

CONFIDENTIAL
RECEIVED
COMMINT: 10/1/71

Therese -
we need name and
address of Paula
H

DOCKET MAILED

Date 3/15/82 (Police notified by attorney)
3/19/82 (Police)

2009

CASE NO.

7510

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

JAMES T. JENNINGS
SIR B. CHRISTY IV.
K. DOUGLAS PERRIN
PHIL T. BREWER
DAMON RICHARDS

LAW OFFICES OF
JENNINGS & CHRISTY
1012 SECURITY NATIONAL BANK BUILDING
P. O. BOX 1180
ROSWELL, NEW MEXICO 88202-1180

TELEPHONE 622-8432
AREA CODE 505

May 10, 1982

Oil Conservation Division
P. O. Box 2088
Santa Fe, NM 87501

Re: Case No. 7510 - Application of Union Oil Company
for Compulsory Pooling - Lea County, New Mexico

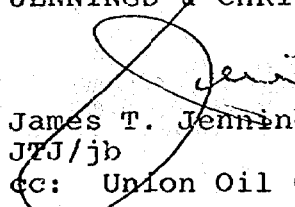
Attention: Ms. Florene Davidson

Dear Florene:

Union has just advised that they do not desire to continue further drilling operations on the well which was commenced on the N $\frac{1}{2}$ of Section 10, Township 22 South, Range 32 East. Accordingly, the Division may take such action as is appropriate in the situation. It is my further understanding that the lease has or will expire immediately and will probably be cancelled and a new lease issued in due course by the United States.

Yours very truly,

JENNINGS & CHRISTY


James T. Jennings
JTJ/jb

cc: Union Oil Co. of California

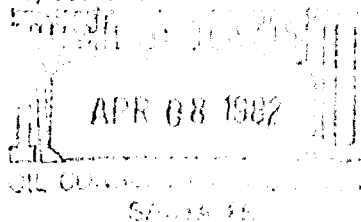
MAY 12 1982

*no action taken
Order P.O.R. - 6974
issued 4/19/82*

Union Oil and Gas Division: Central Region

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

union 76



Robert V. Lockhart
District Land Manager
Midland District

April 7, 1982

New Mexico Oil Conservation Division
State Land Office Building
P. O. Box 2088
Santa Fe, NM 87501

Attn: Mr. Dan Nutter

Dear Mr. Nutter:

Case 7510
Compulsory Pooling Application
N/2 Section 10, T-22-S, R-32-E, N.M.P.M.
Lea County, New Mexico

A copy of the enclosed AFE was provided during the hearing held on March 31, 1982, in the above-referenced case. At that time you expressed a desire to see a further breakdown of Union's AFE. I have enclosed a copy of our Drilling Well Cost Estimate-Supporting Data which should satisfy your request. By copy of this letter, I am also furnishing Mesa Petroleum Company with the same information.

Should you have any further questions, please advise.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

Linda H. Hicks
Landman

LHH:njd

Enclosures

xc: Mesa Petroleum Company

DIVISION/SUBSIDIARY

UNION OIL & GAS DIVISION

Authority for Expenditure
Energy Resources
Union Oil Company of California

AUTHORITY NUMBER

324057

union 76

REGION/DEPARTMENT Central Region/Operations		LOCATION Midland, Texas		DATE 3-8-82
PURPOSE <input type="checkbox"/> PROGRAMMED EXPANSION, COST REDUCTION, AND OPTIONAL REPLACEMENTS AND ADDITIONS SUBJECT TO MINIMUM RETURN ON INVESTMENT.		<input type="checkbox"/> NECESSARY REPLACEMENTS, AND OTHER EXPENDITURES NOT SUBJECT TO RETURN ON INVESTMENT.		BUDGETED <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO
RETURN ON INVESTMENT	REQUIRED %	THIS PROPOSAL %	CALCULATED BY	AMOUNT REQUESTED \$ 2,310,000

EXPENDITURE DESCRIPTION

To earn 40 net acres by farm-in, commit 240 net acres to a 320 acre unit & to drill the DIPPEL FED COMM WELL NO. 1, Divide Tank Prospect, Lea County, New Mexico.

OPERATOR: Union Oil Company of California (100%)
TYPE WELL: Exploratory
OBJECTIVE ZONE: Morrow
PROPOSED TOTAL DEPTH: 15,100'
TOTAL NET ACRES UNDER LEASE IN PROSPECT: 2277.49

DETAIL OF EXPENDITURE:

Location Costs	\$ 63,000
Drilling Costs	1,020,000
Casing Costs	485,000
Outside Services	582,000
Supervision	50,000

TOTAL AFE \$ 2,200,000

Tangible	\$ 485,000
Intangible	\$ 1,715,000

Estimated additional cost if well is completed as a producer \$ 465,000

O F F.	COST CENTER		ACCOUNT CODE			C. C.	CAP. BUDG. CATG.	AUTHORITY	ADDITIONAL INFORMATION	CHARGE <input type="checkbox"/> EXPENSE <input checked="" type="checkbox"/> CAPITAL																																																																		
	GRP.	NUMBER	GEN. LEDGER	DETAIL	SUB DETAIL																																																																							
242			311	X001			XX324057																																																																					
<table border="1"> <tr> <td>ESTIMATE BY WSW</td> <td>A.P.E. MADE BY WSW</td> <td>CHECKED BY JRH</td> <td colspan="8"> Material Transferred \$ _____ Cash Outlay \$ 2,200,000 Contingencies 5% 110,000 TOTAL COST 2,310,000 Salvage (Pres. Value) (_____) Chargeable to Others %: (_____) (_____) NET COST \$ 2,310,000 </td> </tr> <tr> <td>APPROVED <i>W. M. S.</i></td> <td colspan="2"></td> <td colspan="8"></td> </tr> <tr> <td>APPROVED</td> <td colspan="2"></td> <td colspan="8"></td> </tr> <tr> <td>APPROVED</td> <td colspan="2"></td> <td colspan="8"></td> </tr> <tr> <td>SENIOR VICE PRESIDENT</td> <td colspan="2"></td> <td colspan="8"></td> </tr> <tr> <td>CONTROLLER</td> <td colspan="2"></td> <td colspan="8">EXECUTIVE COMMITTEE - (SECRETARY OR ASST SECRETARY) DATE APPROVED</td> </tr> </table>											ESTIMATE BY WSW	A.P.E. MADE BY WSW	CHECKED BY JRH	Material Transferred \$ _____ Cash Outlay \$ 2,200,000 Contingencies 5% 110,000 TOTAL COST 2,310,000 Salvage (Pres. Value) (_____) Chargeable to Others %: (_____) (_____) NET COST \$ 2,310,000								APPROVED <i>W. M. S.</i>											APPROVED											APPROVED											SENIOR VICE PRESIDENT											CONTROLLER			EXECUTIVE COMMITTEE - (SECRETARY OR ASST SECRETARY) DATE APPROVED							
ESTIMATE BY WSW	A.P.E. MADE BY WSW	CHECKED BY JRH	Material Transferred \$ _____ Cash Outlay \$ 2,200,000 Contingencies 5% 110,000 TOTAL COST 2,310,000 Salvage (Pres. Value) (_____) Chargeable to Others %: (_____) (_____) NET COST \$ 2,310,000																																																																									
APPROVED <i>W. M. S.</i>																																																																												
APPROVED																																																																												
APPROVED																																																																												
SENIOR VICE PRESIDENT																																																																												
CONTROLLER			EXECUTIVE COMMITTEE - (SECRETARY OR ASST SECRETARY) DATE APPROVED																																																																									

union 76

A.F.E. No.

324057

Department No.	Department	Location	Date
	Operations	Midland, Texas	3-8-82

LOCATION:

660' FNL & 1980' FWL, Section 10, T-22-S, R-32-E, Lea County, New Mexico.

REASON FOR EXPENDITURE:

To test a structural nose plunging southeastward from the Bilbrey Field for stratigraphic entrapment of hydro carbons and to extend the Federal lease on 120 acres which expires April 1, 1982.

PROPOSED CASING & FACILITIES:

13-3/8"	C	500'
10-3/4"	C	4800'
7-5/8"	C	12,900'
5"	L	15,100'
2-7/8"	T	14,800'

RECOMMENDED PROCEDURE:

Drill 17½" hole to 500'. Cement 13-3/8" casing. Drill 12½" hole to 4800'. Cement 10-3/4" casing. Drill 9½" hole to 12,900'. Cement 7-5/8" casing. Drill 6½" hole to TD. Log & if productive, cement 5" liner. Perforate, treat & complete using 2-7/8" tubing.

DRILLING WELL COST ESTIMATE - SUPPORTING DATA

Date 3/8/82
Sheet One of 3

WELL NAME & NO. <u>DIPPEL FCB Comm #1</u> FIELD <u>WC</u>		DEVELOPMENT TO <u>EXPLORATORY TO 15,100'</u> PREPARED BY <u>WSW</u>		LOCATION		
NATURE OF EXPENDITURE		ESTIMATED COST	SUPPLEMENT NUMBER	REVISED TOTAL	WELL COST SUB TOTAL	
DRILLING COST	LOCATION - TANGIBLE					
	a. Cattle Guards					
	b. Steel Pipe Rocks					
	c. Fencing					
	b. Other					
	TOTAL TANGIBLE	Cap. Budg. Cat. Exp. 32				
		Cap. Budg. Cat. Dev. 52				
	INTANGIBLE					
	a. Surveying	1000				
	b. Surface Damage Claims	2500				
c. Building Road & Location	45000					
d. Cellar	7500					
e. Mud Pits, Water Pit, & Reserve Pit	10,000					
f. Graveling						
g. Clean Up						
h. Other	2,000					
TOTAL INTANGIBLE	Cap. Budg. Cat. Exp. 32	\$ 63,000			\$ 63,000	
	Cap. Budg. Cat. Dev. 52					
TOTAL LOCATION					\$ 63,000	
DRILLING CONTRACTORS CHARGES - INTANGIBLE	a. Lump Sum \$ MIRUSO \$	35,000				
	b. Move In _____ days at \$					
	c. Footage Contract _____ ft. at \$					
	d. Daywork Contract <u>100</u> days at \$ <u>7500</u>	750,000				
	e. Drilling Tools & Equipment Furnished by Contractor as Additional Cost to Union					
	f. Third Party Labor & Catering Services					
	TOTAL INTANGIBLE	Cap. Budg. Cat. Exp. 33	\$ 785,000			\$ 785,000
		Cap. Budg. Cat. Dev. 53				
	DRILLING BITS - INTANGIBLE	a. Diamond Bits				
b. Conventional Bits. Drig \$ Comp \$		80,000				
TOTAL INTANGIBLE		Cap. Budg. Cat. Exp. 34	\$ 80,000			\$ 80,000
	Cap. Budg. Cat. Dev. 54					
DRILLING MUD & CHEMICALS - INTANGIBLE	a. Drilling Mud & Chemicals (bulk, sack, liquid)	175,000				
	b. Crude Oil, Diesel Oil or Asphalt					
	TOTAL INTANGIBLE	Cap. Budg. Cat. Exp. 35	\$ 175,000			\$ 175,000
	Cap. Budg. Cat. Dev. 55					
FUEL & WATER - INTANGIBLE	a. Fuel	70,000				
	b. Water	35,000				
	TOTAL INTANGIBLE	Cap. Budg. Cat. Exp. 36	\$ 105,000			\$ 105,000
	Cap. Budg. Cat. Dev. 56					
EQUIPMENT RENTALS - INTANGIBLE	a. Blowout Preventers & Manifold (Drilling Only)					
	b. Drill Pipe & Collars <input type="checkbox"/> Sub <input type="checkbox"/> Kelly <input type="checkbox"/>					
	c. Stabilizers <input type="checkbox"/> Drilling Jars <input type="checkbox"/> Underreamer <input type="checkbox"/>	20,000				
	d. Automatic Driller <input type="checkbox"/> Kelly Spinner <input type="checkbox"/>					
	e. Degasser <input type="checkbox"/> Desitter <input type="checkbox"/> Centrifuge <input type="checkbox"/>	17,000				
	f. Automatic Mud Monitoring Equipment	13,000				
	g. Personnel Safety Equipment					
	h. Other					
	TOTAL INTANGIBLE	Cap. Budg. Cat. Exp. 37	\$ 50,000			\$ 50,000
		Cap. Budg. Cat. Dev. 57				
SPECIALIZED DRILLING SERVICES - INTANGIBLE	a. Labor & Equipment - Conductor Pipe	15,000				
	b. Crews & Equipment to Run Casing & Liners	10,000				
	c. Casing Testing & Inspection Service	120,000				
	d. Electrical Surveys Including Sidewall Samples	75,000				
	e. Cement & Cementing Services					
	f. Directional Surveys					
	g. Conventional Coring Tools & Services	80,000				
	h. Directional Drilling Tools & Operator					
	i. Abandonment Cost - Rental Tools & Services, Ect.					
	j. Mud Engineer <input type="checkbox"/> Mud Logging Service	40,000				
	k. Air Compressor Charges for Air Drilling					
	l. Formation Testing D.S.T. <input type="checkbox"/> Wireline Test <input type="checkbox"/>	28,000				
	m. Perforating for Above Testing					
	n. Misc. Contract Labor & Welding Services	9,000				
	p. Other					
	TOTAL INTANGIBLE	Cap. Budg. Cat. Exp. 38	\$ 372,000			\$ 372,000
	Cap. Budg. Cat. Dev. 58					

DRILLING WELL COST ESTIMATE - SUPPORTING DATA

Date 3/8/62
 Sheet Two of 3

	NATURE OF EXPENDITURE	ESTIMATED COST	SUPPLEMENT NUMBER	REVISED TOTAL	WELL COST SUB TOTAL
DRILLING & COMPLETION	TRANSPORTATION-PERSONNEL-INTANGIBLE				
	a. Airplanes Drilling\$ Completion\$				
	b. Automobiles Drilling\$ Completion\$				
	TOTAL INTANGIBLE (Drilling) Cap. Budg. Cat. Exp. 39	\$	\$	\$	\$
	(Drilling) Cap. Budg. Cat. Dev. 59	\$	\$	\$	\$
	(Completion) Cap. Budg. Cat. Exp. 39	\$	\$	\$	\$
	(Completion) Cap. Budg. Cat. Dev. 59	\$	\$	\$	\$
	TRANSPORTATION-MATERIAL, EQUIPMENT, & SUPPLIES-INTANGIBLE				
	a. Airplanes Drilling\$ Completion\$				
	b. Trucking Drilling\$35,000 Completion\$10,000	45,000			
DRILLING COST	c. Other Equip. Drilling\$ Completion\$				
	TOTAL INTANGIBLE (Drilling) Cap. Budg. Cat. Exp. 40	\$ 35,000	\$	\$	\$ 35,000
	(Drilling) Cap. Budg. Cat. Dev. 60	\$	\$	\$	\$
	(Completion) Cap. Budg. Cat. Exp. 40	\$	\$ 10,000	\$	\$ 10,000
	(Completion) Cap. Budg. Cat. Dev. 60	\$	\$	\$	\$
	CASING-DRILLING-TANGIBLE				
	a. 20" Conductor ft. at \$	2,000			
	b. 13 1/4" Surface 500 ft. at \$	13,000			
	c. 9 5/8" Intermediate 9,800 ft. at \$	115,000			
	d. 7 7/8" Intermediate 12,900 ft. at \$	330,000			
DRILLING & COMPLETION	e. "Liner ft. at \$				
	f. Liner Hanging Equipment				
	g. Casing Heads & Hangers	20,000			
	h. Floating Equip., Scratches & Centralizers	5,000			
	i. Drilling Spools				
	j. Other				
	TOTAL TANGIBLE Cap. Budg. Cat. Exp. 41	\$ 485,000	\$	\$	\$ 485,000
	Cap. Budg. Cat. Dev. 61	\$	\$	\$	\$
	UNANTICIPATED MAJOR DRILLING EXPENSE-INTANGIBLE				
DRILLING & COMPLETION	a. Contract Daywork days at \$				
	b. Tools Lost in Hole				
	c. Circulating Fluids & Lost Circulation Material				
	d. Fishing Tools, Equipment, Services & Expenses				
	e. Transportation - Land, Marine & Air				
	f. Outside Engineering or Consulting Expense				
	g. Directional Drilling Tools, Equipment & Services				
	h. Cementing Services & Cement				
	i. Pumping Services				
	j. Other				
COMPLETION COST	TOTAL INTANGIBLE Cap. Budg. Cat. Exp. 45	\$	\$	\$	\$
	Cap. Budg. Cat. Dev. 65	\$	\$	\$	\$
	CASING-COMPLETION-TANGIBLE				
	a. "Production ft. at \$				
	b. 5" Liner 2700 ft. at \$ 2237		61,000		
	c. "Tie Back ft. at \$				
	d. Liner Hanging Equipment		25,000		
	e. Floating Equipment, Centralizers & Scratches		3000		
	f. Casing Heads & Hangers		11,000		
	g. Other				
DRILLING & COMPLETION	TOTAL TANGIBLE Cap. Budg. Cat. Exp. 42	\$	\$ 100,000	\$	\$
	Cap. Budg. Cat. Dev. 62	\$	\$	\$	\$
	COMPANY LABOR & SUPERVISION-INTANGIBLE				
	a. Supervision-Drilling\$50,000 Completion\$7000				
	TOTAL INTANGIBLE Cap. Budg. Cat. Exp. 31	\$ 50,000	\$ 7000	\$	\$ 50,000
	Cap. Budg. Cat. Dev. 51	\$	\$	\$	\$
COMPLETION COST	PRODUCTION EQUIPMENT-TANGIBLE				
	a. 2 7/8" Tubing 19,800 ft. at \$		136,000		
	"Tubing ft. at \$				
	"Tubing ft. at \$				
	b. "Kill String ft. at \$				
	c. Xmas Tree - Tbg. Head & Upper Section		33,000		
	d. Pumping Unit, Rods & Pump				
	e. Packers, Retainers, Blast Joints		10,000		
	f. Landing Nipples				
	g. Gas Lift Mandrels & Valves				
COMPLETION COST	h. Other				
	TOTAL TANGIBLE Cap. Budg. Cat. Exp. 45	\$	\$ 174,000	\$	\$
	Cap. Budg. Cat. Dev. 65	\$	\$	\$	\$
	COMPLETION FLUIDS-INTANGIBLE				
	a. Completion Fluids & Chemicals				
	TOTAL INTANGIBLE Cap. Budg. Cat. Exp. 43	\$	\$	\$	\$
	Cap. Budg. Cat. Dev. 63	\$	\$	\$	\$

DRILLING WELL COST ESTIMATE - SUPPORTING DATA

Date

3/8/82

Sheet Three of 3

NATURE OF EXPENDITURE		ESTIMATED COST	SUPPLEMENT NUMBER	REVISED TOTAL	WELL COST SUB TOTAL
COMPLETION COST	COMPLETION COST - INTANGIBLE				
	a. Contract Daywork <u>14</u> days at \$ <u>1500</u>		21,000		
	b. Rental Completion Tools:				
	Blowout Preventers & Manifolds		1000		
	Drill Pipe, Collars, Kelly & Subs				
	Power Tubing Tongs <input type="checkbox"/> Scrapers <input type="checkbox"/>				
	Retrievable Cementers & Bridge Plugs				
	Rental Well Testing Equipment		6000		
	Drill Stem Testing Equipment				
	c. Coating Crews & Equipment		6000		
	d. Cement & Cementing Services (Coating)		12,000		
	e. Electric Logging (Inside Coating)		5000		
	f. Perforating		10,000		
	g. Squeeze Cementing Services & Cement				
	h. Acidizing, Fracturing & Swabbing		30,000		
	i. Gravel Packing				
	j. Tubular Goods Testing & Inspection		5000		
	k. Extra Contract Labor & Welding Services		3000		
	l. Other				
TOTAL INTANGIBLE		Cap.Budg.Cat.Exp. 44	\$ 94,000	\$	\$
		Cap.Budg.Cat.Dev. 64	\$	\$	\$
	PRODUCTION FACILITIES - TANGIBLE				
	a. Surface Production Equipment & Material		60,000		
	b. Construction Cost - Labor, Tools, Etc.		10,000		
	c. Equipment Rentals				
TOTAL TANGIBLE		Cap.Budg.Cat.Exp. 47	\$ 70,000	\$	\$
		Cap.Budg.Cat.Dev. 67	\$	\$	\$
DRILLING COST	MISCELLANEOUS - INTANGIBLE				
	a. Drilling Permits				
	b. Insurance Premiums				
	c. "Other" Services & Supplies				
TOTAL INTANGIBLE		Cap.Budg.Cat.Exp. 48	\$	\$	\$
		Cap.Budg.Cat.Dev. 68	\$	\$	\$

169,000

	DRILLING	COMPLETION	TANGIBLE	INTANGIBLE
TOTAL DRY HOLE COST				
DRILLING A.F.E. <u>2,200,000</u>	\$	\$	\$ 985,000	\$ 1,715,000
TOTAL EXPLORATORY				
DRILLING A.F.E. <u>2,665,000</u>	\$ 2,200,000	\$ 965,000	\$ 834,000	\$ 1,831,000
TOTAL DEVELOPMENT				
DRILLING A.F.E.	\$	\$	\$	\$

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Union Oil Company
of California for compulsory pooling,
Lea County, New Mexico. CASE
7510

BEFORE: Daniel S. Nutter

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:

James T. Jennings, Esq.
JENNINGS AND CHRISTY
P. O. Box 1180
Roswell, New Mexico 88201

A P P E A R A N C E S

For Mesa Petroleum:

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

and

Steven C. James, Esq.
 MESA PETROLEUM CO.
 Vaughn Building - Suite 1000
 Midland, Texas 79701

I N D E X

LINDA HICKS

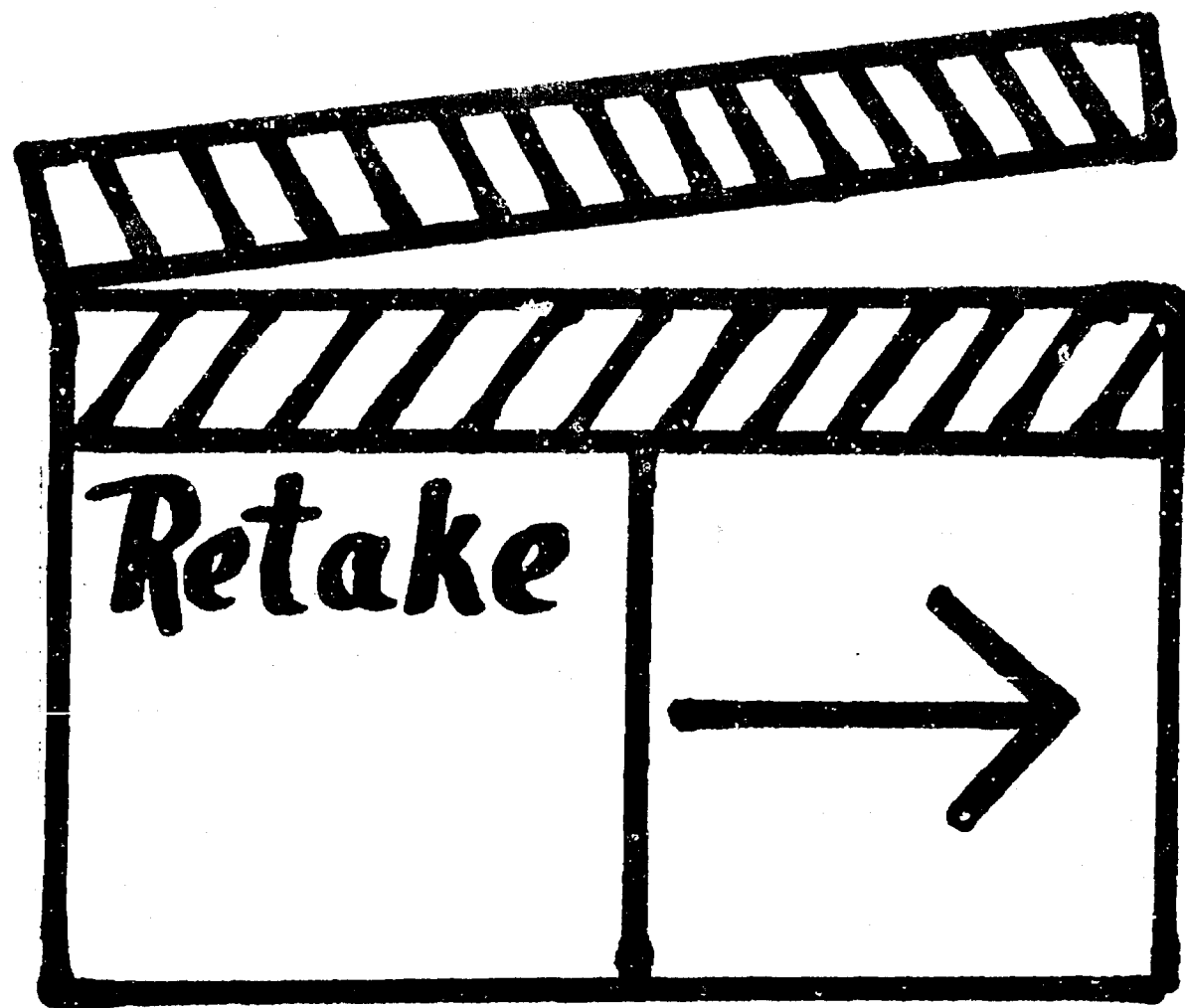
Direct Examination by Mr. Jennings	5
Cross Examination by Mr. Nutter	12
Cross Examination by Mr. James	15

DOUGLAS A. SEYLER

Direct Examination by Mr. Jennings	17
Cross Examination by Mr. Carr	25
Redirect Examination by Mr. Jennings	30

STATEMENT BY MR. CARR 31

STATEMENT BY MR. JENNINGS. 32



A P P E A R A N C E S

For Mesa Petroleum:

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

and

Steven C. James, Esq.
 MESA PETROLEUM CO.
 Vaughn Building - Suite 1000
 Midland, Texas 79701

I N D E X

LINDA HICKS

Direct Examination by Mr. Jennings	5
Cross Examination by Mr. Nutter	12
Cross Examination by Mr. James	15

DOUGLAS A. SEYLER

Direct Examination by Mr. Jennings	17
Cross Examination by Mr. Carr	25
Redirect Examination by Mr. Jennings	30

STATEMENT BY MR. CARR	31
-----------------------	----

STATEMENT BY MR. JENNINGS.	32
----------------------------	----

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

E X H I B I T S

Union Exhibit One, Plat	6
Union Exhibit Two, AFE	8
Union Exhibit Three, Operating Agreement	9
Union Exhibit Four, Return Receipts	11
Union Exhibit Five, Structure Map	18
Union Exhibit Six, Cross Section	21

1
2 MR. NUTTER: Call next Case Number 7510.

3 MR. PEARCE: The application of Union
4 Oil Company of California for compulsory pooling, Lea County,
5 New Mexico.

6 MR. JENNINGS: I'm James T. Jennings,
7 Jennings and Christy, appearing on behalf of the applicant,
8 Union Oil Company of California, and we will have two wit-
9 nesses.

10 MR. JAMES: Mr. Examiner, I'm Steve James
11 appearing on behalf of Mesa Petroleum Co. Bill Carr, my
12 local counsel, is somewhere nearby also appearing on our
13 behalf.

14
15 (Witnesses sworn.)

16
17 MR. NUTTER: Call for appearances.

18 MR. CARR: May it please the Examiner,
19 my name is William F. Carr, with the law firm Campbell, Byrd,
20 and Black, P. A. of Santa Fe. I'm appearing on behalf of
21 Mesa Petroleum Company and also appearing today in associa-
22 tion with Steven C. James, attorney for Mesa from Midland,
23 Texas.

24 MR. NUTTER: Go ahead, Mr. Jennings.
25

LINDA HICKS

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

DIRECT EXAMINATION

BY MR. JENNINGS:

Q Would you please state your name and
occupation, please?

A. My name is Linda Hicks. I'm employed as
a landman with Union Oil Company of California.

Q How long have you been so employed, Ms.
Hicks?

A. Tomorrow will be two years.

Q Are you familiar with the application
that has been filed herein?

A. Yes, sir, I am.

Q Generally what is the purpose of this
application?

A. This application is to compulsorily pool
the mineral interests in the Wolfcamp, Cisco Canyon, Strawn,
Atoka, and Morrow formations, north half of Section 10, Town-
ship 22 South, Range 32 East, Lea County, New Mexico.

Q What type of well do you propose to drill?

1
2 A. We propose to drill a Morrow well, 15,100
3 foot Morrow well.

4 Q I hand you what has been marked Exhibit,
5 Union Exhibit Number One, and ask you to identify that.

6 A. This is a land plat, showing ownership
7 of the acreage involved in this hearing.

8 Q What acreage does Union own in Section
9 10?

10 A. In the north half of Section 10, which
11 is what we're pooling, or --

12 Q Well, you can -- north half first and
13 then the rest of the section.

14 A. Okay. The north half of Section 10,
15 Union owns the northwest quarter and the south half of the
16 northeast quarter, for a total of 240 acres. And we also
17 own all but the -- all but 40 acres in the south half of
18 of Section 10.

19 Q Where do you -- where is the location
20 of the proposed well?

21 A. The well is located 660 feet from the
22 north line and 1980 from the west line.

23 Q And you propose to pool the north half
24 of the section.

25 A. Yes, sir.

1

2

Q Is that a standard location?

3

A Yes, sir.

4

Q Who are the other owners under the north
half of Section 10?

5

6

A MTF Limited Partnership owns the north
half of the northeast quarter, 80 acres.

7

8

Q What is the relation, to your knowledge,
between Mesa and -- Mesa Petroleum Company and MTF?

9

10

A My understanding is that Mesa serves as
operator, and this acreage was under Mesa's ownership and
was recently assigned to MTF Partnership.

11

12

13

Q What's the nature of your acreage under
the north half of Section 10, Union's acreage?

14

15

A What is the nature of it?

16

Q Yes.

17

A It's Federal acreage. All of the north
half is Federal acreage.

18

19

Q Ms. Hicks, what efforts -- or have you
made any efforts to communitize or to pool the north half of
Section 10?

20

21

22

A Yes, sir, we have. We have contacted
Mesa Petroleum on behalf of MTF Limited Partnership, and we
offered them a communitization agreement and sent them a copy
of our AFE for this well and our proposal to drill this well,

23

24

25

1
2 ant at this time we have been unable to come to some type
3 of agreement.

4 Q You haven't been able to work out any
5 satisfactory arrangement?

6 A No.

7 Q And is -- what's the expiration date of
8 the lease on which you're drilling up there?

9 A 4-1-82.

10 Q I hand you what has been marked as Union
11 Exhibit Two, and ask you to identify that and tell us what
12 it is.

13 A Exhibit Two is a copy of our Authority
14 for Expenditure, better known as AFE, for the drilling of this
15 well.

16 Q What does it -- what does this AFE show
17 the cost of the well to be?

18 A It shows a dry hole cost of -- a dry
19 hole cost of \$2,200,000, and -- excuse me just a second.

20 No, I'm sorry. \$2,310,000 for a dry hole
21 cost and a producer cost of \$2,275,000.

22 Q Did you submit a copy of this AFE to
23 Mesa?

24 A Yes, sir.

25 Q Are you familiar with well costs in the

1
2 area?

3 A. Yes, sir.

4 Q Has Union participated in other wells in
5 the area?

6 A. Yes, sir, we have.

7 Q In your opinion is the proposed cost of
8 this well in the AFE in line with the AFE's which you've
9 entered into with other operators for similar wells in the
10 area?

11 A. Yes, sir, it is.

12 Q Please refer to what has been marked
13 Union's Exhibit Number Three, and please identify it.

14 A. This is an operating agreement for the
15 drilling of this well, covering the north half of Section 10.

16 Q Is this the Dipple (sic) Federal Com
17 No. 1 Well?

18 A. Yes, sir.

19 Q And provides for the initial test well.

20 A. Yes, sir.

21 Q What -- have you furnished a copy of this
22 to the other working interest owners?

23 A. No, sir, we have not. We -- if they had
24 elected to participate we would have provided them a copy.

25 Q You will provide them one today?

1
2 A. Yes, sir, I sure can.

3 Q. What have you requested as your overhead
4 costs in this operating agreement?

5 A. We've requested a drilling well rate of
6 \$3782 and a producing well rate of \$412. Those are monthly
7 rates.

8 Q. Are you familiar with other operating
9 agreements which Union has operated covering wells -- or has
10 executed with other operators covering wells in this same
11 general area?

12 A. Yes, sir.

13 Q. Are the figures which are set forth in
14 this operating agreement in line with those which have been
15 charged in other operating agreements in the area?

16 A. I believe so.

17 Q. And in your opinion are they reasonable
18 charges?

19 A. They are reasonable.

20 Q. Do you have a nonconsent clause in this
21 operating agreement?

22 A. Yes, sir, we do.

23 Q. What does it provide with reference to
24 the nonconsent --

25 A. 300 percent drilling cost. You don't

1

2 care for me to read the --

3

Q No.

4

A -- whole paragraph?

5

Q No, I don't believe so.

6

7 have of this witness.

8

Mr. Examiner, I overlooked one thing.

9

If I could ask another question?

10

MR. NUTTER: Yes, sir.

11

Q Ms. Hicks, have you contacted all of the

12

working interest owners and the royalty, overriding royalty

13

owners under the north half of Section 10, and notified them

14

of this -- of the hearing and of your intention?

15

A I have contacted those I felt it was

16

necessary to contact. The only other working interest is

17

MTF Limited Partnership. Yes, they have been contacted, and

18

there are some overriding royalty owners that I did not con-

19

tact because we have authority to pool their interest in our

20

assignment or in Mesa's assignment.

21

Q I hand you what has been marked as Union's

22

Exhibit Number Four, and ask that you identify that and tell

23

us what it is.

24

A This is a letter dated March 10, 1982,

25

to Ms. Florene Davidson, listing the parties I sent an ap-

plication to, an application for compulsory pooling.

Would you like me to read the names?

Q. You might read the names.

A. Mr. and Mrs. C. E. Strange, Bank of America, Mr. Donald Dipple, and MTF Limited Partnership.

Would you like me to identify who these are?

Q. Do you have the return cards for all the letters that you sent?

A. Yes, I do. I have return receipts cards for the letters I sent these individuals.

Q. Indicating that all those persons received the notice?

A. Yes, sir.

Q. And the application?

A. Yes, sir.

MR. JENNINGS: That's all, Mr. Nutter.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Ms. Hicks, now is there any other working interest owner in the north half of Section 10, other than MTF and Union?

A. No, sir.

1
2 Q So you control 100 percent of the working
3 interest under the green portion of the north half of Section
4 10, as shown on Exhibit One?

5 A Yes, sir. 240 acres, which would be a
6 75 percent interest.

7 Q Well now, this model form unit agreement,
8 operating agreement that you have with the charge for overhead
9 and the charges for portion of costs of drilling, and so
10 forth --

11 A Uh-huh.

12 Q It hasn't been agreed to by anybody but
13 Union, then, has it?

14 A Correct. WE have not furnished a copy
15 to Mesa because it is my understanding they do not choose to
16 participate. We did say if you want to participate we will
17 send you a copy.

18 Q Now would you go through a little more
19 the detail of the efforts that you have made to form a com-
20 munitization with Mesa or MTF?

21 A I believe our first contact was back in
22 February of -- February 11th, '82. A letter was written to
23 Mesa's Division Manager, which reflected an earlier conversa-
24 tion between our District Landman and Mr. Causey, informing
25 them of this -- our proposal.

1

2

Q. Mr. Causey is a Mesa man?

3

A. He's Division Manager, I believe.

4

And an AFE was sent to Mesa at that time.

5

Q. Was it this same AFE that you --

6

A. It was an earlier AFE.

7

Q. Was it on the same form that you've got

8

your AFE here?

9

A. Yes, sir, uh-huh.

10

MR. NUTTER: I don't know if this is a

11

customary AFE for Union Oil Company, but it seems to me it

12

lacks in detail quite a bit what we normally see as AFE's.

13

There's no breakdown whatsoever of the various charges and

14

costs on here.

15

I wonder if you could submit us a more

16

detailed AFE?

17

MR. JENNINGS: I think we can.

18

MR. NUTTER: Because normally there is

19

a breakdown.

20

A. This is standard. This is standard of

21

what we send out to partners.

22

MR. NUTTER: I hadn't seen such a brief

23

AFE before, that's my problem.

24

So if you could give us a more -- a little

25

more detailed breakdown as to --

1
2 MR. JENNINGS: Mr. Seyler --

3 MR. NUTTER: -- costs and charges.

4 MR. JENNINGS: Mr. Seyler has that and
5 he's the next witness, so if you'd like it right now, we'll
6 get it for you.

7 MR. NUTTER: No, that's all right. I
8 just need some substantiation of these costs and charges.

9 Q Now, Ms. Hicks, you also mentioned that
10 the lease would expire on the anniversary of the date of your
11 employment with Union.

12 A I don't know what significance that
13 bears.

14 Q It means you'd better do something quick.

15 A That's right.

16 Q Or do you have the well drilling now?

17 A It will be drilling today.

18 Q It will? Okay.

19 MR. NUTTER: Are there any other questions
20 of Ms. Hicks?

21 MR. JAMES: I have.

22 MR. NUTTER: Okay.

23
24 CROSS EXAMINATION

25 BY MR. JAMES:

1
2 Q Union was offered a farmout of MTF's
3 acreage, was it not?

4 A. That's correct.

5 Q And I believe MTS offered Union an 80
6 percent net revenue interest in MTS's lease with an override
7 reserved to MTS and a right to back in after payout of costs,
8 is that correct?

9 A. 50 percent backin.

10 Q 50 percent backin. But Union wanted cost
11 plus 100 percent penalty before the well would pay out?

12 A. Yes. We countered your farmout offer
13 with a 200 percent payout before Mesa would back in.

14 Q For that amount you would have been
15 willing to take Mesa's farmout and risk your -- I'm not sure
16 I have the correct figure here, but \$2,300,000 on the well?

17 A. We countered with that offer and I assume
18 that offer, we would stand by, yes.

19 Q I'm not yet sure from the testimony,
20 maybe it will become clearer, but I suppose you're asking
21 the Commission today to impose a stiffer penalty than the
22 one you would admittedly impose on MTS if, if MTS would agree
23 to it?

24 A. I believe our application calls for a
25 200 percent penalty, in addition to return of 100 percent costs.

1
2 MR. JAMES: That's all the questions I
3 have.

4 MR. NOTTER: Are there any further ques-
5 tions of Ms. Hicks? She may be excused.
6

7 DOUGLAS J. SEYLER

8 being called as a witness and being duly sworn upon his oath,
9 testified as follows, to-wit:
10

11 DIRECT EXAMINATION

12 BY MR. JENNINGS:

13 Q Would you state your name, place of res-
14 idence, and occupation?

15 A My name is Douglas J. Seyler. I am the
16 District Exploration Geologist for Union Oil in Midland,
17 Texas.

18 Q How long have you been associated -- have
19 you previously appeared and testified before this Commission?

20 A No, I have not.

21 Q Have you previously appeared and testi-
22 fied before any other similar commissions in other states?

23 A Yes. I have testified before the Corpor-
24 ation Commission in Oklahoma and been certified as an expert
25 witness.

1
2 Q Mr. Seyler, what are your educational
3 qualifications?

4 A I've a Bachelor's degree and Master's
5 degree in geology from Michigan State University, and subse-
6 quently I've been employed as a geologist with Union Oil for
7 seven and a half years.

8 Q How long have you been employed in the
9 Midland area?

10 A I've been in Midland for one year.
11 MR. JENNINGS: We tender the witness as
12 qualified.

13 MR. NUTTER: The witness is qualified.

14 Q Mr. Seyler, are you familiar with the
15 application filed herein on behalf of Union?

16 A Yes, I am.

17 Q Would you state just briefly the general
18 nature of your application and what you propose in it?

19 A Our application is for pooling of the
20 Wolfcamp, Cisco, Canyon, Strawn, Atoka, and Morrow formations
21 for the drilling of a 15,100 foot test at the location that
22 was previously stated, 660 from the north and 1980 from the
23 west in Section 10, of 22, 32.

24 Q Please, Mr. Seyler, please refer to what
25 has been marked Union Exhibit Number Four, and identify this

2 and tell us what it is and then explain it.

3 A. Exhibit Number Four --

4 Q. Five, I'm sorry, Five.

5 A. Okay. Exhibit Number Five is a structure
6 map on the top of the Caddo, which is a lower Strawn member.
7 The map shows the wells in the area of the proposed test,
8 along with Union's acreage colored in yellow.

9 I'd like to --

10 Q. Before you get -- does this map generally
11 show the development in the area?

12 A. Yes. This shows the wells that are pro-
13 ducing in the area, the mapped area.

14 Q. Would you locate the various wells in
15 the area and indicate the ones in which Union has participated
16 and also tell us about the nature and extent of production
17 from those wells?

18 A. Yes. Union is a non-operating member
19 of the Bilbrey Unit, of which Getty is the operator. This
20 unit is outlined in solid red on the map. The discovery well
21 of the unit was the Getty No. 1-32 State. This well was com-
22 pleted in February of 1981; had an initial potential of 1.243
23 million from the Morrow. Cumulative as of January, '82, is
24 378,487 Mcf, plus 3448 barrels of condensate.

25 The next well that Getty drilled was the

No. 1 Bilbrey 4 Fed Com, which is in Section 4 of 22,32.

This well has just been completed for 490 Mcf of gas per day, plus 9 barrels of water. They've just started flowing it into a sales line and tests so far, the last couple of days, have been around 350 Mcf a day.

The Bilbrey No. 1 -- or the Getty No. 1 Bilbrey 5 Fed Com, in Section 5 of 22, 32, has just been TD'ed. Getty elected to run pipe on that well. There's been no testing to date.

Now, down in Section 25 in the south -- in the lower righthand corner of the map, the Gulf No. 1-A Covington was completed in 8 of 75 for a calculated open flow of 1.733 million from the Morrow. It's cumulative as of January, '82, is 305,140 Mcf.

The Grace No. 1 Federal 20 in Section 20 of 22, 32, was completed in October of 1973. It's calculated open flow was 4945 Mcf from the Morrow. Cumulative as of 1 of '82 is 504,806 Mcf.

Lastly, the Grace No. 1 Federal 17 in the next section to the north was completed in February of '75. It had a calculated open flow of 570 Mcf from the Morrow and it produced 204-million cubic feet of gas before abandonment.

Obviously, from this -- these -- the

1
2 production of the wells in the area, this is a rather high
3 risk play, because of the poor performance of the wells to
4 date; however, we feel that it is worth us drilling.

5 Q Mr. Seyler, would you refer to what has
6 been marked as Union Exhibit Number Six and let's put it out
7 on the --

8 A Yeah, I apologize for the size of this
9 thing. It's a little unwieldy.

10 Q You might identify that and explain it.

11 A Exhibit Six is a northwest/southeast
12 stratigraphic cross section, which is marked in red on Exhibit
13 Five.

14 The section is hung on the top of the
15 Atoka. It shows no structure, strictly stratigraphic rela-
16 tionships.

17 The three wells represented on the cross
18 section are on the lefthand side the Getty No. 1-32 State,
19 which was the discovery well of the Bilbrey Field.

20 The second well is the Getty No. 1 Bilbrey
21 Fed Com 4, which as I said, has just been completed, and the
22 well on the far right is the Gulf No. 1-A Covington.

23 Shown in yellow are some prorated sand
24 zones within the Atoka and various members of the Morrow.
25 Of course, with the nature of the Morrow, this is highly con-

jectural. The most important point to see, though, is that going from the two Getty Wells in the northwest to the Gulf well in the southeast, there is a marked reduction in the number and thickness of the sands in the Morrow, as well as a loss of Atoka sand.

The perforated intervals in the three wells shown here are colored red in the center depth track of each log.

This loss of sand illustrated on this cross section is one reason why we feel this is a fairly high risk play and warrants a rather stiff penalty. We would recommend a 200 percent penalty in this case.

Q Mr. Seyler, could you explain, is there any reason for locating the well in the north half of Section 10?

A The well is located in the north half of Section 10 because it is our opinion that our best location was to be as close to the north line as we could get. In order to do that, that dictated a laydown 320-acre proration unit.

Q Mr. Seyler, in light of your examination of the area and your familiarity with the area, how would you evaluate percentagewise the risk factor in connection with this well?

1

2

A. As far as the penalty that should be --

3

Q. No, no, as to chance of --

4

A. Well, based on the production in the area

5

and the likelihood of payout of the wells in the area, I

6

would -- I would think that the chances of a commercial well

7

are probably about one in four, something like that, based

8

on the history of the area.

9

Q. In light of all the factors concerned,

10

do you have an opinion as to what would be a reasonable risk

11

factor in connection with the drilling of this well?

12

A. Yes. It's my opinion that a 200 percent

13

penalty would be a reasonable risk factor.

14

Q. Mr. Seyler, will the pooling of this

15

acreage involved -- avoid the drilling of unnecessary wells

16

and enable each of the working interest owners to obtain his

17

fair share of the hydrocarbons?

18

A. Yes, it will.

19

Q. Will it avoid a considerable amount of

20

unnecessary cost?

21

A. Yes, it will.

22

Q. In your opinion will the correlative

23

rights of any of the other operators be impaired by the drilling

24

of this well?

25

A. No.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

Q. Will the granting of this application be in the interest of conservation and prevent waste?

A. Yes.

Q. Mr. Seyler, I believe when Mr. Nutter was questioning Ms. Hicks, he made reference to some more detailed figures on the AFE. Do you have any information concerning this?

A. Yes, I do. Now, first let me state that this is a customary Union AFE. This is what is sent in all cases to partners.

We have substantiation available, if necessary, but this is the normal thing that is sent. I have a copy of the workup sheet for this -- no, I have a copy of a workup sheet for the AFE that was sent in late February. I see I don't have a copy of the sheet for this latest AFE. It reflects the order of magnitude of the numbers, but it doesn't have the exact numbers on the latest AFE, and I can provide you with this, if necessary, or we can send you a current workup, if that is --

MR. NUTTER: If I might just see that, just to see what the format is there.

A. Okay.

MR. NUTTER: Now, Mr. Seyler, this is the type of thing, information, that we would want, so if any

1
2 order issues from this hearing approving the compulsory
3 pooling, the requirement would be that after the order is
4 entered and prior to drilling of the well, that an AFE be
5 submitted to the Division and also to any working interest
6 owner, an up-to-date, new AFE.

7 A. Uh-huh.

8 MR. NUTTER: So when that is submitted,
9 if it would be in this format.

10 A. Okay.

11 MR. NUTTER: With the cover sheet, or
12 the summary sheet.

13 A. The summary sheet, all right.

14 MR. NUTTER: That would be fine. We
15 won't need this, then. Thank you.

16 Q Do you have anything else that you wish
17 to offer into evidence?

18 A. No.

19 MR. NUTTER: Are there any questions of
20 Mr. Seyler?

21 MR. CARR: I have several.

22
23 CROSS EXAMINATION

24 BY MR. CARR:

25 Q Mr. Seyler, what formations are you

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

seeking to pool, other than the Morrow?

A. We're seeking to pool the Wolfcamp, Cisco, Canyon, Strawn, Atoka, and Morrow.

Q. Is there any production from any of the formations other than the Morrow that you're seeking to pool in the immediate area?

A. Not in the immediate area. The Atoka has had some -- there were some shows from the Atoka in the Bilbrey wells but it has not been tested.

Q. So the only reason you're including these others is just on the off chance that you do happen to encounter something unexpected?

A. Yes. These are the zones that if we encountered something we feel that it would be gas production, and they would need to be within a pooling of this nature.

Q. I believe on your Exhibit Five you indicated that there were a number of wells in the area surrounding the proposed location from which Morrow production has been obtained.

A. Yes.

Q. I'm not working with a copy of the exhibit, so sort of ride with me on these questions.

A. Okay.

Q. Are there any dry holes indicated in

1
2 that area?

3 A. There are dry holes to the north, the
4 north end -- in fact, I can --

5 Q Are there dry holes between any of the
6 wells which you referred to and discussed in this exhibit,
7 and the proposed location?

8 A. There are no wells that were abandoned
9 without any attempt to produce.

10 Q So your concern here is not -- is the
11 reason for presenting this exhibit is that the wells were
12 of poor quality in your opinion?

13 A. Poor quality and --

14 Q Not that you did not encounter the Mor-
15 row?

16 A. That's true.

17 Q Is structure of any importance in deter-
18 mining whether or not you are able to make a successful Mor-
19 row completion?

20 A. We don't feel that structure -- that
21 current structure control the distribution of Morrow or Atoka
22 producing zones. However, I'd rather be high in any particu-
23 lar producing zone than low, because there is a potential
24 for water.

25 Q Are you looking actually for sand body,

1
2 not particularly structure? That's the point of my question.

3 A. That's correct.

4 Q. And I believe your Exhibit Six, your
5 cross section, showed that the sand bodies do correlate over
6 a rather large area; that the same sand stringers do appear
7 down in the well in Section 25 that appear also in the area
8 that's really the subject of this application?

9 A. A few of them do. Quite a number of them
10 are not present in the well in Section 25 that are present
11 in this area up here, and this well had -- was a very poor
12 quality well.

13 And we feel --

14 Q. Now you're talking about the --

15 A. This is the Gulf Covington well.
16 We feel that this is indicating that the overall quality of
17 the Morrow and Atoka interval is deteriorating in this
18 direction here.

19 Q. As you move to the southeast?

20 A. As you move to the southeast.

21 Q. How close is the proposed location to
22 this Covington well?

23 A. Approximately three miles.

24 Q. And how close is it to the wells to the
25 north and west that appear on your cross section?

1
2 A. Oh, a little over a mile to the No. 4,
3 the Bilbrey No. 4, and a little over two miles away from the
4 No. 1-32 State.

5 Q So the well is -- the proposed location
6 is actually closer to the wells that show the better sand
7 development than to the Covington well?

8 A. That's correct.

9 Q What percentage, just for my own informa-
10 tion, is all the acreage shaded in green in the north half
11 owned by Union? In the north half of Section 10?

12 A. 100 percent interest, I believe so.

13 Q So you represent a very substantial por-
14 tion of the working interest in this prospect?

15 A. Yes, 75 percent.

16 Q And you indicated that in your opinion
17 the chance of making a commercial well was only one in four,
18 is that right?

19 A. Yes.

20 Q And your management elected to risk
21 \$2,000,000 plus on an only one in four chance of making a
22 commercial well.

23 A. Yes.

24 MR. CARR: I have nothing further.

25 MR. NUTTER: Are there any further ques-

1
2 tions of Mr. Seyler?

3 MR. JENNINGS: Yes.

4
5 REDIRECT EXAMINATION

6 BY MR. JENNINGS:

7 Q Mr. Seyler, were Exhibits Number Five
8 and Six prepared by you or under your supervision?

9 A Yes.

10 MR. JENNINGS: Mr. Nutter, before -- do
11 you have a question?

12 MR. NUTTER: No, I don't have any ques-
13 tions.

14 MR. JENNINGS: I would like to make one
15 further observation, if I might, at this time.

16 MR. NUTTER: All right.

17 MR. JENNINGS: I think in the course of
18 Ms. Hicks' examination, the Examiner asked her to go into the
19 negotiations with Mesa, and she got into it and then took
20 another course and didn't get to complete that and if you would
21 like to explore that further with her, or I will, if you pre-
22 fer.

23 MR. NUTTER: Well, she got to the point
24 where she said there had been correspondence and rejection
25 from Mesa of the proposal.

1

MR. JENNINGS: That's --

2

3

MR. NUTTER: And I think that probably

4

will take care of it.

5

Any further questions of Mr. Seyler? He

6

may be excused.

7

MR. JENNINGS: We have nothing further

8

and we would like to offer Exhibits Numbers One through Six,

9

inclusive.

10

MR. NUTTER: Mr. Seyler, did you discuss

11

Exhibit Six?

12

A.

Yes, that's the big cross section.

13

MR. NUTTER: Oh, okay, I was looking at

14

two of them. I thought you hadn't discussed one. I guess

15

you did.

16

A.

Thank you.

17

MR. NUTTER: Do you have any witnesses,

18

Mr. Carr?

19

MR. CARR: No, we don't plan to call any

20

witnesses.

21

I've prepared a brief statement.

22

MR. NUTTER: Okay, would you proceed

23

with that statement, please?

24

MR. CARR: May it please the Examiner,

25

I think the evidence presented here today shows that Union

1
2 first proposed this well only about a month and a half ago;
3 that we are here today because the lease is expiring, appar-
4 ently at midnight tonight; that negotiations were underway
5 and that as was apparent from the landman's testimony in the
6 course of these negotiations Union had indicated an willing-
7 ness to carry the interest of Mesa for 100 percent penalty.
8 They've appeared here before you today seeking a 200 percent
9 penalty.

10 We submit that the evidence shows that
11 the area, the subject area is surrounded by Morrow production
12 and that there are no dry holes between the production, the
13 producing wells in the area, and the proposed location.

14 We would submit also that the testimony
15 shows that the Morrow Sands correlate well over this area,
16 that the proposed well is located in close proximity to the
17 better Morrow wells in the area.

18 We believe that a 200 percent risk pen-
19 alty would be excessive and request that the Commission con-
20 sider imposing a penalty of 100 percent.

21 MR. NUTTER: Thank you, Mr. Carr.

22 Mr. Jennings?

23 MR. JENNINGS: Well, my only comment is
24 that if it's such a good deal, we certainly can't understand
25 why Mesa with all its great resources and all the wells they're

1
2 drilling, would not be willing to participate, and particu-
3 larly if it's such a sure shot. And we don't think that in
4 a \$2,500,000 well that a 100 percent clause would be adequate
5 protection for the risk involved to Union Oil, and if you
6 will also, the Examiner will look at the Exhibit Number One,
7 it would appear that the offset acreage to the north, the
8 160 offset north of this is owned by Mesa Petroleum Company,
9 and they're certainly going to get some benefit from the well
10 if it is good.

11 MR. NUTTER: Thank you. Does anyone
12 else have anything they wish to offer in Case Number 7510?

13 We'll take the case under advisement.
14
15

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

1
2 drilling, would not be willing to participate, and particu-
3 larly if it's such a sure shot. And we don't think that in
4 a \$2,500,000 well that a 100 percent clause would be adequate
5 protection for the risk involved to Union Oil, and if you
6 will also, the Examiner will look at the Exhibit Number One,
7 it would appear that the offset acreage to the north, the
8 160 offset north of this is owned by Mesa Petroleum Company,
9 and they're certainly going to get some benefit from the well
10 if it is good.

11 MR. NUTTER: Thank you. Does anyone
12 else have anything they wish to offer in Case Number 7510?

13 We'll take the case under advisement.
14
15

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

C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a correct copy of the proceedings in the Examiner hearing Case No. 7510 heard by me on 8/31 19 82.

[Signature], Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

Rt. 1 Box 197-B

Santa Fe, New Mexico 87501

Phone (505) 435-7409

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 Union Oil Company
of California for compulsory
pooling, Lea County, New Mexico.

CASE
7510

BEFORE: RICHARD L. STAMETS

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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

For the Applicant:

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MR. STAMETS: Call next Case 7510.

MR. PEARCE: Application of Union Oil
Company of California for compulsory pooling, Lea County,
New Mexico.

MR. STAMETS: At the request of the
applicant this case will be continued to the March 31st Exa-
miner 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 Examiner hearing of Case No. 7516, heard by me on 3-16, 1982.
Richard L. Stine Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Sanita Fe, New Mexico 87501

Phone (505) 455-7409



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR
LARRY KEHOE
SECRETARY

April 15, 1982

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

Mr. James Jennings
Jennings & Christy
Attorneys at Law
Post Office Box 1180
Roswell, New Mexico 88201

Re: CASE NO. 7510
ORDER NO. R-6941

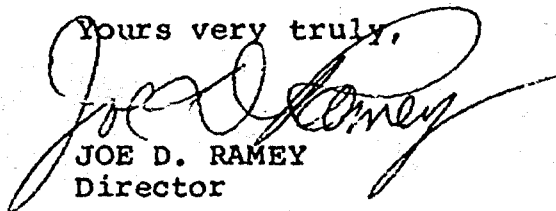
Applicant:

Union Oil Company of California

Dear Sir:

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

Yours very truly,


JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other William F. Carr, S. C. James

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7510
Order No. R-6941

APPLICATION OF UNION OIL COMPANY OF
CALIFORNIA FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 31, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 14th day of April, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Union Oil Company of California, 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, NMPM, Lea County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.
- (4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.
- (5) 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 in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

-2-

Case No. 7510
Order No. R-6941

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$3782.00 per month while drilling and \$412.00 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.

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

(13) 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 June 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 Wolfcamp and Penn formations underlying the N/2 of Section 10, Township 22 South, Range 32 East, NMPM, Lea 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 June, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of June, 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 120 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 Union Oil Company of California is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall

-4-

Case No. 7510
Order No. R-6941

be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$3782.00 per month while drilling and \$412.00 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.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a

-5-

Case No. 7510
Order No. R-6941

one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

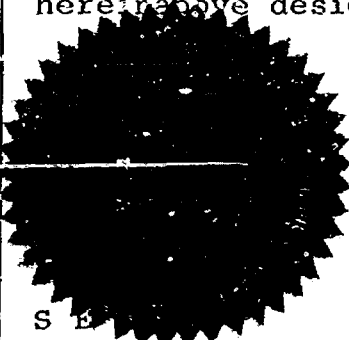
(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in 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.

(13) 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



Joe D. Ramey
JOE D. RAMEY
Director

S E

[illegible]

DIVISION/SUBSIDIARY

UNION OIL & GAS DIVISION

Authority for Expenditure
Energy Resources
Union Oil Company of California

AUTHORITY NUMBER

324057

union 76

REGION/DEPARTMENT Central Region/Operations		LOCATION Midland, Texas		DATE 3-8-82
PURPOSE <input type="checkbox"/> PROGRAMMED EXPANSION, COST REDUCTION, AND OPTIONAL REPLACEMENTS AND ADDITIONS SUBJECT TO MINIMUM RETURN ON INVESTMENT. <input type="checkbox"/> NECESSARY REPLACEMENTS AND "OTHER" EXPENDITURES NOT SUBJECT TO RETURN ON INVESTMENT.				BUDGETED 2 <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO
RETURN ON INVESTMENT	REQUIRED %	THIS PROPOSAL %	CALCULATED BY	AMOUNT REQUESTED \$ 2,310,000

EXPENDITURE DESCRIPTION

To earn 40 net acres by farm-in, commit 240 net acres to a 320 acre unit & to drill the DIPPEL FED COMM WELL NO. 1, Divide Tank Prospect, Lea County, New Mexico.

OPERATOR: Union Oil Company of California (100%)
TYPE WELL: Exploratory
OBJECTIVE ZONE: Morrow
PROPOSED TOTAL DEPTH: 15,100'
TOTAL NET ACRES UNDER LEASE IN PROSPECT: 2277.49

DETAIL OF EXPENDITURE:

Location Costs
Drilling Costs
Casing Costs
Outside Services
Supervision

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION

Union EXHIBIT NO. 3,020,000
CASE NO. 7510
\$ 63,000
485,000
582,000
50,000

TOTAL AFE \$ 2,200,000

Tangible \$ 485,000
Intangible \$ 1,715,000

Estimated additional cost if well is completed as a producer \$ 465,000

O F F.	COST CENTER		ACCOUNT CODE			O. C.	CAP. SUBD. CATG.	AUTHORITY	ADDITIONAL INFORMATION	CHARGE <input type="checkbox"/> EXPENSE <input checked="" type="checkbox"/> CAPITAL
	NUMBER	GEN. LEDGER	DETAIL	SUB DETAIL						
242			311	X001			XX3240			
ESTIMATE BY WSW A.P.E. MADE BY WSW CHECKED BY JRH JCM										
APPROVED										
APPROVED										
APPROVED										
APPROVED										
SENIOR VICE PRESIDENT										
COMPTROLLER										
EXECUTIVE COMMITTEE (SECRETARY OR ASST SECRETARY) DATE APPROVED										

Material Transferred \$ _____

Cash Outlay \$ 2,200,000

Contingencies 5% 110,000

TOTAL COST 2,310,000

Salvage (Pres. Value) ()

Chargeable to Others % ()

NET COST \$ 2,310,000

union

A.F.E. No.

324057

Department No.	Department	Location	Date
	Operations	Midland, Texas	3-8-82

LOCATION:

660' FNL & 1980' FWL, Section 10, T-22-S, R-32-E, Lea County, New Mexico.

REASON FOR EXPENDITURE:

To test a structural nose plunging southeastward from the Bilbrey Field for stratigraphic entrapment of hydro carbons and to extend the Federal lease on 120 acres which expires April 1, 1982.

PROPOSED CASING & FACILITIES:

13-3/8"	C	500'
10-3/4"	C	4800'
7-5/8"	C	12,900'
5"	L	15,100'
2-7/8"	T	14,800'

RECOMMENDED PROCEDURE:

Drill 17½" hole to 500'. Cement 13-3/8" casing. Drill 12½" hole to 4800'. Cement 10-3/4" casing. Drill 9½" hole to 12,900'. Cement 7-5/8" casing. Drill 6½" hole to TD. Log & if productive, cement 5" liner. Perforate, treat & complete using 2-7/8" tubing.

A.A.P.L. FORM 610
MODEL FORM OPERATING AGREEMENT-1956
Non-Federal Lands

OPERATING AGREEMENT

DATED

March 29, 19 82,

FOR UNIT AREA IN TOWNSHIP 22 South, RANGE 32 East, N.M.P.M.,

Lea COUNTY, STATE OF New Mexico.

Section 10: N/2

DIPPEL FED. COMM. No. 1 Well

AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

BEFORE EXAMINER
OIL CONSERVATION DIVISION

Union Foundry
CASE NO. 7510

TABLE OF CONTENTS

Paragraph Number	Title	Page
1.	Definitions	1
2.	Termination, Loss of Leases and Oil and Gas	1
3.	Underlying Oil and Gas Interests Deleted	2
4.	Interests of Parties	2
5.	Operation of Unit	3
6.	Employees	3
7.	Test Well	3
8.	Costs and Expenses	3
9.	Operator's Lien	4
10.	Term of Agreement	4
11.	Limitation on Expenditures	4
12.	Operations by Less Than All Parties	5
13.	Right to Take Production in Kind	6
14.	Access to Unit Area	7
15.	Drilling Contracts	7
16.	Abandonment of Wells	7
17.	Delay Rentals and Shut-in Well Payments	8
18.	Preferential Right to Purchase Deleted	8
19.	Selection of New Operator	8
20.	Maintenance of Unit Ownership	9
21.	Resignation of Operator	9
22.	Liability of Parties	9
23.	Renewal or Extension of Leases	9
24.	Surrender of Leases	10
25.	Acreage or Cash Contributions	10
26.	Provision Concerning Taxation	10
27.	Insurance	11
28.	Claims and Lawsuits	11
29.	Force Majeure	11
30.	Notices	11
31.	Other Conditions	12

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 29th day of March, 1982, between
UNION OIL COMPANY OF CALIFORNIA

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include 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".
- (6) 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 Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

By execution hereof, the parties hereto accept the title to the drillsite lease on which the well provided for in Section 7 is to be drilled.

No well other than the first test shall be drilled in the Unit Area until after:

- (1) The title to the drillsite lease has been examined by Operator's attorney, and
- (2) The title has been approved by the examining attorney or the title has been accepted by all the parties who are to participate in the drilling of the well.

~~to which title is approved or accepted, or until the parties fail to select another drillsite. As in the case of the drillsite first selected, so also with successive choices if the time comes that the parties have not approved title and are unable to agree upon an alternate drillsite, the contract shall, in that case and at that time, come to an end and all parties shall forfeit their rights and be relieved of obligations under this contract.~~

No well other than the first test shall be drilled in the Unit Area until after (1) the title to the lease covering the lands upon which such well is to be located has been examined by Operator's attorney, and (2) the title has been approved by the examining attorney and the title has been accepted by all of the parties ~~who are to participate in the drilling of the well.~~

B. Failure of Title:

Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and

- (1) The party whose 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 by reason of such title failure; and
- (2) 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 Unit Area by the amount of the interest lost; and
- (3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the Unit 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 operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and
- (4) 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, or equipment previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and
- (5) 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 whose title failed in the same proportions in which they shared in such prior production.

C. Loss of Leases for Causes Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the Unit Area.

~~3. UNLEASED OIL AND GAS INTERESTS~~

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

4. INTERESTS OF PARTIES

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 contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If the interest of any party in any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual ~~one-eighth~~ ^{one-eighth} ($\frac{1}{8}$) royalty, such party shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

UNION OIL COMPANY OF CALIFORNIA shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit 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 from breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL

On or before the 1st day of April, 1982, Operator shall commence the drilling of a well for oil and gas in the following location:

660' From North line & 1980' from West line Section 10,
Township 22 South, Range 32 East, N.M.P.M., Lea County,
New Mexico,

and shall thereafter continue the drilling of the well with due diligence to a depth of 15,100 feet, or to a depth sufficient to test the Morrow formation,

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.

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

If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

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 costs 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 costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ~~twelve percent~~ ^{twelve percent} annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the extent that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, ^{but production on} ~~whether or not production on~~ lands outside the Unit Area shall not extend the term of this agreement; ~~known or unknown or otherwise~~; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. 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.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty Thousand & No/100----- Dollars (\$20,000.00--) except in connection with a well the drilling, reworking, deepening, 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 and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$20,000.00--.

12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday/^{or legal holidays} after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(B) ^{300%} ~~that~~ of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and ~~and 300%~~ ^{300%} of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it and from and after such reversion such Non-Consenting Party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the accounting procedure schedule, Exhibit "C", attached hereto.

Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall ^{have the right to} take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale ~~in its sole discretion~~ of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale. Any purchase or sale by Operator, or any other party, of any other party's share of gas shall be for such reasonable periods of time only as are consistent with the minimum needs of the industry and shall in no event exceed one (1) year. See Exhibit "E" as to Gas Balancing Agreement regarding taking of gas.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignee, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Delay rentals and shut-in well payments which may be required under the terms of any lease shall be paid by the party who has subjected such lease to this agreement, at its own expense. Proof of each payment shall be given to Operator at least ten (10) days prior to the rental or shut-in well payment date. Operator shall furnish similar proof to all other parties concerning payments it makes in connection with its leases. Any party may request, and shall be entitled to receive, proper evidence of all such payments. If, through mistake or oversight, any delay rental or shut-in well 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 pay a rental or shut-in well payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, 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 Unit Area on account of the ownership of the lease which has terminated. In the event the party who failed to pay the rental or the shut-in well 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:

- (1) 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;
- (2) proceeds, less operating expenses thereafter incurred 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 would, in the absence of such lease termination, 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
- (3) any moneys, 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 Unit Area or becoming a party to this contract.

Operator shall attempt to notify all parties when a gas well is shut-in or returned to production, but assumes no liability whatsoever for failure to do so.

18. ~~PREFERENTIAL RIGHT TO PURCHASE~~

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

19. SELECTION OF NEW OPERATOR

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

20. MAINTENANCE OF UNIT OWNERSHIP

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

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

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

If at any time the interest of any party is divided among and owned by four or more co-owners, Operator may, at its discretion, 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 contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

22. 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 Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is 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 them liable as partners.

23. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease ^{covering acreage} subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease, insofar as it covers acreage subject to this contract, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit 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 unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the 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 section 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 section.

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.

24. SURRENDER OF LEASES

The leases covered by this agreement, in so far as they embrace acreage in the Unit Area, shall not be surrendered in whole or in part unless all parties consent.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging 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 assignors' or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Unit Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit 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 execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. 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 Unit Area.

26. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

27. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

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

28. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand (\$1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

29. 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 possible diligence to remove the force majeure as quickly as possible.

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 restraint, 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.

30. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given.

addresses listed on Exhibit "A". The originating notice to be 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. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

31. OTHER CONDITIONS, IF ANY, ARE:

A. Gas production attributable to any Non-Consenting Party's interest shall be sold, at the election of the Consenting Party, consistent with the terms of the Consenting Party's Gas Sales Contract, either to the Consenting Party's purchaser or to the Non-Consenting Party's purchaser, such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non-Consenting Party's relinquished interest.

B. Notwithstanding anything herein to the contrary, if any working interest owner shall, subsequent to the execution of this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest or any other interest out of its working interest (hereinafter called "subsequently created interest"), such subsequently created interest shall be specifically made subject to all the terms and provisions of this agreement. If the working interest owner from which such subsequently created interest is created (a) fails to pay when due its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses, or (b) elects to go non-consent under Section 12, or (c) elects to abandon a well under Section 16 hereof, elects to surrender a lease under Section 24 hereof, or otherwise withdraws from this agreement, the subsequently created interest shall be chargeable with a pro rata portion of all costs and expenses hereunder and shall be subject to recoupment of costs and penalty as provided in Section 12 in the same manner as if such subsequently created interest were a working interest. Operator shall have the right to enforce against such subsequently created interest the lien and all other rights granted in Section 9 hereof for the purpose of collecting costs and expenses chargeable to the subsequently created interest.

C. Provisions hereof to the contrary notwithstanding, consent to the drilling of any well drilled under and pursuant to the terms hereof shall not be deemed consent to participate in an attempt to complete the well as a producer of oil or gas, but shall be considered only to drill to the production string casing point. After each well drilled pursuant to the terms hereof has reached the production string casing point and Operator (or any party participating in the cost of drilling such well) considers that an attempt should be made to complete same as a producer of oil or gas, Operator (or such other party participating in the cost of drilling such well) shall give immediate notice thereof to all other parties participating in the cost of drilling such well. The parties receiving such notice shall have twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect whether or not they desire to participate in the setting of casing and attempting to complete such well as a producer of oil or gas. Failure of any party receiving such notice to so reply within the period above fixed shall constitute an election by that party not to participate in the completion attempt. If one or more but less than all of the parties elect to attempt a completion of the well as a producer of oil or gas, the provisions of Section 12 hereof shall apply to the operations thereafter conducted by less than all parties hereto the same as for other nonconsent operations as provided in Section 12.

If no completion attempt is made in any well, the same shall be plugged and abandoned at the expense of the parties participating in the drilling of the same. As used herein "production string casing point" shall be that point in time when the total depth to be drilled has been reached, all logs to be run have been run, and the next step toward completion is the running of the production string of casing or plugging back to perforate existing casing.

D. Each party hereto owning an undivided interest in the Unit Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

E. Operator shall comply, where applicable, to the provisions of Exhibit "F" attached hereto.

F. A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions above. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

ATTEST:

UNION OIL COMPANY OF CALIFORNIA

By John Hansen
Attorney-in-Fact

JH

OPERATOR

ATTEST:

MTS LIMITED PARTNERSHIP

By _____

ATTEST:

NON-OPERATOR

STATE OF TEXAS,
COUNTY OF MIDLAND:

X
X ss.
X

The foregoing instrument was acknowledged before me this 29th day of March, 1982, by JOHN HANSEN, Attorney-in-Fact of UNION OIL COMPANY OF CALIFORNIA, a California corporation, on behalf of said corporation.

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

MAVIS JONES
Notary Public
Midland Co. Texas

Mavis Jones
Notary Public

My Commission Expires:

11-30-84

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated March 29, 1982, between UNION OIL COMPANY OF CALIFORNIA, Operator, and the signatory parties other than Operator.

UNIT AREA: Township 22 South, Range 35 East, N.M.P.M.,
Lea County, New Mexico
Section 10: N/2

INTERESTS AND ADDRESSES OF PARTIES:

Union Oil Company of California	75%
P. O. Box 671	
Midland, Texas 79702	
Attention: District Land Manager	

MTS LIMITED PARTNERSHIP	25%
c/o Mesa Petroleum Company	
1000 Vaughn Building	
Midland, Texas 79701	

THERE IS NO EXHIBIT "B".

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated March 29, 1982, between UNION OIL COMPANY OF CALIFORNIA, Operator, and the signatory parties other than Operator.

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

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

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

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

3. Employee Benefits

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

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 necessary to protect or recover the Joint Property, except that no charge for services of Operator's attorneys or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All 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 \$ 3,782.00
Producing Well Rate \$ 412.00

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas 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 rate shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$25,000.00----

- A. _____ 5 % of total costs if such costs are more than \$25,000.00--- but less than \$100,000.00--; plus
- B. _____ 3 % of total costs in excess of \$100,000.00-- but less than \$1,000,000; plus
- C. _____ 2 % of total costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
 - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
 - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

- (b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated March 29, 1982,
between UNION OIL COMPANY OF CALIFORNIA, Operator, and the signatory parties
other than Operator.

INSURANCE

Operator shall carry or provide the following insurance with respect to operations on all lands subject to this Agreement:

- (a) Workmen's Compensation Insurance, including Employer's Liability, as required by law.
- (b) Automobile Public Liability and Property Damage Insurance with minimum limits of \$100,000 bodily injury or death per person, with \$300,000 bodily injury or death each accident, and \$100,000 property damage each accident.
- (c) Such additional insurance as may hereafter be required by law.

All insurance coverage required hereby shall be carried at the Joint Expense and for the benefit of the parties hereto, except for premiums for Automobile Public Liability and Property Damage Insurance on Operator's fully owned equipment, which shall not be charged directly to the Joint Account, but will, instead, be covered by the flat rate charges assessed the Unit for use of such equipment. Operator shall not be required to carry any other insurance for the Joint Account of the parties hereto. Any party may, at its own expense, acquire such insurance as it deems proper to protect itself against any claims, losses, damages, or destruction resulting from Unit operations.

Operator shall require all contractors engaged in work in or on the Unit Area to carry insurance for the benefit and protection of the Working Interest Owners consistent with Operator's minimum requirements.

EXHIBIT "E"
GAS BALANCING AGREEMENT
FOR GAS WELL PRODUCTION

1. Each party shall have the right to take in kind and separately dispose of its proportionate share of the gas produced from the Unit Area and shall be entitled to an opportunity to produce its fair share of the allowable production from a gas well (including lawful tolerances) established by appropriate regulatory authority.

2. It is the intent that each party be entitled to gas produced in the proportion that its ownership interest bears to the sum of the ownership interests. It is the intent that the Unit Operator have the duty of controlling gas well production and the responsibility of administering the provisions of this agreement. Unit Operator shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance under the provisions contained herein.

3. To give effect to the intent of this agreement, the Unit Operator shall be governed by the following rights of each party:

(a) When the well's current production is less than the well allowable due to either the capacity of the well to produce or the Unit Operator causing the well to produce below allowable in order to properly balance well allowable overproduction:

(1) Each underproduced party (a party who has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right to take a greater amount of gas than its proportionate share of the well's current production, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interest of all underproduced parties desiring to take more than their proportionate share of the well's current production.

(2) Each overproduced party (a party who has taken a greater volume of gas than the quantity such party is herein entitled) shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than FIFTY PERCENT (50%) of such overproduced party's proportionate share of the well's current production.

(b) When the well's current production is less than the well allowable due to combined pipeline takes or for reasons other than in subparagraph (a) above:

(1) Each underproduced party shall have the right as in subparagraph (a)(1) above.

(2) Each overproduced party shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than FIFTY PERCENT (50%) of such overproduced party's proportionate share of the well allowable.

(c) When the well's current production is equal to or greater than the well allowable:

(1) Each underproduced party shall have the right to take a greater amount of gas than its proportionate share of the well allowable, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interests of all underproduced parties desiring to take more than their proportionate share of the well allowable.

(2) Each overproduced party shall have the right as in subparagraph (a)(2) above.

(d) The Unit Operator, at the request of any party, may produce the entire well stream, if necessary, for a deliverability test not to exceed seventy-two (72) hours duration required under such requesting party's gas sales contract and may overproduce in any other situation provided that such overproducing would be consistent with prudent operations.

4. Each party taking gas shall furnish the Unit Operator a monthly statement of gas taken. After commencement of production, Unit Operator shall furnish a current account monthly of the gas balance between parties hereto including the total quantity of gas produced, the portion thereof used in Unit operations, vented or lost, and the total quantity of gas delivered to a market.

5. Each party producing and/or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

6. The provisions of this agreement shall be separately applicable to each well and 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 other reservoirs.

7. When gas sales from a gas well permanently cease, Unit Operator shall make a final determination of the volumes of over and/or underproduction, if any, which have accrued since the last volumetric balance, as of the date of such cessation of sales and the identity of the party or parties who are over or underproduced. A cash balancing adjustment shall be made by the overproduced party, or parties, to the underproduced party, or parties, for the overproduced volumes which have been taken and sold; the price to be paid for such adjustment shall be the actual price received for such overproduction by the overproduced party, or parties, less appropriate deductions for taxes and/or royalties paid on such production by the overproduced party.

8. This agreement may be executed in counterparts but will not be binding on any party unless and until all working interest parties in a gas well have accepted this Gas Balancing Agreement without exception.

9. This shall constitute a separate agreement as to each well and as to each reservoir.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated March 29, 1982, between UNION OIL COMPANY OF CALIFORNIA, Operator, and the signatory parties other than Operator.

- (A) Operator shall comply where applicable with the following clauses contained in 41 CFR:

60-1.4(a)	(Equal Employment Opportunity);
1-12.803-10	(certification of non-segregated facilities);
60-250	(employment opportunity for veterans);
60-741	(employment opportunities for handicapped individuals);
1-1.710	(subcontracting with small business concerns);
1-1.805	(subcontracting with labor surplus area concerns);
1-1.1310	(subcontracting with minority business enterprises); and
1-1.2302-2	(environmental protection).

These clauses are incorporated herein by reference if and to the extent applicable to this contract by law, executive order, or regulation.

Operator represents that it is in compliance with the reporting requirements of 41 CFR 60-1.7 and the Affirmative Action Program requirements of 41 CFR 60-1.40 and 60-2.

- (B) The Operator hereby certifies that as of the date of this action it is in compliance with the Wage and Price Standards issued by the Council on Wage and Price Stability (6 CFR 705, Appendix, and Part 706).

Divide Tank (7735) Compulsory Pooling LHM

PS Form 3811, Jan. 1979

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

1. The following service is requested (check one.)
☒ Show to whom and date delivered.....
☐ Show to whom, date and address of delivery.....
☐ RESTRICTED DELIVERY
Show to whom and date delivered.....
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery.\$____

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Bank of America N.T. & S.A., as
Trustee of the Charles E. Strange
1440 Truxtun Ave. 1976 Trust #1
Bakersfield, CA 93301

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
353041

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
DATE OF DELIVERY 3/1/82

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

POSTMARK MAR 1 1982

CLERK'S INITIALS

★GPO : 1979-300-459

Divide Tank (7735) Compulsory Pooling LHM

PS Form 3811, Jan. 1979

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

1. The following service is requested (check one.)
☒ Show to whom and date delivered.....
☐ Show to whom, date and address of delivery.....
☐ RESTRICTED DELIVERY
Show to whom and date delivered.....
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery.\$____

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. and Mrs. C. E. Strange
P. O. Box 51
Bakersfield, CA 93301

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
352844

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
DATE OF DELIVERY 3/1/82

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

POSTMARK MAR 2 1982

CLERK'S INITIALS

★GPO : 1979-300-459

Divide Tank (7735) Compulsory Pooling LHM

PS Form 3811, Jan. 1979

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

1. The following service is requested (check one.)
☒ Show to whom and date delivered.....
☐ Show to whom, date and address of delivery.....
☐ RESTRICTED DELIVERY
Show to whom and date delivered.....
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery.\$____

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mr. Donald E. Dippel
P. O. Box 157
Lehi, Utah 84043

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
353058

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
DATE OF DELIVERY 3/1/82

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

POSTMARK MAR 1 1982

CLERK'S INITIALS

★GPO : 1979-300-459

Divide Tank (7735) Compulsory Pooling LHM

PS Form 3811, Jan. 1979

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

1. The following service is requested (check one.)
☒ Show to whom and date delivered.....
☐ Show to whom, date and address of delivery.....
☐ RESTRICTED DELIVERY
Show to whom and date delivered.....
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery.\$____

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Mesa Petroleum Company
1000 Vaughn Bldg.
Midland, TX 79701

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
352832

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
DATE OF DELIVERY 3/1/82

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

POSTMARK MAR 1 1982

CLERK'S INITIALS

★GPO : 1979-300-459

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS

SENDER INSTRUCTIONS

Print your name, address, and ZIP Code in the space below.

- Complete items 1, 2, and 3 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

PENALTY FOR PRIVATE
USE TO AVOID PAYMENT
OF POSTAGE, \$300



RETURN
TO



Union Oil Company of California
(Name of Sender)

P. O. Box 671
(Street or P.O. Box)

Midland, TX 79702
(City, State, and ZIP Code)

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS

SENDER INSTRUCTIONS

Print your name, address, and ZIP Code in the space below.

- Complete items 1, 2, and 3 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

PENALTY FOR PRIVATE
USE TO AVOID PAYMENT
OF POSTAGE, \$300



RETURN
TO



Union Oil Company of California
(Name of Sender)

P. O. Box 671
(Street or P.O. Box)

Midland, TX 79702
(City, State, and ZIP Code)

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS

SENDER INSTRUCTIONS

Print your name, address, and ZIP Code in the space below.

- Complete items 1, 2, and 3 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

PENALTY FOR PRIVATE
USE TO AVOID PAYMENT
OF POSTAGE, \$300



RETURN
TO



Union Oil Company of California
(Name of Sender)

P. O. Box 671
(Street or P.O. Box)

Midland, TX 79702
(City, State, and ZIP Code)

UNITED STATES POSTAL SERVICE
OFFICIAL BUSINESS

SENDER INSTRUCTIONS

Print your name, address, and ZIP Code in the space below.

- Complete items 1, 2, and 3 on the reverse.
- Attach to front of article if space permits, otherwise affix to back of article.
- Endorse article "Return Receipt Requested" adjacent to number.

PENALTY FOR PRIVATE
USE TO AVOID PAYMENT
OF POSTAGE, \$300



RETURN
TO



UNION OIL COMPANY OF CALIFORNIA
ATTN: Land Dept.
(Name of Sender)

P. O. Box 671
(Street or P.O. Box)

Midland, TX 79702

Union Oil and Gas Division: Central Region

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



Robert V. Lockhart
District Land Manager
Midland District

March 10, 1982

New Mexico Oil Conservation Division
P. O. Box 2088
State Land Office Building
Santa Fe, New Mexico 87501

Attention: Ms. Florene Davidson

Dear Ms. Davidson:

Case 7510
Compulsory Pooling Application
N/2 Section 10, T-22-S, R-32-E, N.M.P.M.
Lea County, New Mexico

Please be advised that Union Oil Company of California, as applicant, has sent a copy of our application for Compulsory Pooling to the following parties:

Mr. and Mrs. C. E. Strange
P. O. Box 61
Bakersfield, California 93302

Bank of America N.T. & S.A.,
as Trustee of the Charles E. Strange 1976 Trust #1
1440 Truxtun Avenue
Bakersfield, California 93301

Mr. Donald E. Dippel
P. O. Box 157
Lehi, Utah 84043

MTS Limited Partnership
c/o Mesa Petroleum Company
1000 Vaughn Building
Midland, TX 79701
Attention: Mr. Mark Hannifin

BEFORE EXAMINER NUTTER OIL CONSERVATION DIVISION <i>Union</i> EXHIBIT NO. <u>4</u> CASE NO. <u>7510</u>
--


Also, please be advised that we request that our hearing scheduled for March 16 be deferred until March 31, as we are working to settle with the parties without the need to force pool. By copy of this letter, I am informing our attorney, Mr. Sim Christy, of our deferral request..

Case 7510
Compulsory Pooling Application
N/2 Sect. 10, T-22-S, R-32-E,
N.M.P.M.
Lea County, New Mexico
March 10, 1982
page 2

Thank you for your cooperation in this matter.

Sincerely,

UNION OIL COMPANY OF CALIFORNIA

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

Linda H. Hicks
Landman

LHH:njd

xc: Mr. Sim Christy

Dockets Nos. 10-82 and 11-82 are tentatively set for April 14 and April 28, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 31, 1982
9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Daniel S. Nutter, Examiner, or Richard L. Stamets, Alternate Examiner:

CASE 7469: (Continued from March 3, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit H. M. Bailey & Associates, Commercial Union Insurance Company, and all other interested parties to appear and show cause why the following wells on the H. M. Bailey Lease, Township 21 South, Range 1 West, Dona Ana County, should not be plugged and abandoned in accordance with a Division-approved plugging program: In Section 10: Nos. 9 in Unit A, 9, 11, 12, and 13 in Unit B, 10 and 14 in Unit C; and No. 15 in Unit C of Section 9.

CASE 7497: (Continued and Readvertised)

Application of Parabo, Inc. for an oil treatment 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 its salt water disposal site in the SW/4 of Section 29, Township 21 South, Range 38 East.

CASE 7516: Application of Benson-Montin-Greer for a unit agreement, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the North Canada Ojitos Unit Area, comprising 12,361 acres, more or less, of Jicarilla Apache Indian lands in Township 27 North, Range 1 West.

CASE 7517: Application of Anadarko Production Company for an unorthodox oil well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox location 1450 feet from the South line and 1400 feet from the West line of Section 15, Township 22 South, Range 37 East, Penrose Skelly Pool, the NE/4 SW/4 of said Section 15 to be dedicated to the well.

CASE 7518: Application of Consolidated Oil & Gas Inc., for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Abo formation in the perforated interval from 8688 feet to 8856 feet in its Midway State Well No. 1, located in Section 8, Township 17 South, Range 37 East, Midway-Abo Pool.

CASE 7519: Application of S & J Oil Company for special pool rules, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Seven Lakes-Menafee Oil Pool to provide for wells to be located not nearer than 25 feet to the quarter-quarter section line nor nearer than 165 feet to lands owned by an offset operator.

CASE 7510: (Continued from March 16, 1982, Examiner Hearing)

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: (Continued from March 16, 1982, Examiner Hearing)

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 7520: Application of Lewis B. Burleson Inc. for compulsory pooling and a non-standard proration and spacing unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Jalmat Pool underlying a 160-acre non-standard proration unit comprising the NW/4 of Section 15, Township 24 South, Range 36 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 7521: Application of William B. Barnhill for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox location 660 feet from the South and West lines of Section 35, Township 19 South, Range 25 East, Permo-Penn, Strawn, Atoka and Morrow formations, the S/2 of said Section 35 to be dedicated to the well.
- CASE 7522: Application of Santa Fe Exploration Co. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox location 660 feet from the North and West lines of Section 14, Township 20 South, Range 25 East, Permo-Penn, Strawn, Atoka and Morrow formations, the N/2 of said Section 14 to be dedicated to the well.
- CASE 7523: Application of Robert N. Enfield for compulsory pooling and an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp-Penn formations underlying the E/2 of Section 18, Township 19 South, Range 27 East, to be dedicated to a well to be drilled at an unorthodox location 660 feet from the North and East lines of said Section 18. 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 7524 THRU 7535: Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following 12 cases, seeks an order pooling all mineral interests down through the Abo formation underlying the lands specified in each case, each to form a standard 160-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon. Also to be considered in each case 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 7524: SE/4 Section 2, Township 5 South, Range 24 East
- CASE 7525: SW/4 Section 3, Township 5 South, Range 24 East
- CASE 7526: NW/4 Section 3, Township 5 South, Range 24 East
- CASE 7527: SE/4 Section 3, Township 5 South, Range 24 East
- CASE 7528: NW/4 Section 4, Township 5 South, Range 24 East
- CASE 7529: NE/4 Section 4, Township 5 South, Range 24 East
- CASE 7530: NW/4 Section 11, Township 6 South, Range 24 East
- CASE 7531: SW/4 Section 11, Township 6 South, Range 24 East
- CASE 7532: SE/4 Section 27, Township 6 South, Range 24 East
- CASE 7533: SW/4 Section 27, Township 6 South, Range 24 East
- CASE 7534: NW/4 Section 34, Township 6 South, Range 24 East
- CASE 7535: SW/4 Section 17, Township 6 South, Range 25 East
- CASE 7515: (Continued and Readvertised)
- 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 28 North, Range 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.

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 deletion 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, Nonombra-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.

Union Oil and Gas Division: Central Region

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



Robert V. Lockhart
District Land Manager
Midland District

March 10, 1982

New Mexico Oil Conservation Division
P. O. Box 2088
State Land Office Building
Santa Fe, New Mexico 87501

Attention: Ms. Florene Davidson

Dear Ms. Davidson:

Case 7510
Compulsory Pooling Application
N/2 Section 10, T-22-S, R-32-E, N.M.P.M.
Lea County, New Mexico

Please be advised that Union Oil Company of California, as applicant, has sent a copy of our application for Compulsory Pooling to the following parties:

Mr. and Mrs. C. E. Strange
P. O. Box 61
Bakersfield, California 93302

Bank of America N.T. & S.A.,
as Trustee of the Charles E. Strange 1976 Trust #1
1440 Truxtun Avenue
Bakersfield, California 93301

Mr. Donald E. Dippel
P. O. Box 157
Lehi, Utah 84043

MTS Limited Partnership
c/o Mesa Petroleum Company
1000 Vaughn Building
Midland, TX 79701
Attention: Mr. Mark Hannifin

Also, please be advised that we request that our hearing scheduled for March 16 be deferred until March 31, as we are working to settle with the parties without the need to force pool. By copy of this letter, I am informing our attorney, Mr. Sim Christy, of our deferral request.

see page 2

Case 751G
Compulsory Pooling Application
N/2 Sect. 10, T-22-S, R-32-E,
N.M.P.M.
Lea County, New Mexico
March 10, 1982
page 2

Thank you for your cooperation in this matter.

Sincerely,

UNION OIL COMPANY OF CALIFORNIA

Linda H. Hicks

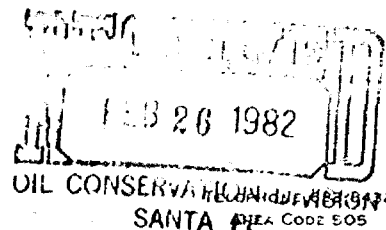
Linda H. Hicks
Landman

LHH:njd

xc: Mr. Sim Christy

JAMES T. JENNINGS
SIM B. CHRISTY IV
K. DOUGLAS PERRIN
PHIL T. BREWER
DAMON RICHARDS

LAW OFFICES OF
JENNINGS & CHRISTY
1012 SECURITY NATIONAL BANK BUILDING
P. O. BOX 1180
ROSWELL, NEW MEXICO 88202-1180



February 23, 1982

New Mexico Oil Conservation Division
P. O. Box 2088
State Land Office Building
Santa Fe, New Mexico 87501

Case 7510

Attention: Mr. Dan Nutter

Gentlemen:

For your consideration of hearing we enclose herewith in triplicate Application of Union Oil Company of California for compulsory pooling in Lea County, New Mexico; per our telephone conversation of this date, we understand this matter has been set for Examiner hearing in your conference room at Santa Fe, New Mexico, on March 16, 1982.

If anything further is required, kindly advise.

Respectfully,

JENNINGS & CHRISTY

By

[Signature]
S. B. Christy IV

SBC:pv

Encl.

cc: Union Oil Company of California
(Attention: Linda Hicks)

RECEIVED
FEB 26 1982
OIL CONSERVATION DIVISION
SANTA FE

STATE OF NEW MEXICO
DEPARTMENT OF NATURAL RESOURCES
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF UNION OIL COMPANY OF CALIFORNIA
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

Case No. 7510

APPLICATION

COMES NOW Union Oil Company of California, and hereby makes application for compulsory pooling of all mineral interest in the Wolfcamp, Cisco, Canyon, Strawn, Atoka and Morrow formations (Wolfcamp and Penn formations) underlying the N $\frac{1}{2}$ Section 10, Township 22 South, Range 32 East, N.M.P.M., Lea County, New Mexico, containing 320 acres, more or less, and for grounds thereof states:

1. Applicant has been diligent in its efforts to form a proration unit for the drilling of a well, to be located 660 feet from the North line and 1,980 feet from the West line of said Section 10, but there remains non-consenting interest owners in the subject proration unit who have not agreed to the pooling of their interest.

2. That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford the owner of each interest in said proration unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas and associated hydrocarbons producible from the Wolfcamp, Cisco, Canyon, Strawn, Atoka and Morrow formations (Wolfcamp and Penn formations), this regulatory body should approve the pooling of all mineral interest, whatever they may be, within said unit.

3. Applicant proposes to dedicate the subject proration unit to the well to be located as aforesaid.

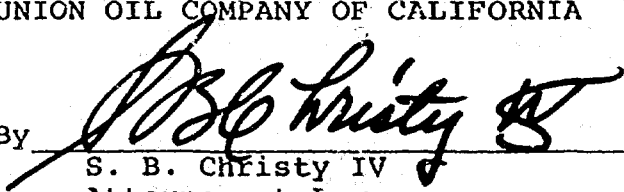
4. Applicant seeks permission to withhold the proceeds from production attributable to each non-consenting working interest until such time as each interest's share of the cost of said well has been recovered plus 200% thereof as a charge for the risk involved in the drilling of the well.

5. That after due public notice, this regulatory body should enter its order granting compulsory pooling in accordance with this Application, fixing a charge for risk, fixing a per month cost for operating the well, and granting to each non-consenting working interest owner the privilege to join in the payment of drilling the well in accordance with law. That such order should further provide that Applicant be appointed as Operator of the well.

Respectfully,

UNION OIL COMPANY OF CALIFORNIA

By


S. B. Christy IV
Attorney at Law
P. O. Box 1180
Roswell, New Mexico 88201
(505) 622-8432

ORDERS

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

JHR

CASE NO. 7510

Order No. R-6941

off
APPLICATION OF UNION OIL COMPANY OF
CALIFORNIA FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

W. S.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 31, 1982,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of April, 1982, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

(1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the

subject matter thereof.

(2) That the applicant, Union Oil Company of California, 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, NMPM, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) 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 in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a

reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$ 3782.00 per month while drilling and \$ 412.00 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.

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

(13) 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 June 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 Wolfcamp and Penn formations underlying the N/2 of Section 10, Township 22 South, Range 32 East, NMPM, Lea 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 June, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of June, 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 120 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 Union Oil Company of California is hereby

Dan Nutter

Union Oil Co of Calif
compulsory pooling

N/2 10 22 32 Lea
+ Perry

Wolfcamp (Cisco Canyon
Strawn Block + Morrow)

std location

Sin Christy 11 am 2/23

designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That, within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well

costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$ 3782.00 per month while drilling and \$ 412.00 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.

(10) 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.

(11) 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.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in 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.

(13) 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

JOE D. RAMEY,
Director

S E A L