can be of further assistance to you please do not hesitate to call.

Sincerely,

J. L. Coover
District Landman

JLC:pw
Enclosures





August 19, 1981

1- Kent
M.M. - 383
④ u

Crown Central Petroleum Corporation
1002 Wilco Building
Midland, Texas 79701

RE: State Com. #31-8
San Juan County, New Mexico

Gentlemen:

Enclosed you will find documents for your approval for drilling of the above referenced well. We would like to drill this well as soon as possible, therefore your immediate attention will be greatly appreciated.

The following items are enclosed:

1. One copy of Pooling Agreement and three extra copies of signature pages, please execute and return three copies.
2. One copy of Operating Agreement, with two signature pages; please sign and return signature pages.
3. Two copies of our AFE, please sign and return one copy.
4. Copy of Title Opinion is for your file.

Yours very truly,

SUPRON ENERGY CORPORATION

G. Bjerke
Landman

BJ:msb

Enclosures

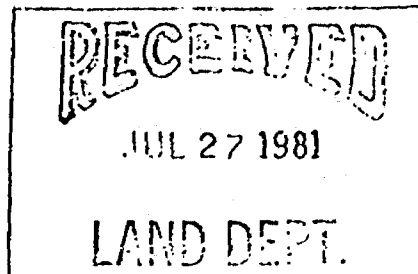


Riggs Oil & Gas Corporation

P. O. Box 711
Farmington, New Mexico 87401

Office: 505/325-9881

July 23, 1981



Supron Energy Corporation
Building V, Fifth Floor
10300 North Central Expressway
Dallas, Texas 75231

Attention: Mr. G. Bjerke

Re: Proposed Supron #31-8 State Com, Sec 2, T31N, R8W,
San Juan County, New Mexico

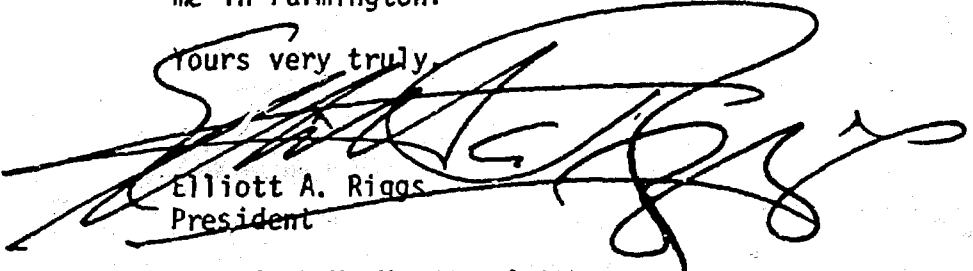
Dear Mr. Bjerke:

I am in receipt of your letter dated July 16, 1981 wherein you propose communitization of the S/2 of Sec 2 of subject township, to drill a Mesa Verde-Dakota dual well to the approximate depth of 8300'. With regards to your proposal would you please provide me with the following information:

- McPike*
- 1) Copy of your proposed AFE
 - 2) Copy of your geologic prognosis justifying drilling and completing of a Mesa Verde-Dakota well
 - 3) Copy of your proposed operating agreement
 - 4) Is the gas from the Riggs Oil & Gas lease to be dedicated to the inter or the intra state market?
 - 5) If this is to be an intra state dedication, is it necessary for Riggs Oil & Gas to dedicate their reserves to that market?
 - 6) Has suitable tight gas sand designation for this section been made?
 - 7) Is the prospective purchaser of these gas reserves willing to pay the tight gas sand price?

If you have any other information that might be helpful to us in arriving at a decision as to whether to join you in the drilling of this well, please feel free to send it. If you have any questions you may contact me in Farmington.

Yours very truly,


Elliott A. Riggs
President

cc: Jack M. Morgan, Attorney

July 16, 1981

book
NM-1539

Riggs Oil & Gas Corporation
Box 711
Farmington, New Mexico 87401

Crown Central Petroleum Corporation
1002 Wilco Building
Midland, Texas 79701

Re: Proposed State Com 31-3
San Juan County, New Mexico

Gentlemen:

Supron Energy Corporation hereby proposes the drilling of a well in the S/2 of Section 2 Township 31 North Range 8 West, San Juan County, New Mexico, to a depth of 8300' or to a depth sufficient to test the Dakota Formation, whichever is lesser. This well will also test the Mesa Verde formation.

At the present time, the S/2 of the Section is subject to ownership as follows:

Crown Central	NW/4 SW/4	40 A	12.5%
Riggs Oil & Gas	N/2 SE/4	80 A	25.0%
Supron	S/2 S/2, NE/4 SW/4	200 A	62.5%

Supron, subject to partner approval, plans to communitize the S/2 of Section 2 as to both Mesa Verde and Dakota Formations for drilling of the above test wells. It will also be necessary to enter into an operating agreement.

The estimated cost to drill and complete a dual Mesa Verde and Dakota gas well is \$537,300. (Cost of a dry hole estimated at \$117,600).

If any discrepancies appear as to ownership in proposed operations or if you should desire further information regarding same, please contact the undersigned.

Your early attention will be most appreciated.

Very truly yours,

G. Bjerka
Landman

GB:gg

Supron Energy Corporation

AUTHORITY FOR EXPENDITURE

AFE NO 81-114

LEASE State Comm 31-8 WELL 1 FIELD Blanco Mesa Verde - Basin Dakota
 COUNTY San Juan FORMATION Mesa Verde - Dakota ESTIMATED TO 8300'
 STATE New Mexico WELL TYPE: DEVELOPMENTAL EXPLORATORY
 LOCATION 905' FSL & 790' FHL, Section 2, Township 31 North, Range 8 West

	SUB ACCT.	PRODUCING WELL		DRY HOLE
		SUB	TOTAL	
Well Cost - Intangible - 303				
LOCATION, ROAD, & DIRTWORK	101-2	15,000	15,000	15,000
DRILLING CONTRACTOR CHARGES:				
FOOTAGE OR MI-RU-RD-MO \$16 / foot	103-4	132,800		
DAYWORK (INCLUDES BITS)	105	8,000		
TURNKEY	106		132,800	138,800
FUEL, POWER, & WATER	107	6,000		6,000
DRILLING EQUIPMENT-RENTAL - PURCHASE	108-11	2,000		2,000
MUD & CHEMICALS	112	15,000	23,000	15,000
EVALUATION:				
MUD LOGGING & CORING	201			
TESTING	202			
OPEN HOLE LOGGING	203	20,000	20,000	20,000
CEMENTING SERVICES & SUPPLIES	301	20,000	20,000	14,000
SUPERVISION & AUTOMOTIVE	302	4,000	4,000	4,000
WELL SERVICE RIG-COMPLETION	401	16,000		
COMPLETION EQUIPMENT-RENTAL-PURCHASE	402	3,000		
COMPLETION COSTS:				
LOGGING & PERFORATING	403-5	10,000		
STIMULATION	406-7	50,000	79,000	
INSTALLATION COST OF WELL EQUIPMENT	408	3,000		
HAULING	501	3,000	6,000	3,000
OVERHEAD	502	2,000	2,000	2,000
MISCELLANEOUS Drill & Completion Gas	503-4	25,000	25,000	15,000
10% Contingencies		33,200	33,200	23,500
SUB TOTAL		366,000	366,000	258,300
Well Cost - Tangible - 304				
CASING:				
CONDUCTOR	101			
SURFACE 250' - 10-3/4"	102	4,300		4,300
INTERMEDIATE 3800' - 7-5/8"	103	54,000		54,000
PRODUCTION liner 4700' - 5 1/2"	104	41,000		
TUBING 14,000' - 2-1/16"	201	38,000	137,300	
SUB-SURFACE EQUIPMENT	301-4	8,000		
WELLHEAD EQUIPMENT:				
CASINGHEAD & SPOOL	401-2	2,000		
TUBINGHEAD & X-MAS TREE	403	8,000		
ARTIFICIAL LIFT EQUIPMENT	501-4			
SURFACE PRODUCTION EQUIPMENT	601-3	16,000		
CATHODIC PROTECTION	701			
H ₂ S WARNING SYSTEM	702			
OTHER	703		34,000	1,000
SUB TOTAL		171,300	171,300	59,300
ESTIMATED TOTAL COST		\$ 537,300.00	\$ 537,300.00	\$ 317,600.00

Working Interest

SUPRON ENERGY CORPORATION	62.5	%\$	335,812.50	\$ 198,500.00
Riggs Oil & Gas Corp.	25.0	%	134,325.00	79,400.00
Crown Central Petroleum Corp.	12.5	%	67,162.50	39,700.00

Special Instructions

Estimated cost to drill and complete as a dual Mesa Verde and
 Dakota gas well.

BEFORE THE
OIL CONSERVATION COMMISSION
 Santa Fe, New Mexico

Case No. 7509 Exhibit No. 2Submitted by STERKEHearing Date 4/22/82Operator SUPRON ENERGY CORPORATIONDATE 7-13-81 PREPARED BY J. L. LeeAPPROVED Haskell Fleetwood, Vice President

PARTNER APPROVAL

DATE

COMPANY

BY

Supron Energy Corporation

AUTHORITY FOR EXPENDITURE

REVISED

AFE NO 81-114

WELL NO

LEASE State 31-8 WELL 1 FIELD Blanco
 COUNTY San Juan FORMATION Mesa Verde ESTIMATED TO 6300'
 STATE New Mexico WELL TYPE: DEVELOPMENTAL XXX EXPLORATORY
 LOCATION 905' FSL & 790' FWL, Section 2, Township 31 North, Range 8 West.

	SUB ACCT.	PRODUCING WELL		DRY HOLE
		SUB	TOTAL	
Well Cost - Intangible - 303				
LOCATION, ROAD, & DIRTWORK	101-2	15,000	15,000	15,000
DRILLING CONTRACTOR CHARGES:				
FOOTAGE OR MI-RU-RD-MO \$16/ft.	103-4	100,800		
DAYWORK (INCLUDES BITS)	105	6,000		
TURNKEY	106		106,800	106,800
FUEL, POWER, & WATER	107	8,000		8,000
DRILLING EQUIPMENT-RENTAL - PURCHASE	108-11	2,000		2,000
MUD & CHEMICALS	112	30,000	40,000	30,000
EVALUATION:				
MUD LOGGING & CORING	201			
TESTING	202			
OPEN HOLE LOGGING	203	15,000	15,000	15,000
CEMENTING SERVICES & SUPPLIES	301	15,000	15,000	10,000
SUPERVISION & AUTOMOTIVE	302	4,000	4,000	4,000
WELL SERVICE RIG-COMPLETION	401	10,000		
COMPLETION EQUIPMENT-RENTAL - PURCHASE	402	1,000		
COMPLETION COSTS:				
LOGGING & PERFORATING	403-5	8,000		
STIMULATION	406-7	35,000	54,000	
INSTALLATION COST OF WELL EQUIPMENT	408	2,000		
HAULING	501	2,000	4,000	1,000
OVERHEAD	502	2,000	2,000	2,000
MISCELLANEOUS Completion Gas	503-4	8,000	8,000	---
10% Contingency		26,400	26,400	19,400
SUB TOTAL		290,200	290,200	213,200
Well Cost - Tangible - 304				
CASING:				
CONDUCTOR	101			
SURFACE 300' - 8-5/8"	102	4,200		4,200
INTERMEDIATE	103			
PRODUCTION 6300' - 5 1/2"	104	57,900		
TUBING 6300' - 2-3/8"	201	26,300	88,400	
SUB-SURFACE EQUIPMENT	301-4			
WELLHEAD EQUIPMENT:				
CASINGHEAD & SPOOL	401-2	3,000		
TUBINGHEAD & X-MAS TREE	403	5,000		
ARTIFICIAL LIFT EQUIPMENT	501-4			
SURFACE PRODUCTION EQUIPMENT	601-3	8,000		
CATHODIC PROTECTION	701			
H ₂ S WARNING SYSTEM	702			
OTHER	703		16,000	1,000
SUB TOTAL		104,400	104,400	5,200
ESTIMATED TOTAL COST		\$394,600.00	\$394,600.00	\$218,400.00

Working Interest

SUPRON ENERGY CORPORATION	62.5 %	\$246,625.00	\$136,500.00
Riggs Oil & Gas Corp.	25.0 %	98,650.00	54,600.00
Crown Central Petroleum Corp.	12.5 %	49,325.00	27,300.00

REVISED AFE

Special Instructions

This AFE has been revised to show estimated cost of drilling to
 Mesa Verde formation only.

BEFORE THE
OIL CONSERVATION COMMISSION
 Santa Fe, New Mexico

Case No. 7569 ; No. 3

Submitted by B. TERKE

Hearing Date 1-22-82

Operator SUPRON ENERGY CORPORATION

DATE 2-1-82 PREPARED BY J.L. Lee
 APPROVED *[Signature]*
 Haskell Fleetwood, Vice President
 APPROVED *[Signature]*
 S. S. Muennink, Executive Vice President

PARTNER APPROVAL
 COMPANY

DATE

BY

CERTIFICATE OF APPROVAL

BY COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

SUPRON ENERGY CORPORATION #31-8 STATE COM
SAN JUAN COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated August 6, 1981, which has been executed or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-47 and 19-10-53, New Mexico Statutes Annotated 1978 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said Agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes, and limits the terms of this agreement to one year and so long as there is production.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this _____ day of _____, 1981.

Commissioner of Public Lands
of the State of New Mexico

BEFORE THE	
OIL CONSERVATION COMMISSION	
Santa Fe, New Mexico	
Case No. <u>7509</u>	Exhibit No. <u>4</u>
Submitted by <u>STIERKE</u>	
Hearing Date <u>4/22/82</u>	

COMMUNITIZATION (POOLING) AGREEMENT

THIS AGREEMENT entered into as of the 6th day of August, 1981, by and between the parties subscribing, ratifying or consenting hereto, such parties being hereinafter referred to as "parties hereto",

W I T N E S S E T H :

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized to consent to and approve development agreements pooling a state oil and gas lease, or any portion thereof, with other lands, whether or not owned by the State of New Mexico, when separate tracts under such state lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such pooling is determined to be in the public interest; and

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

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

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

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

Township 31 North, Range 5 West, N.M.P.M.

San Juan County, New Mexico

Section 2: S 1/2

and this agreement shall extend to and include the Mesaverde/Dakota Dual formations underlying said lands and the dry gas and associated liquid hydrocarbons (hereinafter referred to as "pooled substances") producible from such formations.

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

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement.

4. Operator shall furnish the Oil Conservation Division with a log and history of any well drilled on the pooled area, monthly reports of operations, statements of gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the State of New Mexico, as specified in the applicable oil and gas leases.

5. The pooled area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all pooled substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

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

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

from their obligation to protect said pooled area from drainage of pooled substances by a well or wells which may be drilled offsetting said area.

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

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

10. This agreement shall be effective as of the date hereof upon execution by the necessary parties, notwithstanding the date of executions, and upon approval by the Commissioner of Public Lands, or his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as pooled substances are actually or constructively produced from the pooled area in paying quantities, provided, that prior to production in paying quantities from the pooled area and upon fulfillment of all requirements of the State of New Mexico, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. Should production in paying quantities of dry gas or dry gas and liquid hydrocarbons extracted therefrom be obtained while this agreement is in force and effect and thereafter cease from any cause after the expiration of said period of two years but no longer than the shortest term of any lease within the communitized area, whichever is shorter, this agreement shall not terminate if the parties hereto commence additional drilling or reworking operations within 60 days after the cessation of such production and shall remain in full force and effect so long as such operations are prosecuted in good faith

with no cessation of more than 20 consecutive days, and if such operations result in the production of dry gas or dry gas and liquid hydrocarbons extracted therefrom in paying quantities, so long thereafter as dry gas or dry gas and liquid hydrocarbons extracted therefrom is actually or constructively produced in paying quantities from said communitized area; provided, however, written notice of intention to commence such operations shall be filed with the State of New Mexico within 30 days after the cessation of such production and the report of the status of such operations shall be made to the State of New Mexico every 30 days, and the cessation of such operations for more than 20 consecutive days shall be considered as an abandonment of such operations and this agreement shall thereupon terminate.

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

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

13. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

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

ATTEST:

ATTEST:

SUPRON ENERGY CORPORATION

By:

Robert H. Peters
Attorney-in-Fact

RIGGS OIL AND GAS CORPORATION

By:

ATTEST:

By: *R. M. Kobdiah*R. M. KOBDIAH
VICE-PRESIDENTSTATE OF TEXAS §
COUNTY OF DALLAS §

On this 14th day of August, 1981, before me appeared ROBERT H. PRETUS, to me personally known, who, being by me duly sworn, did say that he is the Attorney-in-Fact of SUPRON ENERGY CORPORATION and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said ROBERT H. PRETUS acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 14th day of August, 1981.

Terri L. Waller
Notary Public in and for
Dallas County, Texas

My Commission Expires:

Sept. 26, 1984STATE OF _____ §
COUNTY OF _____ §

On this _____ day of _____, 1981, before me appeared _____, to me personally known, who, being by me duly sworn, did say that he is the _____ of RIGGS OIL AND GAS CORPORATION and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this _____ day of _____, 1981.

Notary Public in and for
_____ County, _____

My Commission Expires:

STATE OF Texas §
COUNTY OF Harris §

On this 25 day of September, 1981, before me appeared R. M. Kobdiah, to me personally known, who, being by me duly sworn, did say that he is the Vice President of CROWN CENTRAL PETROLEUM CORPORATION and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said R. M. Kobdiah acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 25 day of September, 1981.

Marie J. Bobalik
Notary Public in and for
Harris County, Texas

My Commission Expires:

MARIE BOBALIK
Notary Public, Harris County, Texas
My Commission Expires 5-14-84

Exhibit "A" to Communitization Agreement
dated August 6, 1981, embracing
S/2 of Section 2, Township 31 North
Range 8 West, N.M.P.M., San Juan County, New Mexico

Operator of Communitized Area:

Supron Energy Corporation

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lessor: State of New Mexico Lease V-100
Lessee of Record: Supron Energy Corporation
Date of Lease: May 1, 1977
Description of Land Committed: Township 31 North, Range 8 West, N.M.P.M.
Section 2: S/2 SE/4, NE/4 SW/4, S/2 SW/4
Number of Acres: 200
Working Interest and Percentage: Supron Energy Corporation 83.333% W.I.
O.R.R.I. and Percentage: None

Tract No. 2

Lessor: State of New Mexico Lease E-1195
Lessee of Record: Crown Central Petroleum Corporation
Date of Lease: February 10, 1947
Description of Land Committed: Township 31 North, Range 8 West, N.M.P.M.
Section 2: NW/4 SW/4
Number of Acres: 40
Working Interest and Percentage: Crown Central Petroleum Corporation 87 1/2% W.I.
O.R.R.I. and Percentage: None

Tract No. 3

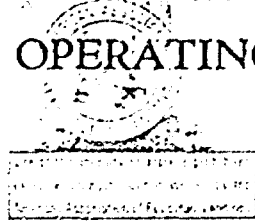
Lessor: State of New Mexico Lease E-3707
Lessee of Record: Riggs Oil and Gas Corporation
Date of Lease: July 6, 1950
Description of Land Committed: Township 31 North, Range 8 West, N.M.P.M.
Section 2: N/2 SE/4
Number of Acres: 80
Working Interest and Percentage: Riggs Oil and Gas Corporation 86.0% W.I.
G. B. Suppes .005 O.R.I.
Bruce Harris and Lois Harris,
his wife, d/b/a Harris Oil Co. .005 O.R.I.
Otis E. Nidiffer .005 O.R.I.

RECAPITULATION

<u>Tract Number</u>	<u>No. Of Acres Committed</u>	<u>Percentage of Interest in Communitized Area</u>
1	200	62 1/2%
2	40	12 1/2%
3	80	25 %

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

MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

August 4, 19 81,

OPERATOR Supron Energy Corporation

CONTRACT AREA S/2 of Section 2, Township 31 North, Range 8 West,
N.M.P.M.

COUNTY ~~OF~~ SAN JUAN OF San Juan STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 75b9 Exhibit No. 5

Submitted by B. J. R. K.

Hearing Date 4/22/82

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Supron Energy Corporation, 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.

~~☒ B. Exhibit "B", shall include the following information:~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

~~☒ F. Exhibit "F", shall include the following information:~~

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 leased 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.

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. 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.~~

~~XX~~ 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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V. OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

Supron Energy Corporation shall be the Operator of the Contract Area and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

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

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

18 2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Op-
19 erator shall be selected by the Parties. The successor Operator shall be selected from the parties owning
20 an interest in the Contract Area at the time such successor Operator is selected. If the Operator that
21 is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the
22 ~~majority vote in interest of Non-Operators.~~
23 ~~majority vote of two or more parties owning a majority interest based on ownership as shown~~
24 ~~on Exhibit "A" and not on the number of parties remaining after excluding the voting interest of the~~
25 ~~Operator that was removed.~~

26 C. Employees:

27
28 The number of employees used by Operator in conducting operations hereunder, their selection,
29 and the hours of labor and the compensation for services performed, shall be determined by Operator,
30 and all such employees shall be the employees of Operator.

31
32 D. Drilling Contracts:

33
34 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual
35 rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the
36 drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate
37 of such charges shall be agreed upon by the parties in writing before drilling operations are com-
38 menced, and such work shall be performed by Operator under the same terms and conditions as are
39 customary and usual in the area in contracts of independent contractors who are doing work of a sim-
40 ilar nature.

41
42 ARTICLE VI.
43 DRILLING AND DEVELOPMENT

44
45 A. Initial Well:

subject to rig available, applicable permit
acquisitions and inclement weather conditions,

46
47 On or before the 31st day of December, 1981 Operator shall commence the drill-
48 ing of a well for oil and gas at the following location: At a legal location in the S/2 of
49 Section 2, Township 31 North, Range 8 West, N.M.P.M., San Juan County, New
50 Mexico.

51
52
53 and shall thereafter continue the drilling of the well with due diligence to a subsurface depth
54 of 8,300 feet or a depth sufficient to test both the Mesaverde and Dakota forma-
55 tions, whichever is the lesser depth,

56
57
58 unless granite or other practically impenetrable substance or condition in the hole, which renders
59 further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or
60 abandon the well at a lesser depth.

61
62 Operator shall make reasonable tests of all formations encountered during drilling which give in-
63 dication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited
64 in its application to a specific formation or formations, in which event Operator shall be required to
65 test only the formation or formations to which this agreement may apply.

66
67 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes
68 to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall
69 plug and abandon same as provided in Article VI.E.1. hereof.
70

1 B. Subsequent Operations:

2
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any
15 notice or response given by telephone shall be promptly confirmed in writing.

16
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed
23 operation and complete it with due diligence. Operator shall perform all work for the account of the
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms
29 and conditions of this agreement.

30
31 If less than all parties approve any proposed operation, the proposing party, immediately after the
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify
39 all parties of such decision.

40
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,
55 calculated at the well, or market value thereof if such share is not sold (after deducting production
56 taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of
57 or measured by the production from such well accruing with respect to such interest until it reverts)
58 shall equal the total of the following:

59
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the
63 cost of operation of the well commencing with first production and continuing until each such Non-
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-
67 ginning of the operation; and

68
69 (b) 300% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging
70 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
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 op-
 eration 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 con-
 templated 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 de-
 fault. Operator grants a like lien and security interest to the Non-Operators to secure payment of Op-
 erator'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 in-
 terest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimburse-
 ment 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 pro-
 vided 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 esti-
 mated 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 es-
 timate 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 (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 Fifteen Thousand and 00/100 ---- Dollars (\$ 15,000.00) 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 00/100 ----- 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 ^{Lessor's} ~~royalties to the extent of~~ 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 other party's lessor or royalty owner; and if any such other party's 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 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 "E"~~
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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

1. If non-consent operations are conducted pursuant to any provision of this agreement and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and 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. Assignment of Interest:

Every sale, encumbrance, transfer or other disposition made by any party of any interest in the Contract Area shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties. If, by reason of sale, transfer or other disposition made by any party of all or a portion of its interest in the Contract Area so that the interest of the parties including Assignees be held in different proportions, this agreement shall be construed and applied as though it were a separate agreement covering each entire portion of the Contract Area in which the interest of the parties is held in different proportions from the proportionate interest of the parties in the remaining portion of the Contract Area.

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.

~~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 Ten Thousand and 00/100 Dollars (\$ 10,000.00) 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 in force and effect, this agreement shall remain in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and until all of the oil and 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 90 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 90 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. Equal Employment Opportunity:

During the performance of this agreement, the Operator shall be bound by and comply with all terms and provisions of Section 202 of Executive Order 11246 of September 24, 1965, all of which are incorporated herein by reference to the same regulations and relevant orders adopted pursuant to such Executive Order.

Operator assures Non-Operator that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965. Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operator.

B. Non-Consent Completion Operations:

In the event that all parties electing to undertake completion operations are not in agreement with respect to the particular zones or formations in which such completion operations are to be undertaken, the provisions of this Article shall apply and the provisions of Article VII.D.1, Option 2, shall be applicable separately to each zone or formation in which a completion attempt is made and completion operations pursuant to such provisions will be made first in the deepest zone in which any one or more parties elect to undertake completion operations and next in the next such deepest zone or formation and on in that order until completion operations have been conducted in all zones or formations in which one or more parties elect to conduct completion operations. If the well is not completed as a producer of oil or gas, the well shall be plugged and abandoned by and at the cost of consenting parties last conducting completion operations but all material salvaged upon such abandonment shall be credited to the parties who paid for the same. In the event that the well be completed by one or more consenting parties utilizing equipment paid for in whole or in part by other parties, then the consenting parties completing the well shall pay to the parties initially paying for such equipment the salvage value of the equipment so utilized and the amount of the payment will be considered part of the costs of completion. Costs of any unsuccessful completion by one or more parties in any zone or formation shall not be recovered from production attributable to the interest of any party not participating in costs of the unsuccessful completion and produced from other zones or formations.

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 4th day of August, 1981.

OPERATOR

SUPRON ENERGY CORPORATION

By: Robert J. Butler
Attorney-in-Fact

NON-OPERATORS

RIGGS OIL AND GAS CORPORATION

By: _____

CROWN CENTRAL PETROLEUM CORPORATION

By: _____

EXHIBIT "A"

Attached to and made a part of an Operating Agreement dated August 4, 1981, by and between Supron Energy Corporation, as Operator, and Riggs Oil and Gas Corporation and Crown Central Petroleum Corporation, as Non-Operators.

1. The Contract Area shall consist of the S/2 of Section 2, Township 31 North, Range 8 West, N.M.P.M., San Juan County, New Mexico.

2. The interests of the parties in the Contract Area are as follows:

Supron Energy Corporation	62.5%
Riggs Oil and Gas Corporation	25%
Crown Central Petroleum Corporation	12.5%

3. The Oil and Gas Leases subject to this agreement are as follows:

- A. State of New Mexico Oil and Gas Lease V-100 dated May 1, 1977, by and between the State of New Mexico, as Lessor, and Supron Energy Corporation, as Lessee, insofar as the same covers the S/2SE/4, NE/4SW/4 and S/2SW/4 of Section 2, Township 31 North, Range 8 West, N.M.P.M., San Juan County, New Mexico;
- B. State of New Mexico Oil and Gas Lease E-1195 dated February 10, 1947, by and between the State of New Mexico, as Lessor, and Wayne Moore, as Lessee, insofar as the same covers the NW/4SW/4 of Section 2, Township 31 North, Range 8 West, N.M.P.M., San Juan County, New Mexico; and
- C. State of New Mexico Oil and Gas Lease E-3707 dated July 6, 1950, by and between the State of New Mexico, as Lessor, and Charles B. Gonsales, as Lessee, insofar as the same covers the N/2SE/4 of Section 2, Township 31 North, Range 8 West, N.M.P.M., San Juan County, New Mexico.

4. The address of the parties for purposes of notice are as follows:

Supron Energy Corporation
Building V, Fifth Floor
10300 N. Central Expressway
Dallas, Texas 75231

Riggs Oil and Gas Corporation
Post Office Box 711
Farmington, New Mexico 87401

Crown Central Petroleum Corporation
1002 Wilco Building
Midland, Texas 79701

EXHIBIT " C "

Attached to and made a part of an Operating Agreement dated August 4, 1981, by and between Supron Energy Corporation, as Operator, and Riggs Oil and Gas Corporation and Crown Central Petroleum Corporation, 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 ~~percent~~ three percent, or the percentage most recently recommended by the Council of Petroleum Accountants Societies of North America as the same may be changed from time to time.

4. Material

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

5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

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

7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not (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 \$ 2,500
Producing Well Rate \$ 250

- (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 a one-well 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.

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.

* To be negotiated
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.

EXHIBIT "D"

Attached to and made a part of an Operating Agreement dated August 4, 1981, by and between Supron Energy Corporation, as Operator, and Riggs Oil and Gas Corporation and Crown Central Petroleum Corporation, as Non-Operators.

With respect to all operations conducted hereunder on the Contract Area by the Operator for the joint account of the parties hereto, Operator shall maintain in effect the following insurance coverage:

<u>Kind</u>	<u>Policy Form</u>	<u>Minimum Limits of Liability</u>
Workmen's Compensation	Statutory	Statutory
Employer's Liability		\$100,000 each accident
Comprehensive	Comprehensive	B.I. (\$100,000 each person) (\$300,000 each accident) (\$300,000 aggregate) P.D. (\$100,000 each accident) (\$100,000 aggregate)
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. (\$100,000 each person) (\$300,000 each accident) P.D. (\$100,000 each accident)

Upon request, Operator shall furnish Non-Operator with a certificate evidencing such insurance coverage.

Losses not covered by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto shall be charged to the joint account.

If all parties hereto or any of them shall insure their respective risks beyond the specific limits of insurance required hereunder to be carried by the parties, the benefits of such insurance shall inure to the parties procuring and maintaining the same, respectively, without reimbursement one from the other and without entering into any accounting hereunder.

EXHIBIT "E"

GAS STORAGE AND BALANCING AGREEMENT

Attached to and made a part of an Operating Agreement dated August 4, 1981, by and between Supron Energy Corporation, as Operator, and Riggs Oil and Gas Corporation and Crown Central Petroleum Corporation, as Non-Operators.

The parties to the Operating Agreement to which this agreement is attached own the working interest in gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of interest as set forth in Exhibit "A" to the Operating Agreement.

In accordance with terms of the Operating Agreement, each party shall have the right to take its share of gas produced from the Contract Area and separately market the same. In the event any of the parties hereto is not at anytime taking or marketing its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which does not at all times take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from the Contract Area, or its purchaser does not take its full share of gas produced from the Contract Area, the other parties shall be entitled to produce each month 100% of the applicable production assigned to the Contract Area by the state regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced from the Contract Area shall be credited with gas in storage equal to its full share of the gas produced from the Contract Area less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator of the Contract Area will maintain an account of the gas balance between the parties and will furnish all parties hereto with monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly cumulative over and under account of each party in gas produced from the Contract Area.

At all times while gas is produced from the Contract Area, each party taking or marketing gas shall furnish to the Operator monthly reports of the volumes of gas delivered to its purchaser during the preceding month; and each such party shall pay to the Operator a percentage of the proceeds of such sale equal to the aggregate percentage of royalty and overriding royalty burdening the lease or leases contributed by such party to the Contract Area; and Operator will, in turn, make settlement for all royalties and overriding royalties which are payable on gas produced from the Contract Area. In the event that the total royalties and overriding royalties so paid to the Operator in such manner shall be insufficient to discharge royalty and overriding royalty obligations on gas produced and marketed from the Contract Area, then any such deficiency will be proportionately borne by such parties taking or marketing gas. Any party or parties contributing separate leases to the Contract Area shall furnish the Operator with division order title opinions on which Operator shall be entitled to rely in making distribution of royalty and overriding royalty on production from the Contract Area.

After notice to the Operator, any party at anytime may begin taking or delivering to its purchaser its full share of gas produced from the Contract Area which it has in storage less such party's share of gas used in operations, vented or lost. In

addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser the share of gas determined by multiplying 50% of the interest in current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the Contract Area of such party with gas in storage and the denominator of which is the total percentage interest in such drilling, spacing or proration unit of all the parties with gas in storage currently taking or delivering to a purchaser.

The provisions of this agreement shall be separately applicable to each reservoir to the end that production from one reservoir in a gas well may not be utilized for the purpose of balancing underproduction from another reservoir.

Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the applicable gas production to meet deliverability tests required by its purchaser.

Should production of gas from the Contract Area be permanently discontinued and before the gas account is balanced, settlement will be made between the underproduced and the overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received less applicable royalty and taxes theretofore paid at the applicable price for the latest delivery of a volume of gas equal to that for which settlement is made. For gas sold in intra-state commerce, the price shall be the price received for the sale of the gas. For gas sold in interstate commerce, the price shall be the rate collected, from time to time, which is not subject to contingent refund obligation as ordered or provided by the Federal Energy Regulatory Commission plus any additional amount collected which is not ultimately required by the Federal Energy Regulatory Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

Nothing herein shall change each party's obligation to pay its proportionate share of all costs and liabilities incurred in connection with operations on the Contract Area in accordance with terms and provisions of the applicable Operating Agreement. However, to the extent that the applicable Operating Agreement contains any terms and provisions inconsistent with terms and provisions of this agreement, the applicable Operating Agreement shall be deemed to be amended to the extent necessary to conform with terms and provisions hereof.

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NEW MEXICO OIL CONSERVATION COMMISSION

Form O-101
Revised 11-85

1A. Indicate Type of Lease
STATE ☒ FEDERAL ☐
2. State Oil & Gas Lease No.
V-100

APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

1a. Type of Work b. Type of Well OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> OTHER <input type="checkbox"/> SINGLE ZONE <input type="checkbox"/> MULTIPLE ZONE <input checked="" type="checkbox"/>		7. Unit Agreement Name	
2. Name of Operator SUPRON ENERGY CORPORATION		8. Farm or Lease Name State Comm 31-8	
3. Address of Operator P.O. Box 808, Farmington, New Mexico 87401		9. Well No. 1	
4. Location of Well UNIT LETTER M LOCATED 905 FEET FROM THE South LINE AND 790 FEET FROM THE West LINE OF SEC. 2 TWP. 31N RGE. 8W NMPM		10. Field and Pool, or Wildcat Blanco MV / Basin Dakota	
11. Elevations (Show whether DE, RT, etc.) 6604 Gr.		12. County San Juan	
19. Proposed Depth 8320		19A. Formation Dakota/Mesaverde	
21A. Kind & Status Plug. Bond Current \$50,000		20. Rotary or C.T. Rotary	
21B. Drilling Contractor Brinkerhoff		22. Approx. Date Work will start July 15, 1981	

Blanket PROPOSED CASING AND CEMENT PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	SACKS OF CEMENT	EST. TOP
12-1/4"	10-3/4"	32.75	250 ft.	175	Circulated
9-7/8"	7-5/8"	26.40	3820 ft.	350	1800 ft.
6-3/4"	5-1/2"	15.50	8230 ft.	500	3820 ft.

We desire to drill 12 1/4" surface hole to approx. 250 ft. using natural mud as the circulating medium. Run new 10-3/4", 32.75# casing to T.D. and cement. Cement to be circulated to the surface. Pressure test the casing. Drill 9-7/8" hole to approx. 3820 ft. using a permaloid, non-dispersed starch base mud as the circulating medium. Log the well. Run new 7-5/8", 26.40# casing to approx. 3820 ft. and cement w/approx. 250 sx of 50-50 POZ followed by approx. 100 sx of 50-50 POZ. Pressure test the casing. Drill 6-3/4" hole using gas as the circulating medium to approx. 8230 ft. and log the well. Run new 5 1/2", 15.50# casing to T.D. Cement with approx. 500 sx of 50-50 POZ cement. Pressure test the pipe. Perforate and fracture the Dakota zone. Set a bridge plug above the Dakota perforations. Perforate and fracture the Mesaverde zone. Clean the Mesaverde zone up. Pull the bridge plug. Clean the Dakota zone up. Run a production packer on 2-1/16" I.J. tubing and land between the Mesaverde and Dakota perforations. Run the second string of 2-1/16" I.J. tubing and land in the Mesaverde perforations. Nipple down the wellhead. Test the production packer for leakage and run an I.P. test on the Dakota zone. Test the Mesaverde zone. Connect to a gathering system.

The gas from this well has been dedicated to a transporter.

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: IF PROPOSAL IS TO DEEPEN OR PLUG BACK, GIVE DATA ON PRESENT PRODUCTIVE ZONE AND PROPOSED NEW PRODUCTIVE ZONE. GIVE BLOWOUT PREVENTER PROGRAM, IF ANY.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

Signed Rudy D. Motto Title Area Superintendent Date May 14, 1981

(This space for State Use)

APPROVED BY _____ TITLE _____ DATE _____
CONDITIONS OF APPROVAL, IF ANY:

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7509 Exhibit No. 6

Submitted by EXXON NOTED

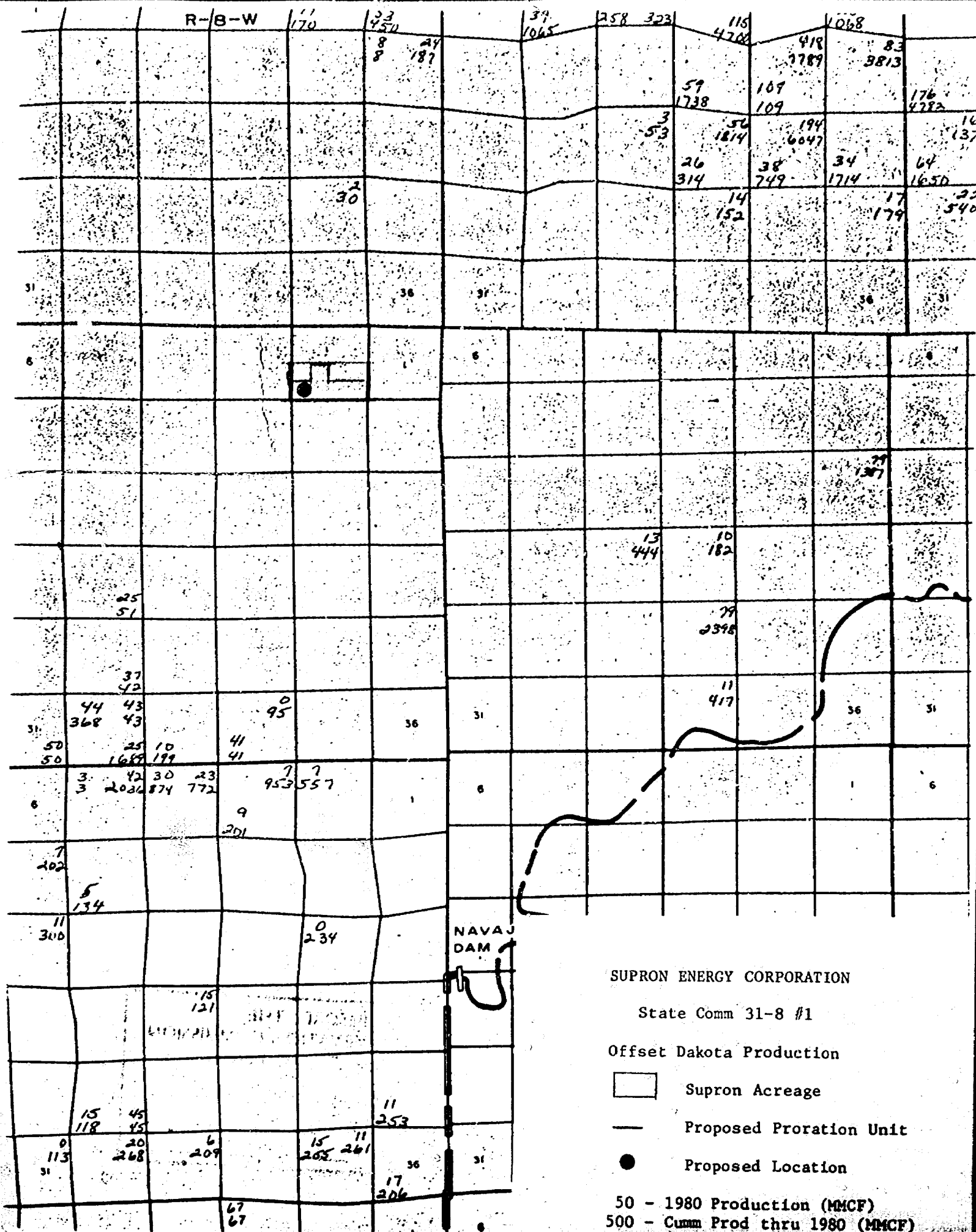
Hearing Date 4/22/82

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7509 Exhibit No. 7

Submitted by ~~James A. Natta~~ Natta

Hearing Date 4/22/82



BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

Case No. 7564 Exhibit No. 8

Submitted by Nemo

Hearing Date 4/22/82

dp dukan production corp.

April 20, 1982

Elliott Riggs
P.O. Box 711
Farmington, NM 87401

Re: T-31-N, R-8-W, NMPM
Sec. 2: N/2 SE/4
80 acres, more or less
San Juan County, New Mexico

Dear Elliott:

Please consider this my offer to farm-in the above referenced lands from the surface of the earth to the base of the Mesa Verde formation. You would retain a 12½% inclusive overriding royalty interest on production which interest would be convertible, at your option, to a proportionate part of a 50% working interest on payout of the test well.

I would appreciate your early response to this proposal.

Sincerely,

Thomas A. Dugan
Thomas A. Dugan, President
Dugan Production Corp.

nw

Exhibit 1

Case 7509



KIMBARK OIL & GAS COMPANY

April 15, 1982

Mr. Elliott A. Riggs
PO Box 711
Farmington, New Mexico 87401

Dear Mr. Riggs:

As you know, Kimbark Operating Co. owns an interest in a number of San Juan Basin wells and operates a couple of dozen wells. Using the general parameters you have set out in your March 10 letter, it would be my opinion that a fair and equitable farmout arrangement would be a 1/8 ORR, convertible on an option, to a 50% WI back-in after payout.

Very Truly Yours,

KIMBARK OIL & GAS COMPANY

W. K. Arbuckle
President

wka:jl

ELLIOTT A. RIGGS
Petroleum Geologist
P.O. BOX 711
FARMINGTON, NEW MEXICO 87401

March 10, 1982

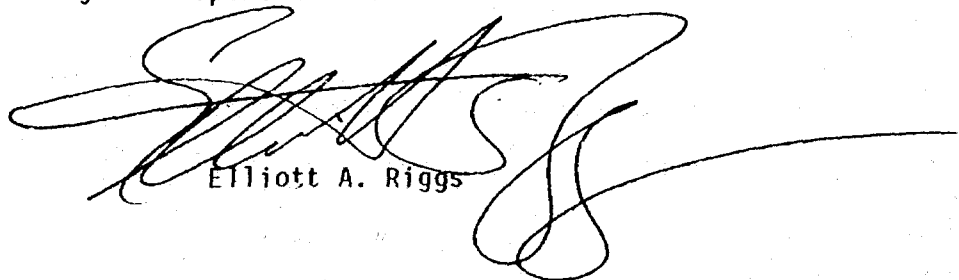
Mr. W. K. Arbuckle, President
Kimbark Oil & Gas Company
1580 Lincoln Street, Suite 700
Denver, Colorado 80203

Dear Arbuckle:

You are an experienced individual with substantial knowledge and interests in the San Juan Basin. I would ask you, from your knowledge and recent experience, what reasonable farmout terms might be placed on San Juan Basin gas productive acreage given the following general parameters.

- 1) High lease WI percentage, HBP acreage, 200 acres.
- 2) Undedicated gas reserves.
- 3) EPNG and NWPL willing to pay "tight gas sand" price, when qualified.
- 4) Gathering system in same section.
- 5) Offset Mesa Verde production to northeast, north, northwest, west, and southwest of tract.

Thanking you in advance for your response.



Elliott A. Riggs

CURTIS J. LITTLE
PETROLEUM GEOLOGIST
TELEPHONE (505) 327-6176
POST OFFICE BOX 2487
PETROLEUM PLAZA SUITE 150
FARMINGTON, NEW MEXICO 87401

March 19, 1982

Mr. Elliott Riggs
Petroleum Plaza Building
Farmington, New Mexico 87401

Re: Your March 10 Request on Farmout Parameters

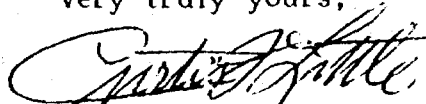
Dear Mr. Riggs:

In the past year I have consummated the following farmout agreements with the following terms:

T26N-R7W...Pictured Cliffs. 6 wells. $1/3$ of $3/8$ ths ORR
with option to convert to a 50% WI at payout.
T26N-R7W...Pictured Cliffs. 4 wells. $1/8$ ORR, back-in for 50%.
T26N-R7W...Pictured Cliffs. 4 wells. 20% ORR, back-in for 50%.
T25N-R6W...Chacra/Pictured Cliffs dual. 30% NRI until payout.
Option to convert to 50% WI.
T27N-R10W...Pictured Cliffs. 4 wells. 75% NRI until payout.
Option to convert to 50% WI.
T30N-R10W...Dakota. 2 wells. 75% NRI until payout. Option
to convert to 50%.
T25N-R3W...Mesaverde/Gallup/Dakota. 4 wells. 70% NRI until
payout. Option to convert to 50% WI.
T25N-R7W and
T25N-R6W...Dakota. 6 wells. $1/16$ ORR, back-in for 50% at
payout.

Please advise if you need any additional information.

Very truly yours,


CURTIS J. LITTLE

CJL/sfl

ELLIOTT A. RIGGS

Petroleum Geologist

P.O. BOX 711

FARMINGTON, NEW MEXICO 87401

March 10, 1982

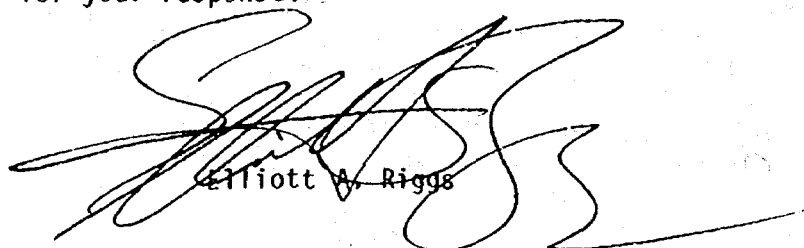
Curtis J. Little
Petroleum Geologist
P. O. Box 2487
Farmington, New Mexico 87401

Dear Curtis:

You are an experienced individual with substantial knowledge and interests in the San Juan Basin. I would ask you, from your knowledge and recent experience, what reasonable farmout terms might be placed on San Juan Basin gas productive acreage given the following general parameters.

- 1) High lease WI percentage, HBP acreage, 200 acres.
- 2) Undedicated gas reserves.
- 3) EPNG and NWPL willing to pay "tight gas sand" price, when qualified.
- 4) Gathering system in same section.
- 5) Offset Mesa Verde production to northeast, north, northwest, west, and southwest of tract.

Thanking you in advance for your response.



Elliott A. Riggs

ROY H. DUBITZKY & ASSOCIATES

1560 LINCOLN STREET, SUITE 1200

DENVER, COLORADO 80203

303-832-9406

March 12, 1982

Mr. Elliott A. Riggs
P.O. Box 711
Farmington, N.M. 87401

Re: Your letter of 3/10/82

Dear Mr. Riggs:

I would judge a fair farmout proposal to be a 6-1/4 to 12-1/2% overriding royalty interest convertible to a 50% working interest back-in after payout.

Yours very truly,

ROY H. DUBITZKY & ASSOCIATES

Roy H. Dubitzky
General Partner

RHD/nw

ELLIOTT A. RIGGS

Petroleum Geologist

P.O. BOX 711

FARMINGTON, NEW MEXICO 87401

March 10, 1982

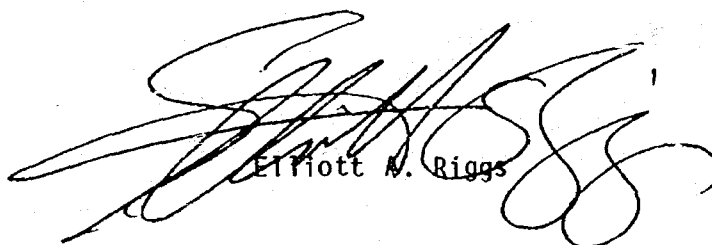
Roy H. Dubitzky & Associates
1580 Lincoln Street, Suite 1200
Denver, Colorado 80203

Dear Roy:

You are an experienced individual with substantial knowledge and interests in the San Juan Basin. I would ask you, from your knowledge and recent experience, what reasonable farmout terms might be placed on San Juan Basin gas productive acreage given the following general parameters.

- 1) High lease WI percentage, HBP acreage, 200 acres.
- 2) Undedicated gas reserves.
- 3) EPNG and NWPL willing to pay "tight gas sand" price, when qualified.
- 4) Gathering system in same section.
- 5) Offset Mesa Verde production to northeast, north, northwest, west, and southwest of tract.

Thanking you in advance for your response.



Elliott A. Riggs

ELLIOTT A. RIGGS

Petroleum Geologist

P.O. BOX 711

FARMINGTON, NEW MEXICO 87401

March 10, 1982

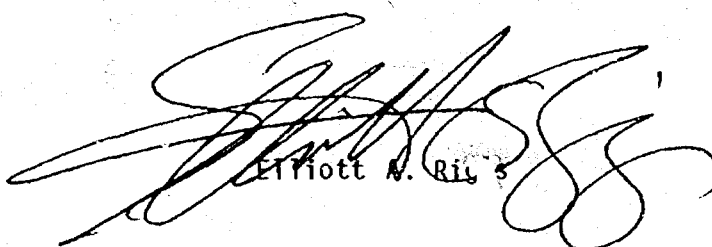
Roy H. Dubitzky & Associates
1580 Lincoln Street, Suite 1200
Denver, Colorado 80203

Dear Roy:

You are an experienced individual with substantial knowledge and interests in the San Juan Basin. I would ask you, from your knowledge and recent experience, what reasonable farmout terms might be placed on San Juan Basin gas productive acreage given the following general parameters.

- 1) High lease WI percentage, HBP acreage, 200 acres.
- 2) Undedicated gas reserves.
- 3) EPNG and NWPL willing to pay "tight gas sand" price, when qualified.
- 4) Gathering system in same section.
- 5) Offset Mesa Verde production to northeast, north, northwest, west, and southwest of tract.

Thanking you in advance for your response.



Elliott A. Riggs

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
16 March 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Supron Energy Corpor-
ation for a non-standard proration
unit or compulsory pooling, San Juan
County, New Mexico.

CASE
7509

BEFORE: RICHARD L. STAMETS

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant:

MR. STAMETS: Call next Case 7509.

MR. PEARCE: Application of Supron
Energy Corporation for a non-standard proration unit or com-
pulsory pooling, San Juan County, New Mexico.

MR. STAMETS: Case 7509 is continued
and will be readvertised to an as yet unscheduled Oil Conser-
vation Commission hearing.

(Hearing concluded.)

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 CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the foregoing hearing of Case No. 7509 held by me on 3-7-6 1982.

Richard D. Smith, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

Dockets Nos. 9-82 and 10-82 are tentatively set for March 31, and April 14, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - TUESDAY - MARCH 16, 1982

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:

- ALLOWABLE:** (1) Consideration of the allowable production of gas for April, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
- (2) Consideration of the allowable production of gas for April, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

- CASE 7502:** Application of Sun Oil Company for an unorthodox gas well location and non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 760 feet from the South line and 960 feet from the East line of Section 6, Township 24 South, Range 37 East, Jalmat Gas Pool, and a 160-acre non-standard proration unit comprising the SE/4 of said Section 6.
- CASE 7503:** Application of Sun Oil Company for an unorthodox gas well location and non-standard gas proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 1980 feet from the North line and 1400 feet from the East line of Section 22, Township 22 South, Range 36 East, Jalmat Gas Pool, and a 120-acre non-standard proration unit comprising the W/2 NE/4 and SE/4 NE/4 of said Section 22.
- CASE 7504:** Application of Cities Service Company for the extension of vertical limits of the Langlie Mattix Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the vertical limits of the Jalmat Pool and the upward extension of the vertical limits of the Langlie Mattix Pool to a subsurface depth of 3416 feet underlying the NW/4 of Section 19, Township 24 South, Range 37 East.
- CASE 7505:** Application of BCO, Inc. for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Lybrook-Gallup and Basin-Dakota production in the wellbores of wells drilled and to be drilled in Section 2, 3, 4, 9 and 10, Township 23 North, Range 7 West.
- CASE 7506:** Application of Getty Oil Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of salt water into the Abo formation in the perforated interval from 8900 feet to 9300 feet in its State "P" Well No. 1, located in Unit P, Section 32, Township 16 South, Range 37 East, Lovington-Abo Pool.
- CASE 7507:** Application of Sonny's Oilfield Service, Inc. 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 NW/4 NE/4 of Section 29, Township 18 South, Range 38 East.
- CASE 7508:** Application of P & O Oilfield Services, Inc. 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 of Section 10, Township 25 South, Range 36 East.
- CASE 7459:** (Continued from February 17, 1982, Examiner Hearing)
- Application of Red Mountain Associates for the Amendment of Order No. R-6538, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-6538, which authorized applicant to conduct waterflood operations in the Chaco Wash-Mesa Verde Oil Pool. Applicant seeks approval for the injection of water through various other wells than those originally approved, seeks delation of the requirement for packers in injection wells, and seeks an increase in the previously authorized 68-pound limitation on injection pressure.
- CASE 7457:** (Continued from February 17, 1982, Examiner Hearing)
(This Case will be continued to April 28, 1982)
- Application of E. T. Ross for nine non-standard gas proration units, Harding County, New Mexico. Applicant, in the above-styled cause, seeks approval for nine 40-acre non-standard gas proration units in the Bravo Dome Carbon Dioxide Area. In Township 19 North, Range 30 East: Section 12, the NW/4 NW/4 and NE/4 NW/4; Section 14, the NW/4 NE/4, SW/4 NE/4, and SE/4 NE/4. In Township 20 North, Range 30 East: Section 11, the NE/4 SW/4, SW/4 SE/4, SE/4 SW/4, and NW/4 SE/4.

Page 2
Examiner Hearing
TUESDAY - MARCH 16, 1982

- CASE 7509: Application of Supron Energy Corporation for a non-standard proration unit or compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 160-acre non-standard proration unit for the Dakota and Mesaverde formations comprising the SW/4 of Section 2, Township 21 North, Range 8 West, or in the alternative, an order pooling all mineral interests from the surface down through the Dakota formation underlying the S/2 of said Section 2, 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 7510: 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 Wolfcamp and Penn formations underlying the N/2 of Section 10, Township 22 South, Range 32 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 7511: (This Case will be continued to March 31, 1982)
Application of Buffton Oil & Gas Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp through Devonian formations underlying the W/2 of Section 35, Township 16 South, Range 35 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 7496: (Continued from March 3, 1982, Examiner Hearing)
Application of Viking Petroleum, Inc. for an unorthodox location, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of an Abo gas well to be drilled 62 feet from the South line and 1984 feet from the East line of Section 29, Township 5 South, Range 24 East, the SE/4 of said Section to be dedicated to the well.
- CASE 7512: Application of Viking Petroleum, Inc. for an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well located in Unit H of Section 31, Township 13 South, Range 34 East, Nonombre-Penn Pool, said well being a recompleted Morrow test and located in the SE/4 of the quarter section whereas the pool rules require wells to be located in the NE/4 or SW/4 of the quarter section.
- CASE 7476: (Continued from March 3, 1982, Examiner Hearing)
Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Abo formation, underlying two 160-acre gas spacing units, being the NE/4 and SE/4, respectively, of Section 12, Township 5 South, Range 24 East, each 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 wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells.
- CASE 7513: Application of Mesa Petroleum Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Abo formation underlying the SE/4 of Section 12, Township 5 South, Range 24 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 7514: Application of Santa Fe Exploration Co. for compulsory pooling, or in the alternative a non-standard proration unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Permo-Penn, Strawn, Atoka and Morrow formations underlying the W/2 of Section 2, Township 20 South, Range 25 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 200 percent charge for risk involved in drilling said well. In the event said 200 percent risk factor is not approved, applicant seeks a non-standard unit excluding the lands of owners not participating in the well.

PAGE 3

EXAMINER HEARING - TUESDAY - MARCH 16, 1982

CASE 7515: Application of Four Corners Gas Producers Association for designation of a tight formation, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Dakota formation underlying all or portions of Townships 26 and 27 North, Ranges 12, and 13 West, Township 29 North, Ranges 13 through 15 West, and Township 30 North, Ranges 14 and 15 West, containing 164,120 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271. 701-705.

CASE 7445: (Continued from February 17, 1982, Examiner Hearing)
(This Case will be continued to April 28, 1982)

Application of Harvey E. Yates Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the San Andres formation for its Fulton Collier Well No. 1 in Unit G of Section 1, Township 18 South, Range 28 East.

CASE 7492: (Continued and Readvertised)

Application of Harvey E. Yates Company for a tight formation, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Atoka-Morrow formation underlying all or portions of Townships 7, 8, and 9 South, Ranges 28, 29, 30 and 31 East, containing 161,280 acres, more or less, as a tight formation pursuant to Section 107 of the Natural Gas Policy Act and 18 CFR Section 271. 701-705.

CASE 7500: (Continued from March 3, 1982, Examiner Hearing)

Application of Read & Stevens, Inc. for an exception to the maximum allowable base price provisions of the New Mexico Natural Gas Pricing Act, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order of the Division prescribing the price allowed for production enhancement gas under Section 107 of the Natural Gas Policy Act as the maximum allowable base price if production enhancement work which qualifies under the NGPA is performed on its Hackberry Hills Unit Well No. 4 located in Section 22, Township 22 South, Range 26 East, Eddy County, New Mexico.

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WARDLE

RECEIVED
MAR 10 1982
OIL CONSERVATION DIVISION
SANTA FE
JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 966-4421
TELECOPIER: (505) 963-6043

March 9, 1982

Mr. Joe D. Ramey
Division Director
Oil Conservation Division
New Mexico Department of Energy & Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Case 7509: Application of Supron Energy Corporation
for a Nonstandard Proration Unit or Compulsory Pooling,
San Juan County, New Mexico

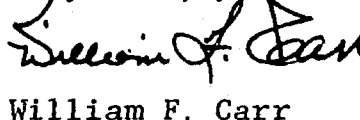
Dear Mr. Ramey:

As you are aware, the above referenced case is scheduled for hearing on March 16, 1982. We were advised on March 8th that due to an error in the legal advertisement the case would have to be readvertised for the Oil Conservation hearing scheduled for March 31, 1982.

Supron's lease in the southwest quarter of section 2 will expire on May 1, 1982. We are concerned that the application for compulsory pooling of the south half of this section will be opposed and, to avoid unnecessary time delays, request that this matter be set for hearing before the full Oil Conservation Commission at the earliest possible date.

Your attention to this request is appreciated.

Very truly yours,


William F. Carr

WFC:jh

cc: Mr. Jerry Lee
Mr. William S. Jameson

KELLAHIN and KELLAHIN

Attorneys at Law

500 Don Gaspar Avenue

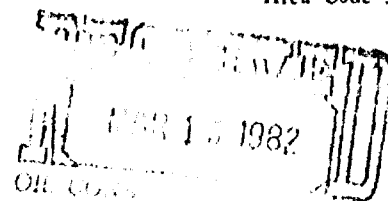
Post Office Box 1769

Santa Fe, New Mexico 87501

Jason Kellahin
W. Thomas Kellahin
Karen Aubrey

Telephone 982-4285
Area Code 505

March 10, 1982



Mr. Joe D. Ramey
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Oil Conservation Division
Case 7509

Dear Mr. Ramey:

Please enter our appearance in the above referenced case on behalf of Mr. Elliott A. Riggs against Supron Energy Corporation.

Very truly yours,

KELLAHIN & KELLAHIN

W. Thomas Kellahin

WTK/cts

cc: Mr. Elliott A. Riggs
Mr. William F. Carr

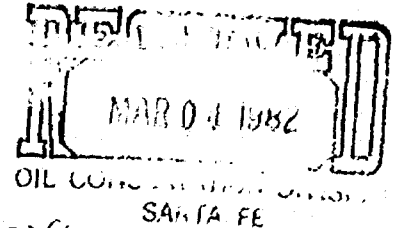
CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WARDLE

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

March 4, 1982

Mr. Joe D. Ramey
Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501



Re: Application of Supron Energy Corporation for
Compulsory Pooling or in the Alternative, a
Non-Standard Gas Spacing or Proration Unit,
San Juan County, New Mexico

Dear Mr. Ramey:

Enclosed in triplicate is the application of Supron Energy Corporation in the above-referenced matter.

The applicant requests that this matter be included on the docket for the examiner hearing scheduled to be held on March 16, 1982.

Very truly yours,

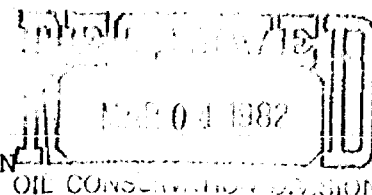
William F. Carr

WFC:lr

Enclosures

cc: Mr. Jerry Lee

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS



IN THE MATTER OF THE APPLICATION
OF SUPRON ENERGY CORPORATION FOR
COMPULSORY POOLING OR IN THE
ALTERNATIVE A NONSTANDARD GAS
SPACING OR PRORATION UNIT,
SAN JUAN COUNTY, NEW MEXICO

CASE 7509

APPLICATION

Comes now, SUPRON ENERGY CORPORATION, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests from the surface through the base of the Dakota formation in and under the S/2 of Section 2, Township 31 North, Range 8 West, N.M.P.M., San Juan County, New Mexico, and in support thereof would show the Division:

1. Applicant is the owner of 62.5% of the working interest in and under the S/2 of said Section 2, and applicant has the right to drill thereon.
2. Applicant proposes to dedicate the above-referenced pooled unit to its State Com 31-8 Well No. 1 to be drilled at an orthodox location 905 feet from the South line and 790 feet from the West line of said Section 2.
3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the S/2 of said Section 2 except Riggs Oil and Gas Corporation, the owner of a 25% working interest.

4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

6. In the alternative, applicant seeks an order establishing a 160 acre non-standard gas spacing or proration unit in the Dakota and Mesaverde formations to be comprised of the SW/4 of said Section 2 to be dedicated to its State Com. 31-8 Well No. 1.

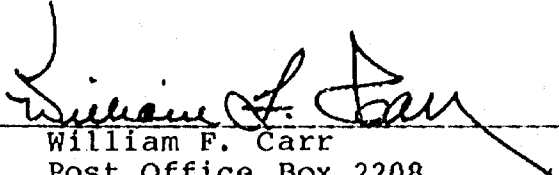
7. Granting this application and the drilling of the proposed well will be in the best interest of conservation, the prevention of waste and the protection of correlative rights.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner on March 16, 1982, and that after notice and hearing as required by law, the Division enter its order either (1) pooling the lands, including provisions designating the applicant as operator of the well, providing for applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling, and after completion, including overhead charges, and assessing a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well or, (2) establishing a non-standard gas spacing or proration unit in the Dakota and Mesaverde formations comprised of the SW/4 of said Section 2 and, (3) making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By


William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

Memo

From

FLORENE DAVIDSON
ADMINISTRATIVE SECRETARY

To

called in by Bill Carr
2/25/52

Superior Energy Corporation
Non-Standard Production Unit
1600-acre.

SW1/4 2-31N-8W

State Com 31-8 #1 905/5 + 790/10
Dakota and Mesaverde

In the alternative

Compulsory Pooling

S/2 2-31N-8W

all formations from the
surface down through the
Dakota formation.

DAN
AMOCO

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING

CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO
DIVISION FOR THE PURPOSE OF

CONSIDERING:

CASE NO. ~~7499~~ 7509

Order No. R-7033

[Handwritten signatures]
SUPROW ENERGY
APPLICATION OF AMOCO PRODUCTION
CORPORATION
COMPANY FOR COMPULSORY POOLING,
SAN JUAN
COUNTY, NEW MEXICO.

[Handwritten signature]
COMMISSION
ORDER OF THE DIVISION

COMMISSION
BY THE DIVISION:

This cause came on for hearing at 9 a.m. on ~~March 31~~ April 22, 1982, at Santa Fe, New Mexico, before ~~Examiner Daniel S. Nutter~~ the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this _____ day of July, 1982, the ~~Division~~ Commission Director, having considered the testimony, the record, and the ~~recommendations of the Examiner~~ exhibits, and being fully advised in the premises,

FINDS:

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

the ~~Morrow section~~, underlying the proposed spacing and proration unit is a good prospect for obtaining commercial production.

(8) That the geological evidence concerning the ~~Devonian~~ ^{Dakota} prospect is somewhat less conclusive, but the evidence appears to preponderate towards the view that prospects for commercial production from the ~~Devonian~~ ^{Dakota} formation are much more uncertain than such prospects for the ~~Pennsylvanian~~ ^{Mesa Verde} and that ~~Dev~~ ^{Riggs} is justified in not desiring to participate in going to the ~~Devonian~~ ^{Dakota}.

(9) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive, without unnecessary expense, his just and fair share of the gas underlying the subject lands in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit, and ~~Supron~~ ^{Supron} should be designated operator of the subject well and unit, provided however, that ~~Dev~~ ^{Riggs} should be given the opportunity to participate in the drilling of the subject well on a split-risk basis, i.e., (1) to participate in drilling and completion costs to the ~~Morrow~~ ^{Mesa Verde} formation without penalty or to go non-consent to the ~~Morrow~~ ^{Mesa Verde} and participate in the ~~Morrow~~ ^{Mesa Verde} subject to a ^{certain} charge for the risk involved ^{in drilling} to said formation, and (2), to participate in the additional drilling and completion costs from the ~~Morrow~~ ^{Mesa Verde} to the ~~Devonian~~ ^{Dakota} without penalty or to go non-consent from the ~~Morrow~~ ^{Mesa Verde} to the ~~Devonian~~ ^{Dakota} and participate in the ~~Devonian~~ ^{Dakota} subject to a separate and different charge for the risk involved in the additional drilling.

(10) That it is the intent of this order to break the drilling of the subject well down into two separate and

distinctive phases: (1) from the surface of the ground through the ~~Morrow~~ ^{Mesaverde} pay; and (2) from the base of the ~~Morrow~~ ^{Mesaverde} pay through the ~~Devonian~~ ^{Dakota} pay; to provide alternative selections to the ~~pooler~~ ^{Riggs}; and to provide cost accounting for a single ~~Morrow~~ ^{Mesaverde} completion vs. a single ~~Devonian~~ ^{Dakota} completion or a ~~Morrow-Devonian~~ ^{Mesaverde-Dakota} dual completion.

~~(11)~~ (11) To the above ends all charges and costs which would be directly attributable to a single ~~Morrow~~ ^{Mesaverde} completion should be charged to the ~~Morrow~~ ^{Mesaverde}-zone and subject to the ~~Morrow~~ ^{Mesaverde} risk factor provided herein, if applicable, and paid out of ~~Morrow~~ ^{Mesaverde} production only; all charges and costs which would be directly attributable to the drilling of a single ~~Devonian~~ ^{Dakota} completion from the base of the ~~Morrow~~ ^{Mesaverde} pay through the ~~Devonian~~ ^{Dakota} pay as well as any extra up-hole charges and costs resulting from drilling the well to the ~~Devonian~~ ^{Dakota} above and beyond what would normally be spent drilling to the ~~Morrow~~ ^{Mesaverde} only (such as extra hole size, extra casing and cementing, rig charges, etc.) should be charged to the ~~Devonian~~ ^{Dakota} zone and subject to the ~~Devonian~~ ^{Dakota} risk factor provided herein, if applicable, and paid out of ~~Devonian~~ ^{Dakota} production only; all common charges to a ~~Morrow-Devonian~~ ^{Mesaverde-Dakota} dual (including the separation packer, dual Christmas tree, etc.) shall be split between the two zones and each portion made subject to the risk factor for that zone and paid out of production from that zone.

~~(12)~~ (12) That after the effective date of this order and within 60 days prior to commencing the subject well, ~~the~~ ^{supron} should furnish the Division and ~~the~~ ^{Riggs} itemized schedules of estimated well costs as follows:

- A. A cost estimate for a normal single ~~Morrow~~ ^{Mesaverde} test well to the anticipated ~~Morrow~~ ^{Mesaverde} completion depth

distinctive phases: (1) from the surface of the ground through the ^{Mesaverde} ~~Morrow~~ pay; and (2) from the base of the ^{Mesaverde} ~~Morrow~~ pay through the ^{Dakota} ~~Devonian~~ pay; to provide alternative selections to the ^{Riggs} ~~pooler~~; and to provide cost accounting for a single ^{Mesaverde} ~~Morrow~~ completion vs. a single ^{Dakota} ~~Devonian~~ completion or a ^{Mesaverde-Dakota} ~~Morrow-Devonian~~ dual completion.

~~11~~ (11) To the above ends, all charges and costs which would be directly attributable to a single ^{Mesaverde} ~~Morrow~~ completion should be charged to the ^{Mesaverde} ~~Morrow~~-zone and subject to the ^{Mesaverde} ~~Morrow~~ risk factor provided herein, if applicable, and paid out of ^{Mesaverde} ~~Morrow~~ production only; all charges and costs which would be directly attributable to the drilling of a single ^{Dakota} ~~Devonian~~ completion from the base of the ^{Mesaverde} ~~Morrow~~ pay through the ^{Dakota} ~~Devonian~~ pay as well as any extra up-hole charges and costs resulting from drilling the well to the ^{Dakota} ~~Devonian~~ above and beyond what would normally be spent drilling to the ^{Mesaverde} ~~Morrow~~ only (such as extra hole size, extra casing and cementing, rig charges, etc.) should be charged to the ^{Dakota} ~~Devonian~~ zone and subject to the ^{Dakota} ~~Devonian~~ risk factor provided herein, if applicable, and paid out of ^{Dakota} ~~Devonian~~ production only; all common charges to a ^{Mesaverde-Dakota} ~~Morrow-Devonian~~ dual (including the separation packer, dual Christmas tree, etc.) shall be split between the two zones and each portion made subject to the risk factor for that zone and paid out of production from that zone.

~~12~~ (12) That after the effective date of this order and within 60 days prior to commencing the subject well, ^{Subron} ~~Subron~~ should furnish the Division and ^{Riggs} ~~Subron~~ itemized schedules of estimated well costs as follows:

- A. A cost estimate for a normal single ^{Mesaverde} ~~Morrow~~ test well to the anticipated ^{Mesaverde} ~~Morrow~~ completion depth

^{5,300}
(~~13,500~~ + feet).

B. A cost estimate for a normal single ^{Dakota} ~~Devonian~~
test well to the anticipated ^{Dakota} ~~Devonian~~ completion
depth (^{8,250}~~14,900~~ + feet).

C. A cost estimate for a ^{Mesaverde-Dakota} ~~Morrow-Devonian~~ dual
completion at the above depths.

13(43) That the cost estimate prescribed in Finding No. ²¹~~20~~(12)
A above should include only normal drilling, testing, and
completion costs with a suitably sized drilling rig and normal
mud, logging, and testing charges and casing and cementing costs
for a single ^{Mesaverde} ~~Morrow~~ completion without anticipation of drilling
beyond the expected ^{Mesaverde} ~~Morrow~~ completion depth.

13(44) That the cost estimate prescribed in Finding No. ²¹~~20~~(12)
B above should include only normal drilling, testing, and
completion costs with a suitably sized drilling rig and normal
mud, logging, and testing charges and casing and cementing costs
for a single ^{Dakota} ~~Devonian~~ completion without anticipation of an
upper pay ^{Mesaverde} ~~(Morrow)~~ being present or requiring testing.

13(45) That the cost estimate prescribed in Finding No. ²¹~~20~~(12)
C above should include normal drilling, testing, and completion
costs with a suitably sized drilling rig and normal mud,
logging, and testing charges and casing and cementing costs for
^{Mesaverde-Dakota} ~~a Morrow-Devonian~~ dual completion.

13(46) That within 30 days from the date the above-described
schedules of estimated well costs are furnished to it, ^{Riggs} ~~Dev~~
should make its election as to whether to participate in the
subject well.

^{it elects}
~~17~~ (17) That if ~~it~~ ^{it elects} to participate, ~~Dow~~ ^{Riggs} should have the opportunity of choosing its mode of participation, i.e., whether to participate in drilling to and completing in the ~~Morrow~~ ^{Mesaverde} only, or to participate ^{Dakota} in drilling and completing ⁱⁿ both the ~~Morrow~~ ^{Mesaverde} and Devonian.

^{it elects}
~~18~~ (18) That if ~~it~~ ^{it elects} to participate, ~~Dow~~ ^{Riggs} should be afforded the opportunity of paying ^{its} ~~its~~ share of estimated well costs for the mode selected in lieu of paying its share of reasonable well costs out of production.

^{Riggs}
~~19~~ (19) That should ~~Dow~~ ^{Riggs} elect not to pay its share of estimated well costs from the surface down through the ~~Morrow~~ ^{Mesaverde} pay, it should have its share of reasonable well costs for said formation withheld from production from the ~~Morrow~~ ^{Mesaverde} formation plus a reasonable percentage of such costs as a charge for the risk involved in the drilling of said well to the ~~Morrow~~ ^{Mesaverde}.

~~20~~ (20) That considering the geological and engineering evidence presented at the hearing, ¹⁵⁰ ~~100~~ percent of reasonable well costs is an adequate and appropriate charge for the risk involved in drilling said well to the ~~Morrow~~ ^{Mesaverde} formation.

^{Riggs}
~~21~~ (21) That should ~~Dow~~ ^{Riggs} elect to pay its share of estimated well costs from the surface to the ~~Morrow~~ ^{Mesaverde}, but elect not to pay its share of estimated well costs from the base of the ~~Morrow~~ ^{Mesaverde} pay down through the ~~Devonian~~ ^{Dakota}, it should have its share of well costs for drilling from the ~~Morrow~~ ^{Mesaverde} to the ~~Devonian~~ ^{Dakota} withheld from production from the ~~Devonian~~ ^{Dakota} formation plus a reasonable percentage thereof as a charge for the risk involved in the drilling of said well from the ~~Morrow~~ ^{Mesaverde} to the ~~Devonian~~ ^{Dakota}.

~~22~~ (22) That considering the geological and engineering evidence presented at the hearing, 200 percent of reasonable well costs from the ^{Mesaverde} ~~Morrow~~ to the ^{Dakota} ~~Devonian~~ is an adequate and appropriate charge for the risk involved in drilling said well from the ^{Mesaverde} ~~Morrow~~ to the ^{Dakota} ~~Devonian~~.

~~23~~ (23) That should ^{Riggs} ~~Bar~~ elect to participate in either of the above-described modes of participation, its payment of its share of estimated well costs for that mode should be made to ^{Supron} ~~Amoco~~ in accordance with some customary and mutually agreeable system for billing and payment which is common to the industry; that should ^{Riggs} ~~Bar~~ so elect to participate and pay its share of estimated well costs for the mode selected, it should remain liable for operating costs but should not be liable for risk charges for that mode of participation. Reasonable drilling and completion costs advanced by ^{Supron} ~~Amoco~~ beyond the mode selected and prepaid by ^{Riggs} ~~Bar~~ should be subject to the risk factors described above and withheld from production from the appropriate formation together with operating costs.

~~24~~ (24) That within 90 days following completion of the well, the operator should furnish the ^{Oil Conservation} ~~Division~~ and ^{Riggs} ~~Bar~~ an itemized schedule of actual well costs for drilling and completion of the well, broken down into two segments: from the surface through the ^{Mesaverde} ~~Morrow~~ pay, and from the base of the ^{Mesaverde} ~~Morrow~~ pay through the ^{Dakota} ~~Devonian~~ pay; that if no objection to such actual well costs is received by the Division, and the Division has not objected to such actual well costs within 45 days following receipt of said schedule, the actual costs should be considered reasonable costs; provided however, that if there is an objection to actual well costs within said 45-day period, the ^{OK} ~~Division~~ should determine reasonable well costs after public notice and hearing.

149

~~23~~(25) That within 60 days following determination of reasonable well costs, should ^{Riggs}~~now~~ have paid its share of estimated well costs for either of the above-described modes of participation, it should pay to ^{Supron}~~Amoco~~ any amount that its share of reasonable well costs for that mode exceed paid estimated well costs and should receive from ^{Supron}~~Amoco~~ any amount that paid estimated well costs exceed reasonable well costs for that mode.

~~24~~(26) That the terms and provisions of this order relating to participation or non-participation in the drilling of the subject well to the ^{Mesaverde}~~Morrow~~ formation should be applicable to the drilling to and completion of the well in possible pay zones above the ^{Mesaverde}~~Morrow~~; that the terms and provisions of this order relating to participation or non-participation in the drilling of the subject well from the base of the ^{Mesaverde}~~Morrow~~ pay through the ^{Dakota}~~Devonian~~ pay should be applicable to the drilling to and completion of the well in possible pay zones between the base of the ^{Mesaverde}~~Morrow~~ and the top of the ^{Dakota}~~Devonian~~.

^{\$250.00}
(26)~~27~~ That ^{\$250.00}~~\$420.00~~ per month while drilling and ^{\$250.00}~~\$420.00~~ per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(27)~~26~~~~28~~ That all proceeds from production from the subject well which are not disbursed for any reason should be placed in

San Juan

escrow in ~~Lea~~ County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership.

28 (29) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

2
1
~~(30) That although the application in this case was for pooling of the S/2 of Section 3, Township, 23 South, Range 34 East, NMPM, Lea County, New Mexico, to form a 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon 660 feet from the South line and 1980 feet from the East line of said Section 3, the Division Director should have authority to approve an alternative location for the unit well without hearing upon application of Amoco, provided all applicable provisions of Rule 104 of the Division Rules and Regulations are met, and provided that such location has been submitted to Dow along with the itemized schedules of well costs specified in Finding Nos. (12) through (15) above.~~

104 5
IT IS THEREFORE ORDERED:

Deaton
(1) That all mineral interests, whatever they may be, ~~from~~ *in the Mesaverde and* the top of the Wolfcamp formation through the base of the ~~the~~ *Dakota* formation underlying the S/2 of Section ~~3~~ ², Township ~~23~~ ² North, Range ~~34~~ ^{8 West} East, NMPM, ~~Antelope Ridge Area, Lea County, New Mexico~~ *San Juan*, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled ~~660 feet from the South line and 1980 feet from the East line of said Section 3 or at such other location on said unit as the Division Director may approve.~~ *at a standard location thereon.*

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of November, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the ~~Devonian~~ ^{Dakota} formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of November, 1982, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within ⁹⁰ ~~180~~ days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

Supron Energy Corporation

(2) That ~~Amoco Production Company~~ is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within ⁶⁰ ~~90~~ days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit itemized schedules of estimated well costs as follows:

A. A cost estimate for a normal single ~~Narrow~~ ^{Mesa Verde} test well to the anticipated ~~Narrow~~ ^{Mesa Verde} completion depth (^{6,300} ~~12,500~~ + feet).

B. A cost estimate for a normal single ~~Devonian~~ ^{Dakota} test well to the anticipated ~~Devonian~~ ^{Dakota} completion

8,250
depth (14,900 + feet).

Mesaverde-Dakota

C. A cost estimate for a ~~Morrow-Devonian~~ dual completion at the above depths.

(4) That the cost estimate prescribed in *Order* ~~Finding~~ No. *(3)A* ~~(101A)~~ above shall include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single ~~Morrow~~ *Mesaverde* completion without anticipation of drilling beyond the expected ~~Morrow~~ *Mesaverde* completion depth.

(5) That the cost estimate prescribed in *Order* ~~Finding~~ No. *(3)B* ~~(101B)~~ above shall include only normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a single ~~Devonian~~ *Dakota* completion without anticipation of an upper pay ~~(Morrow)~~ *(Mesaverde)* being present or requiring testing.

(6) That the cost estimate prescribed in *Order* ~~Finding~~ No. *(3)C* ~~(101C)~~ above shall include normal drilling, testing, and completion costs with a suitably sized drilling rig and normal mud, logging, and testing charges and casing and cementing costs for a ~~Morrow-Devonian~~ *Mesaverde-Dakota* dual completion.

(7) That within 30 days from the date the above-described schedules of estimated well costs are furnished to it, *Riggs* ~~it~~ shall make its election as to whether to participate in the subject well.

(8) That if it elects to participate, *Riggs* ~~it~~ shall have the opportunity of choosing its mode of participation, i.e., whether to participate in drilling to and completing in the ~~Morrow~~ *Mesaverde* only,

or to participate in drilling ^{to} and completing in both the ~~Morrow~~ ^{Messaverde} and ~~Devonian~~ ^{Dakota}.

(9) That if it elects to participate, ~~Dow~~ ^{Riggs} shall be afforded the opportunity of paying its share of estimated well costs for the mode selected in lieu of paying its share of reasonable well costs out of production.

(10) That should ~~Dow~~ ^{Riggs} elect not to pay its share of estimated well costs from the surface down through the ~~Morrow~~ ^{Messaverde} pay, it shall have its share of reasonable well costs for said formation withheld from production from the ~~Morrow~~ ^{Messaverde} formation plus ~~100~~ ¹⁵⁰ percent thereof as a charge for the risk involved in the drilling of said well to the ~~Morrow~~ ^{Messaverde}.

(11) That should ~~Dow~~ ^{Riggs} elect to pay its share of estimated well costs from the surface to the ~~Morrow~~ ^{Messaverde}, but elect not to pay its share of estimated well costs from the base of the ~~Morrow~~ ^{Messaverde} pay down through the ~~Devonian~~ ^{Dakota} pay, it shall have its share of well costs for drilling from the ~~Morrow~~ ^{Messaverde} to the ~~Devonian~~ ^{Dakota} withheld from production from the ~~Devonian~~ ^{Dakota} formation plus 200 percent thereof as a charge for the risk involved in the drilling of said well from the ~~Morrow~~ ^{Messaverde} to the ~~Devonian~~ ^{Dakota}.

(12) That should ~~Dow~~ ^{Riggs} elect to participate in either of the above-described modes of participation, its payment of its share of estimated well costs for that mode shall be made to ~~Dow~~ ^{Supran} in accordance with some customary and mutually agreeable system for billing and payment which is common to the industry; that should ~~Dow~~ ^{Riggs} so elect to participate and pay its share of estimated well costs for the mode selected, it shall remain liable for operating costs but shall not be liable for risk charges for that mode of participation. Reasonable drilling and completion

^{Supron}
costs advanced by ~~Amco~~ beyond the mode selected and prepaid by
^{Riggs}
~~Amco~~ shall be subject to the risk factors described above and
withheld from production from the appropriate formation together
with operating costs.

(13) That within 90 days following completion of the well,
the operator shall furnish the Division and ^{Riggs}~~Amco~~ an itemized
schedule of actual well costs for drilling and completion of the
well, broken down into two segments: from the surface through
^{adjusted downward, for any extra up-hole charges and costs per Finding No. (11),}
the ~~Norfolk~~ ^{Norfolk} pay, and from the base of the ~~Norfolk~~ ^{Norfolk} pay through the
^{including any extra up-hole charges and costs per Finding No. (11);}
~~Doctot's Devonian~~ ^{Doctot's Devonian} pay, that if no objection to such actual well costs is
received by the Division and the Division has not objected to
such actual well costs within 45 days following receipt of said
schedule, the actual costs shall be considered reasonable costs;
provided however, that if there is an objection to actual well
costs ^{for either one or both segments} within said 45-day period, the Division shall determine
reasonable well costs ^{for each one segment} after public notice and hearing.

(14) That within 60 days following determination of
reasonable well costs, should ^{Riggs}~~Amco~~ have paid its share of
estimated well costs for either of the above-described modes of
participation, it shall pay to ^{Supron}~~Amco~~ any amount that its share
of reasonable well costs for that mode exceed paid estimated
well costs and shall receive from ^{Supron}~~Amco~~ any amount that paid
estimated well costs exceed reasonable well costs for that mode.

^{Supron}
(15) That ~~Amco~~ is hereby authorized to withhold the
following costs and charges from production:

- (A) The pro rata share of reasonable well
costs attributable to ^{Riggs}~~Amco~~ ^{Riggs} if ~~Amco~~ has
not paid its share of estimated well
costs in accordance with the provisions

for pre-payment as set forth in this order.

- (B) As a charge for the risk involved in the drilling of the well, the percentage specified elsewhere herein of the pro rata share of reasonable well costs attributable to ~~the~~ ^{Riggs Riggs} if ~~the~~ has not paid its share of estimated well costs in accordance with the provisions for pre-payment as set forth in this order.

~~(16) That the terms and provisions of this order relating to participation or non-participation in the drilling of the subject well to the ^{Mesaverde} ~~Horizon~~ formation shall be applicable to the drilling to and completion of the well in possible pay zones above the ^{Mesaverde} ~~Horizon~~; that the terms and provisions of this order relating to participation or non-participation in the drilling of the subject well from the base of the ^{Mesaverde} ~~Horizon~~ pay through the ^{Dakota} ~~Devonian~~ pay shall be applicable to the drilling to and completion of the well in possible pay zones between the base of the ^{Mesaverde} ~~Horizon~~ and the top of the ^{Dakota} ~~Devonian~~.~~

(16) ^{\$2500.00} ~~(\$175)~~ That ^{\$250.00} ~~\$4200.00~~ per month while drilling and ^{\$250.00} ~~\$420.00~~ per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

¹⁷
(18) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(19) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

¹⁸
(20) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in ^{San Juan} ~~Lea~~ County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(21) That although the application in this case was for pooling of the S/2 of Section 3, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, to form a 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon 660 feet from the South line and 1980 feet from the East line of said Section 3, the Division Director ^{shall} ~~should~~ have authority to approve an alternative location for the unit well without hearing upon application of Amoco, provided all applicable provisions of Rule 104 of the Division Rules and Regulations are met, and provided that such location has been submitted to Dow along with the itemized schedules of well costs required in Orders Nos. (3) through (6) above.

²⁰
X (22) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO

OIL CONSERVATION ~~DIVISION~~ ^{COMMISSION}

~~JOE D. RAMEY, ^{Act}~~

~~DIRECTOR~~

S E A L

Emerg C. Arnold, Chairman

Alex J. Arroyo, Member

Joe D. Ramey, Member & Secretary