

CASE NO.

7551

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

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. 7551
Order No. R-6979

APPLICATION OF HARVEY E. YATES
COMPANY FOR COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 12, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 24th day of May, 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, Harvey E. Yates Company, seeks an order pooling all mineral interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 21, Township 11 South, Range 31 East, NMPM, Chaves 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.

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(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 \$4000.00 per month while drilling and \$400.00 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 September 1, 1982, the order pooling said unit should become null and void and of no effect whatsoever.

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IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp through Mississippian formations underlying the E/2 of Section 21, Township 11 South, Range 31 East, NMPM, Chaves 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 1st day of September, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Mississippian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of September, 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 Harvey E. Yates Company 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

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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 \$4000.00 per month while drilling and \$400.00 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

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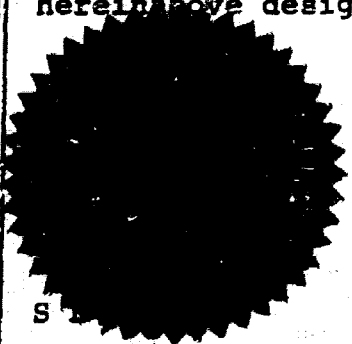
one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(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 Chaves 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

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Com-
pany for compulsory pooling, Chaves
County, New Mexico.

CASE
7551

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:

Joe Hall, Esq.
Harvey E. Yates Company
P. O. Box 1933
Roswell, New Mexico 88201

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I N D E X

ROSEMARY AVERY

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RODNEY C. THOMPSON

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2 MR. STAMETS: We'll call next Case 7551.
3 Application of Harvey E. Yates Company for compulsory pooling,
4 Chaves County, New Mexico.

5 MR. HALL: Mr. Examiner, my name is Joe
6 Hall, representing the applicant, Harvey E. Yates Company.
7 I'll have two witnesses. They have been
8 previously sworn.

9 MR. STAMETS: Have they been sworn in an-
10 other case today?

11 MR. HALL: Yes, they have.

12 MR. STAMETS: Let the record show that
13 they have been sworn and remain so in this case.

14
15 ROSEMARY AVERY

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

18
19 DIRECT EXAMINATION

20 BY MR. HALL:

21 Q Will you state your name and address,
22 please?

23 A Rosemary Avery, Roswell, New Mexico.

24 Q And would you indicate what your position
25 is with the applicant, HEYCO?

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2 A I am the Land Supervisor for Harvey E.
3 Yates Company. I'm a Senior Landman.

4 Q All right, and have you testified before
5 the Division before and have your qualifications as a pro-
6 fessional landman been accepted?

7 A Yes.

8 MR. HALL: Mr. Examiner, I'd request that
9 Ms. Avery be recognized as a professional landman for the
10 purpose of testifying to land related matters.

11 MR. STAMETS: She is considered qualified.

12 Q Are you familiar with the application in
13 Case 7551?

14 A Yes, I am.

15 Q Would you please state for the Examiner
16 the purpose of this application?

17 A Applicant, Harvey E. Yates Company, proposes
18 to drill a well at a standard location, 1980 feet from the
19 north line and 660 feet from the east line of Section 21,
20 Township 11 South, Range 31 East, NMPM, Chaves County, New
21 Mexico, to the Atoka-Morrow formation and intend to dedicate
22 the east half of said Section 21 to the well.

23 Applicant has obtained voluntary consent
24 from all the parties within the east half of Section 21 to
25 a pooling of their interests for drilling the well, with the

exception of Mr. Powatan Carter, Jr., Post Office Box 328, Ft. Sumner, New Mexico, 88119, and Mr. Anderson Carter of Post Office Box 725, Lovington, New Mexico, 88260.

We are seeking under Section 70-2-17 an order compelling their joinder in the proposed well.

Q I'll hand you what has been marked for identification as applicant's Exhibit Number One and ask you to identify that and explain what it shows, please.

A This is a -- Exhibit Number One is a land plat covering the east half of Section 21, Township 11 South, Range 31 East, in Chaves County, New Mexico, and on this exhibit the east half of Section 21 is outlined in red and the proposed well location is indicated in the southeast quarter of the northeast quarter of Section 21.

Q The east half of Section 21 will be the proration unit for this well?

A Yes, it would.

Q Would you indicate, please, who the parties owning interest under the east half of Section 21 are and what their interests are under this east half of Section 21?

A Harvey E. Yates Company owns a leasehold interest, working interest of 141.097679 net acres, which constitutes 44.093024 percent.

Yates Energy Corporation owns 69.068989

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2 acres, which is 21.584059 percent.

3 Spiro, Incorporated owns 18.833333 net
4 acres, which is 5.885417 percent working interest.

5 Explorers Petroleum Corporation and (?)
6 Inc, both have the same interest, the same net number of net
7 acres and the same percentage of working interest.

8 MR. Powatan Carter and Mr. Anderson Carter
9 each own mineral rights, which come to 26.666667 net acres
10 apiece, which is 8.333333 percent working interest.

11 Q Referring you back to Exhibit Number One
12 and the area depicted thereon, would you please explain HEYCO's
13 or Harvey E. Yates Company's efforts to reach an agreement
14 with the Carters, as to pool all the interests under the east
15 half of Section 21?

16 A They were first contacted about three
17 years ago when I was buying leases over there and they indi-
18 cated they did not like to lease their interest, but gave me
19 an indication they would possibly join when we got ready to
20 put something together, and about a year ago I started con-
21 tacting them again, and could not reach a satisfactory agree-
22 ment at all with them on -- well, they didn't want to join
23 at all. They did not want to lease or farmout under any kind
24 of reasonable terms.

25 So we could never reach any kind of an

1 agreement.

2 Q Have you had any conversation with them
3 since this application was filed?

4 A Oh, we have sent them a letter and I have
5 talked to them on the telephone, and we've sent them a copy
6 of our proposed operating agreement and I have had nothing
7 but negative response.

8 Q All right. I hand you what has been
9 marked for identification as Applicant's Exhibit Number Two,
10 and ask you to identify that, please.

11 A This is an operating agreement prepared
12 on AAPL Form 610. The agreement is titled Mescalero Springs
13 Working Interest Unit. It is dated January the 15th, 1982,
14 with Harvey E. Yates Company shown as operator. The contract
15 area consists of the east half of Section 21, Township 11
16 South, Range 31 East, NMPM, Chaves County, New Mexico.

17 Q If you'd please turn to page four of the
18 agreement and read the initial well provisions indicated
19 there, please.

20 A The initial well will be drilled on or
21 before June the 28th -- no, I'm sorry, June 30th, 1982, at
22 a location in the southeast quarter of the northeast quarter
23 of Section 21, Township 11 South, Range 31 East, Chaves
24 County, New Mexico, to a depth adequate to test the Atoka
25

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2 formation or to a depth of 11,200 feet, whichever is shallower.

3 Q Now, turning to page five, would you read
4 what the non-consent provisions entered there are? It's
5 five and six.

6 A Okay. 500 percent.

7 Q Are you familiar with other operating
8 agreements in southeastern New Mexico or in Chaves County,
9 and the non-consent provisions they contain?

10 A Yes, I am.

11 Q Based on your knowledge do you think the
12 500 percent non-consent provision is reasonable?

13 A Yes, I do.

14 Q Have the other parties to this agreement,
15 or any agreement, agreed to the 500 percent non-consent
16 penalty?

17 A Yes.

18 Q Turning to page three of the COPAS, would
19 you please read what the overhead rates indicated there are?

20 A Okay, \$4000 drilling well rate and \$400
21 producing well rate.

22 Q And are you familiar with the overhead
23 rates being charged for similar wells in southeastern New
24 Mexico or Chaves County?

25 A Yes.

1
2 Q And do you feel that \$4000 and \$400 are in
3 line with the rates generally being charged for similar wells
4 in the area?

5 A Yes, sir, I do.

6 Q Would you ask the Division to allow Harvey
7 E. Yates Company to charge a \$4000 drilling well rate and a
8 \$400 producing well rate per month for operating under any
9 order they might enter pooling the east half of Section 21?

10 A Yes.

11 Q Okay. Has Harvey E. Yates Company made
12 any major amendments or changes to the AAPL Form 610, which
13 comprises Exhibit Two?

14 A No, not really. It is essentially the
15 standard form with only minor and for us usual modifications,
16 which we make or attempt to make on all our agreements.

17 Q And have you had substantial agreement
18 from the proposed working interest participants under Exhibit
19 Two?

20 A Yes, we have reached verbal agreement with
21 all parties except the Carters.

22 Q Do you request that Harvey E. Yates Com-
23 pany be designated as operator of the proration unit in the
24 East half of Section 21 to be dedicated to the proposed well?

25 A Yes.

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2 Q And did Harvey E. Yates Company notify
3 Mr. Powatan Carter and Mr. Anderson Carter of this hearing
4 at least ten days prior to today?

5 A Yes, they were notified by certified mail,
6 return receipt requested, and we did get a signed receipt.

7 Q Were Exhibits One and Two prepared by you
8 or under your supervision?

9 A Yes.

10 MR. HALL: Mr. Examiner, I'd like to move
11 the admission of Applicant's Exhibits One and Two.

12 MR. STAMETS: These exhibits will be ad-
13 mitted.

14
15 CROSS EXAMINATION

16 BY MR. STAMETS:

17 Q Ms. Avery, in this latest round of nego-
18 tiations, not the one that began three years ago, the one
19 last year --

20 A Yes.

21 Q -- do you -- how many pieces of correspon-
22 dence do you have relative to the Carters interest?

23 A Let me see, I have several here. One --
24 I have about, let's see, three, I believe. Then I have some
25 memoranda, copies of memoranda where I had telephone conver-

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2 sations with them, also.

3 Q Could I have a look at some of the --

4 A Sure. Yes, I would like to have copies
5 of this --

6 A All right.

7 Q -- for the record and that can be submitted
8 subsequent to the actual proceedings.

9 MR. STAMETS: Are there other questions
10 of this witness? She may be excused.

11
12 RODNEY C. THOMPSON
13 being called as a witness and being duly sworn upon his oath,
14 testified as follows, to-wit:

15
16 DIRECT EXAMINATION

17 BY MR. HALL:

18 Q Would you state your name and address,
19 please, sir?

20 A My name is Rodney Thompson and my address
21 is Midland, Texas.

22 Q Would you indicate what your position is
23 with the applicant, Harvey E. Bates Company?

24 A I am an exploration geologist for HEYCO.

25 Q Have you testified before the Division

1
2 before and have your qualifications as an expert petroleum
3 geologist been accepted?

4 A Yes, I have, and yes, they have.

5 MR. HALL: Mr. Examiner, I'd request that
6 Mr. Thompson be recognized.

7 MR. STAMETS: He is.

8 Q Are you familiar with the application filed
9 in Case 7551?

10 A Yes, I am.

11 Q I'll hand you what has been marked for
12 identification as Applicant's Exhibit Number Three and ask
13 if you would identify that and explain to the Examiner what
14 it shows?

15 A Okay, Mr. Examiner, Exhibit Number Three
16 is a structure map contoured on the top of the Mississippian
17 Lime, which is the nearest good horizon to map closest to
18 this pay zone we're looking at in the area in the Lower Atoka.

19 The map shows that our offset well would
20 be just west of a well in Section 22, which is the One Well
21 PV-Penn Gas Field. This well has been plugged but has pro-
22 duced over 4-billion cubic feet of gas and 97,700 and some
23 barrels of condensate, and we feel that our area of drainage,
24 that we'll be in a good position to drill our well in the
25 northeast quarter of Section 21, and not be at all affected

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2 by this well, with our initial test.

3 Q I hand you now what's been marked for
4 identification as Applicant's Exhibit Number Four, and ask
5 you to identify that and explain what it shows, please.

6 A Mr. Examiner, Exhibit Number Four is a --
7 is a stratigraphic cross section that is hung on the top of
8 the Mississippian Lime. It's a north to south cross section
9 that runs from -- runs through three wells, the center one
10 being the Robinson Brothers Manray (sic) Elliott No. 1, which
11 is the well I had referred to earlier, and having produced
12 over 4-billion cubic feet of gas.

13 What we interpret to -- these sands to be
14 is what we lump together the Atoka-Morrow interval for reasons
15 of discrepancy in this area, there is some debate as to -- as
16 to whether we're dealing with Atoka or Morrow -- and so we
17 group those together. It's -- we interpret these sands to
18 be a prograding sequence that prograded across the shelf
19 during Atoka time, and they were originally a Mississippian
20 nonconformity or deposited delta-type sands that were followed
21 by prograding, distributary mouth bar and distributary channel
22 sand.

23 MR. STAMETS: What kind of a bar?

24 A Distributary mouth bar, which is the bar
25 at the mouth of a --

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2 MR. STAMETS: M-O-U-T-H.

3 A Right.

4 MR. STAMETS: Okay.

5 A And we interpret this type of bar to be
6 present in the Robinson Brothers Manray Elliott No. 1, where
7 they are completed out of, and we also feel we have a good
8 chance of encountering another sand and it had good porosity
9 up at -- on the cross section it shows at 10,770, about, to
10 10,800.

11 So we think we -- we're dealing with --
12 with lens -- lens-shaped channel sands in here and we feel
13 we're along depositional trend to the sands in the PV-Penn
14 Field.

15 Q I hand you now what's been marked for
16 identification as Applicant's Exhibit Number Five and ask you
17 to identify that and explain what it shows, please.

18 A Okay. Mr. Examiner, Exhibit Number Five
19 is an Isolith map of net clean sands that -- and it's only
20 contoured on the -- on the Lower Atoka sand, which would be
21 back on the exhibit, the previous exhibit, Exhibit Number
22 Four, would be the sand that is at 10,9 -- 10,870 to 10,900,
23 is what this Isolith map is mapped on.

24 And from the surrounding well control we
25 feel that our distributary channel is trending through the

1
2 area as shown on the map in Exhibit Number Five.

3 And we feel that we'll be in a good depo-
4 sitional -- a good position to encounter over 50 -- between
5 40 to 50 feet of Atoka sand in our initial test well.

6 One thing I might add is that looking at
7 the structure map, which is Exhibit Number Three, you'll
8 notice that the TD Penn Well, the lowest well in that area,
9 so I might add that I don't believe that structure has any-
10 thing to do with this type of production here. I think it's
11 purely stratigraphic, and so what I'm saying is that we're
12 dealing with a stratigraphically laid sand that is not really
13 reliable or dependent on structure.

14 And we feel our location here in the north-
15 east quarter of Section 21 is the optimum location with
16 lowest risk to encounter this sand.

17 Q I hand you now what's been marked for i-
18 dentification as Applicant's Exhibit Number Six and ask you
19 to identify that, please.

20 A Exhibit Six is the AFE on our initial test,
21 Mescalero Springs Unit.

22 Q Would you please read that location and
23 proposed depth for the well covered by the AFE, please?

24 A Okay. Our location is 1980 -- 1980 feet
25 from the north line, 660 feet from the east line of Section

21, Township 11 South, Range 31 East, this being Chaves County, and our proposed depth would be 11,200 feet to adequately test the Atoka-Morrow formation.

Q Okay. What is the estimated dry hole and completed well costs shown on Exhibit Number Six?

A Our estimated dry hole cost is \$776,900 and our estimated completed well cost is \$1,077,900.

Q Going back to the dry hole cost, does the AFE show \$766,900?

A Correct. That's correct.

Q Okay. Statute Section 70-2-17 allows those parties advancing costs for the drilling to recover from production their costs, to include a reasonable charge for supervision plus a charge for risk of up to 200 percent of the cost of drilling and completing the well.

In your opinion is there substantial risk involved in drilling a well in the southeast of the northeast of Section 21 to test the Atoka-Morrow?

A Yes.

Q Okay. What, in your opinion, would be a reasonable charge for the risk involved in this project?

A I believe 200 percent would be appropriate.

Q In your opinion will the granting of this application prevent waste and protect the correlative rights

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2 of the parties involved, and avoid the drilling of unnecessary
3 wells?

4 A Yes.

5 Q Were Exhibits Three through Six prepared
6 either by you or under your direction and control by employees
7 of Harvey E. Yates Company?

8 A Yes, they were.

9 MR. HALL: Mr. Examiner, I'd move the ad-
10 mission of Applicant's Exhibits Three through Six.

11 MR. STAMETS: These exhibits will be ad-
12 mitted.

13 MR. HALL: And I have no further questions.

14 MR. STAMETS: Are there any questions of
15 the witness? He may be excused.

16 Anything further in this case?

17 The case will be taken under advisement.

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19 (Hearing concluded.)
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C E R T I F I C A T E

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

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 2551, heard by me on 5-12 1982

Richard L. Stant Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

Rt. 1 Box 192-B
Saginaw, New Mexico 87501
Phone (505) 455-7409

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates
Company for compulsory pooling,
Chaves County, New Mexico.

CASE
7551

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:

MR. STAMETS: Call next Case 7551.

MR. PEARCE: Application of Harvey E.

Yates Company for compulsory pooling, Chaves County, New
Mexico.

MR. STAMETS: At the request of the appli-
cant this case will be continued to the May 12th Examiner
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. 7551, heard by me on 4-14 1982.

Richard L. Stewart, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

El. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 453-7409

HEYCO

PETROLEUM PRODUCERS



April 17, 1982
HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505-623-8801

MOSWELL, NEW MEXICO 88201

May 13, 1982

Mr. Richard L. Stamets
Oil Conservation Division
New Mexico State Land Office
Post Office Box 1148
Santa Fe, New Mexico 87501

Re: Case No. 7551
Compulsory Pooling
E/2 Sec. 21, T-11S, R-31E
Chaves County, New Mexico

Dear Mr. Stamets:

At your request, I have gathered up all of the correspondence that we have had with Messers. Anderson and Powhatan Carter, and copies are attached hereto.

Unfortunately, most of our contact with them has been by telephone. I do have copies of a number of interoffice memoranda concerning the progress -- or lack of it -- of my negotiations with the Carter brothers. There were more calls earlier, but I didn't always document them since I didn't realize it would be important later. Of course, had I known that documentation would be useful later on, I would have written instead of calling.

Thank you for your courtesy at the hearings.

Yours very truly,

Rosemary Avery
Rosemary T. Avery
Land Supervisor

RTA:seb

Enclosures

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1833

SUITE 300, SECURITY NATIONAL BANK BUILDING

505-623-6801

ROSWELL, NEW MEXICO 86201

April 5, 1982

WORKING INTEREST OWNERS
Mescalero Sands

Re: Mescalero Sands #1
Section 21: E/2
T-11S, R-31E, N.M.P.M.
Chaves County, New Mexico
(HEYCO Ref: 9169)

Gentlemen:

Harvey E. Yates Company proposes the drilling of an Atoka-Mississippian test at a location 1980' FNL and 560' FEL, Section 21, Township 11 South, Range 31 East, Chaves County, New Mexico.

In this regard we are attaching a copy of the Operating Agreement covering the captioned lands and two copies of an AFE to cover the estimated cost of drilling and completing the Mescalero Sands #1 well.

If you concur with the enclosed instruments, please execute and return the extra set of signature pages to the Agreement and one copy of the AFE at your earliest convenience.

If you have any questions in regard to the proposed well, please advise.

Very truly yours,

Form 3811, Jan. 1978

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:
Powhatan Carter
Box 328
Ft. Sumner, NM 88119

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
560 739
(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE [Signature] [Address] [Authorized agent]

4. DATE OF DELIVERY
APR - 6 1982

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

POSTMARK
APR 1982

STAR 1 7979-302 699

Form 3811, Jan. 1978

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:
Anderson Carter
Box 725
Lovington, NM 88260

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
560 740
(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE [Signature] [Address] [Authorized agent]

4. DATE OF DELIVERY
4-12-82

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE:

POSTMARK
APR 1982

STAR 1 7979-302 699

P 324 560 740

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse) # 9169

SENT TO		Parkester Carter	
STREET AND NO.		Box 725	
P.O. STATE AND ZIP CODE		Lawton, N.M. 88240	
POSTAGE		\$	
CONSULT POSTMASTER FOR FEES	CERTIFIED FEE		
	SPECIAL DELIVERY		
	RESTRICTED DELIVERY		
	OPTIONAL SERVICES		
	RETURN RECEIPT SERVICE		
	SHOW TO WHOM AND DATE DELIVERED		
	SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY		
	SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY		
	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY		
TOTAL POSTAGE AND FEES		\$2.91	
POSTMARK OR DATE			

P 324 560 739

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse) # 9169

SENT TO		Parkester Carter	
STREET AND NO.		Box 725	
P.O. STATE AND ZIP CODE		Lawton, N.M. 88240	
POSTAGE		\$	
CONSULT POSTMASTER FOR FEES	CERTIFIED FEE		
	SPECIAL DELIVERY		
	RESTRICTED DELIVERY		
	OPTIONAL SERVICES		
	RETURN RECEIPT SERVICE		
	SHOW TO WHOM AND DATE DELIVERED		
	SHOW TO WHOM, DATE, AND ADDRESS OF DELIVERY		
	SHOW TO WHOM AND DATE DELIVERED WITH RESTRICTED DELIVERY		
	SHOW TO WHOM, DATE AND ADDRESS OF DELIVERY WITH RESTRICTED DELIVERY		
TOTAL POSTAGE AND FEES		\$2.91	
POSTMARK OR DATE			

Y E. YATES COMPANY

300. SECURITY NATIONAL BANK BUILDING

505-623-0801

ROSWELL, NEW MEXICO 88201

11 5, 1982

Mescalero Sands #1
Section 21: E/2
T-11S, R-31E, N.M.P.M.
Chaves County, New Mexico
(HEYCO Ref: 9169)

Harvey E. Yates Company proposes the drilling of an Atoka-Mississippian test at a location 1980' FNL and 660' FEL, Section 21, Township 11 South, Range 31 East, Chaves County, New Mexico.

In this regard we are attaching a copy of the Operating Agreement covering the captioned lands and two copies of an AFE to cover the estimated cost of drilling and completing the Mescalero Sands #1 well.

If you concur with the enclosed instruments, please execute and return the extra set of signature pages to the Agreement and one copy of the AFE at your earliest convenience.

If you have any questions in regard to the proposed well, please advise.

Very truly yours,

George M. Yates

GMJ:j

Attachments

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505/823-6801

ROSWEIL, NEW MEXICO 88201

CERTIFIED -- RETURN RECEIPT REQUESTED

March 26, 1982

Mr. Anderson Carter
Post Office Box 725
Lovington, New Mexico 88260

Re: Application for
Compulsory Pooling
Section 21
T-11-S, R-31-E, N.M.P.M.
Chaves County, New Mexico
(HEYCO Ref: 9169)

Dear Mr. Carter:

Enclosed please find a copy of Harvey E. Yates Company's Application for Compulsory Pooling, sent to the Oil Conservation Division on March 15, 1982, on the above referenced lands.

Sincerely,

Jo Pendergrass

JP:ms

Enclosure

Form 3811, Jan. 1978

1. The following carrier 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.

2. ARTICLE ADDRESSED TO:
Anderson Carter
Box 725
Lovington, N.M. 88260

3. ARTICLE DESCRIPTION:
Certified no. 560 738

4. I have received the article described above.
SIGNATURE: *[Signature]* DATE: 3-28-82

5. ADDRESS (Stamp box only if needed)
3-28-82

6. UNABLE TO DELIVER BECAUSE:

7. CLIENT'S INITIALS: *[Initials]*

8. RETURN RECEIPT REQUESTED, RETURNED AND CERTIFIED

HEYCO

PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY

P. O. BOX 1833

SUITE 300, SECURITY NATIONAL BANK BUILDING

505827-6881
ROSWELL, NEW MEXICO 88201

CERTIFIED - RETURN RECEIPT REQUESTED

March 26, 1982

Mr. Anderson Carter
Post Office Box 725
Lovington, New Mexico 88260

Re: Application for
Compulsory Pooling
Section 21
T-11-S, R-31-E, N.M.P.M.
Chaves County, New Mexico
(HEYCO Ref: 9169)

Dear Mr. Carter:

Enclosed please find a copy of Harvey E. Yates Company's Application for Compulsory Pooling, sent to the Oil Conservation Division on March 15, 1982, on the above referenced lands.

Sincerely,

Jo Pendergrass

Jo Pendergrass

JP:ms

Enclosure

RETURN RECEIPT REQUESTED, REGISTERED, INSURED AND CERTIFIED

● 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): <input type="checkbox"/> Show to whom and date delivered. <input type="checkbox"/> Show to whom, date and address of delivery. <input type="checkbox"/> RESTRICTED DELIVERY Show to whom and date delivered. <input type="checkbox"/> RESTRICTED DELIVERY Show to whom, date, and address of delivery. (CONSULT POSTMASTER FOR TERMS)	
2. ARTICLE ADDRESSED TO: Anderson Carter Box 725 Lovington, N.M. 88260	
3. ARTICLE DESCRIPTION: REGISTERED NO. CERTIFIED NO. INSURED NO. 560 738 (Always obtain signature of addressee or agent)	
I have received the article described above. SIGNATURE Address Certified agent <i>Mr. Anderson Carter</i> DATE OF DELIVERY 3-29-82	
4. ADDRESS (Complete only if necessary) 1982	
5. UNABLE TO DELIVER BECAUSE:	CARRIER'S INITIALS S

U.S. POSTAL SERVICE

PETROLEUM PRODUCERS



P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505/823-6601

ROSWELL, NEW MEXICO 88201

March 26, 1982

Mr. Powhatan Carter, Jr.
Post Office Box 328
Ft. Sumner, New Mexico 88119

Re: Application for
Compulsory Pooling
Section 21
T-11-S, R-31-E, N.M.P.M.
Chaves County, New Mexico
(HEYCO Ref: 9169)

Dear Mr. Carter:

Enclosed please find a copy of Harvey E. Yates Company's Application for Compulsory Pooling, sent to the Oil Conservation Division on March 15, 1982, on the above referenced lands.

Sincerely,

Es Pendergast

Jo Pendergrass

JP:ms

Enclosure

FORM 10-76

SECTION 1. Complete items 1, 2, and 3.
Addressee address to the "RETURN TO" space.

1. The following service is requested (check):
☐ Show to whom and date delivered;
☐ Show to whom, date and address of
☐ RESTRICTED DELIVERY;
☐ Show to whom and date delivered;
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of _____

(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Powhatan Carter
P.O. Box 328
Ft. Sumner, N.M. 88119

3. ARTICLE DESCRIPTION:
REQUESTED NO. CERTIFIED NO. INSURANCE FEE
1560 736

I have received the article described above (check)
REGULATING - Damaged Damaged by _____

Always obtain signatures of addressee or agent.

DATE OF DELIVERY
3-27-83

ADDRESS (For carriers only if required)

UNABLE TO DELIVER OR RE-CULATE:

SUMNER MAR 27 1982

RECEIVED BY MAIL ROOM

MAR 27 1983

HEYCO

PETROLEUM PRODUCERS

HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505422-0001
MOSWELL, NEW MEXICO 88201

CERTIFIED - RETURN RECEIPT REQUESTED

March 26, 1982

Mr. Powhatan Carter, Jr.
Post Office Box 328
Ft. Sumner, New Mexico 88119

Re: Application for
Compulsory Pooling
Section 21
T-11-S, R-31-E, N.M.P.M.
Chaves County, New Mexico
(HEYCO Ref: 9169)

Dear Mr. Carter:

Enclosed please find a copy of Harvey E. Yates Company's Application for Compulsory Pooling, sent to the Oil Conservation Division on March 15, 1982, on the above referenced lands.

Sincerely,

Jo Pendergrass

Jo Pendergrass

JP:ms

Enclosure

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

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.

(CONSULEE POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
Powhatan Carter
P. O. Box 328
Ft. Sumner, N.M. 88119

3. ARTICLE DESCRIPTION:
REGISTERED NO. 560 736
CERTIFIED NO.
INSURED NO.

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE: *Powhatan Carter*
CLASSIFICATION: *11A*
DATE OF DELIVERY: *3-27-82*

4. ADDRESS (Complete only if requested)

5. UNABLE TO DELIVER BECAUSE:

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

7. FROM MAIL, JAN 1978

8. SUMNER, NM 88119 MAR 27 1982

9. U.S. POSTAL SERVICE

10. GPO : 1980-500-400

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P. O. BOX 1833

SUITE 300, SECURITY NATIONAL BANK BUILDING

505-823-6881

ROSWELL, NEW MEXICO 88201

January 13, 1982

Mr. Anderson Carter
P. O. Box 725
Lovington, New Mexico 88260

Re: Proposed Mescalero Spring Unit
E/2 Section 21, T-11S, R-31E
Chaves County, New Mexico

Dear Mr. Carter:

The last time we talked with you concerning this prospect, you were debating whether to join our proposed unit and participate with your 1/12th interest under this half-section, or to give us a short-term lease. At that time, I promised to send you a copy of our joint operating agreement and AFE for you to consider.

We don't quite have our operating agreement put together, but I do have an AFE for you to look over, and it is enclosed. We will have our JOA ready to send in a few days.

I will be going into the hospital tomorrow, and will be out of the office for about three or four weeks. If you would like to discuss this prospect in the meantime, please ask for my assistant, Mr. Robert H. ("Bob") Bell.

By copy of this letter, I am sending the AFE to your brother, Mr. Powhatan Carter, in Ft. Sumner.

Thank you very much, Mr. Carter, for your thoughtful consideration of this matter. We will be looking forward to hearing from you very soon.

Yours very truly,

Rosemary T. Avery
Rosemary T. Avery
Land Supervisor

RTA/ms
Encl.

cc: Mr. Powhatan Carter, Jr.
P. O. Box 328
Ft. Sumner, New Mexico 88119 (w/Encl.)

UNSCALERO SANDS PROPERTIES

Andy Carter called me at 10:00 AM yesterday. He and Foxham still are not sure what they want to do, but he indicated they would either join or give us some kind of lease.

He is going to be gone until after the first week in January. He promised he would call me when he gets back to Livingston and let me know for sure what they decide. I suggested we go ahead and prepare an operating agreement and AFE for them to consider, and he thought that would be OK. This is the first time he has ever mentioned a lease as a possibility.

Date 12-23-81

Signed [Signature]

REPLY

NO. 9 FOLD
NO. 10 FOLD

Date

Signed

Wilson Jones Company
STATIONERY FORMS, ETC.
1000 - PRINTED IN U.S.A.

SENDER—DETACH AND RETAIN YELLOW COPY. SEND WHITE AND PINK COPIES WITH CARBON INTACT.

Speed Letter

To MY From RTA

Subject Mescalero Sds. Prospect

MESSAGE PS: I Need to know name of well - do we know yet? No

I talked to Powhatan Carter about 5:30 p.m., after giving up on reaching Andy. Powhatan told me that Andy told him yesterday he planned to call me today. However, the famous General Telephone System over in Lovington had done its thing again, and while Powhatan was talking to Andy, Andy's phone quit working. That may explain why I never reached him. Anyway, Powhatan plans to try to get hold of Andy tonight and have him call me in the morning. Andy plans to go to Ft. Sumner tomorrow afternoon, and will be leaving for Houston right after Christmas to take his wife to M.D. Anderson. Then in January, he has to back to Arizona where he spends a lot of time. He was anxious to get in touch with me before he has to take all these trips, according to Powhatan. I explained to Powhatan what our plans were, so at least he can tell Andy.

Date 12-22-81

Signed [Signature]

REPLY

—No. 9 FOLD

—No. 10 FOLD

Date

Signed

Wilson Jones Company
Manufactured in U.S.A.
50% - PRINTED IN U.S.A.

RECIPIENT—RETAIN WHITE COPY, RETURN PINK COPY



FROM THE DESK OF

ROSEMARY AVERY

12-12-81

George:

Re: Mescalero Sands

I still haven't reached Andy Carter, but I did get to talk to Powhatan, Jr., his brother, in Fort Sumner this afternoon.

The reason no one has been at home in Lovington is that Andy has been taking his wife down to M. D. Anderson Hospital in Houston for treatment (that's the cancer place, as you know). However, they are back now from Houston--but, Andy had to go to Alamogordo as soon as they got back. Powhatan said he'll be talking to Andy and would have him call me Monday. Powhatan owns an undivided 1/12 under the E/2 Sec. 21, as does Andy. He was fairly noncommittal, but gave me the impression they would probably join--he wanted me to talk to Andy first, however.

I have a call in to a couple of the others in Sec. 22, and expect to talk to them early in the week.



FROM THE DESK OF

ROSEMARY AVERY

Memo to Prospect File

12-2-81

MESCALERO SANDS PROSPECT - PROPOSED F/O AND/OR UNIT

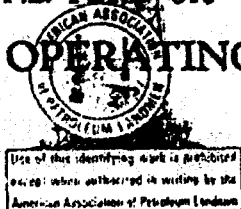
1. Propose the following to Carters:

Join with us under the operating agreement to drill the 320 acre E/2 of Sec. 21 at a location in the SE/4 NE/4.

Participate in any support we are able to obtain from owners in N/2 of Sec. 22 (farm-ins, bottom hole money, etc.)

The figure is a detailed grid map of the Gulf of Mexico and its surrounding land areas. The map is divided into numerous small sections, each containing text such as company names (e.g., Gulf, Shell, Esso, Amoco), well numbers, and lease dates. A large, dark, irregular shape is drawn over the central part of the map, possibly indicating a specific area of interest or a boundary. The map is oriented with North at the top.

A.A.P.L. FORM 610 - 1977
MODEL FORM OPERATING AGREEMENT



MESCALERO SPRINGS
 OPERATING AGREEMENT

DATED

January 15, 19 82,

OPERATOR HARVEY E. YATES COMPANY

CONTRACT AREA Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

COUNTY OR PARISH OF Chaves STATE OF New Mexico

BEFORE EXAMINER <u>Richard Starnet</u>	
OIL CONSERVATION DIVISION	
Applicant's	EXHIBITED <u>2</u>
CASE NO.	<u>7551</u>
SUBMITTED BY	<u>HEYCO</u>
HEARING DATE	<u>5-12-82</u>

COPYRIGHT 1977 — ALL RIGHTS RESERVED
 AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
 APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
 MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
 KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

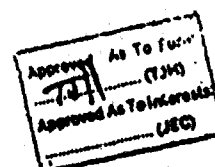
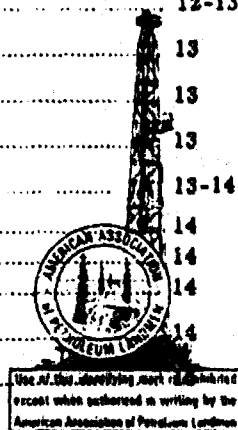


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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between HARVEY E. YATES COMPANY
P. O. Box 1933, Roswell, New Mexico 88201, hereinafter designated and
 referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter
 referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

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

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

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

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



**ARTICLE III.
INTERESTS OF PARTIES**

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

**ARTICLE IV.
TITLES**

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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



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

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

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

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

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

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

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

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

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

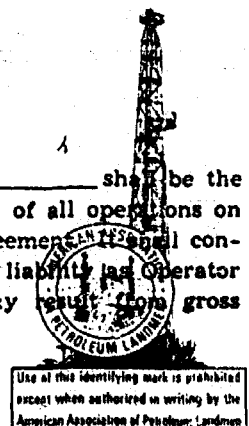
(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

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

ARTICLE V. OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

HARVEY E. YATES COMPANY shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.



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

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

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

C. Employees:

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

D. Drilling Contracts:

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

**ARTICLE VI.
DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before the 30 day of June, 1982, Operator shall commence the drilling of a well for oil and gas at the following location:

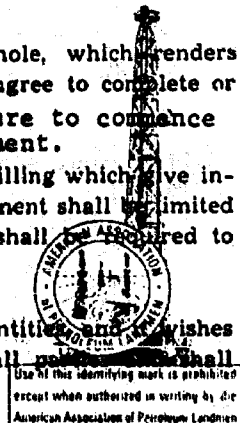
SE/4 NE/4
Section 21, Township 11 South, Range 31 East,
Chaves County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to a depth adequate to test the Atoka formation or to a depth of 11,200 feet, whichever is shallower,

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth. Operator's only liability for failure to commence said test well shall be the ipso facto termination of this agreement.

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

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



B. Subsequent Operations:

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

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

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party whether or not it will remain a Consenting Party and

carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision. Any Consenting Party failing to notify the proposing party within the 48 hours specified shall be deemed to have agreed to carry its proportionate part of the Non-Consenting Parties' interest.

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

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

(b) 500 % 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 Articles VII.C. and

50% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non-Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. 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. If such Non-Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

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

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, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, 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 Party conducting the operations for 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. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. 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; and 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 material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to 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, attached hereto.

Notwithstanding the provisions of this Article VI.B.2., 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 Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

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

C. 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 Contract Area, exclusive of production which may be lost in development and producing operations and in preparing and treating oil for marketing, and production unavoidably lost. 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.

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

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

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

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

29 D. Access to Contract Area and Information:

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

41 E. Abandonment of Wells:

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

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

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

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

ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within thirty (30) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-five Thousand Dollars (\$25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand Dollars (\$15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of One-eighth (1/8) due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

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

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

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

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

G. Taxes:

Beginning with the first calendar year after the effective date hereof, 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. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest 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. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any 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".

Each party shall pay or cause to be paid all production, severance, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

H. 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; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract 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.

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties do not agree or consent thereto, 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. If the interest of the assigning party includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not desiring to surrender an oil and gas lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". 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 other than the royalties retained in any lease made under the terms of this Article. 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. The value of all material shall be 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 assignor's or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

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

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

Each party who participates in the purchase of a renewal lease shall be given an assignment, without warranty of title, of its proportionate interest therein by acquiring party.

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

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

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

F. Waiver of Right to Partition:

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

~~G. Preferential Right to Purchase:~~

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

ARTICLE IX. INTERNAL REVENUE CODE ELECTION

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

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

ARTICLE X. CLAIMS AND LAWSUITS

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

ARTICLE XI. FORCE MAJEURE

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

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

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

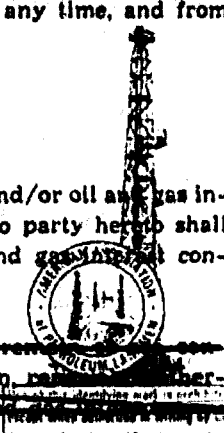
ARTICLE XII. NOTICES

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

ARTICLE XIII. TERM OF AGREEMENT

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

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain in force and effect, this agreement shall remain in force as to any part of the Contract Area, whether by production, extension, or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interests contributed by any other party beyond the term of this agreement.



☒ **Option No. 2:** In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 180 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 180 days from the date of abandonment of said well.

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

ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the committed acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders. However, non-operators agree to release operator from any and all losses, damages, injuries, claims and causes of action arising out of incident to or resulting directly or indirectly from operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy, Federal Energy Regulatory Commission or predecessor agencies to the extent operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Non-operators further agree to reimburse operator for their proportionate share of any amounts operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with the non-operators' proportionate part of interest and penalties owing by operator as a result of such incorrect interpretation or application of such rules, regulations or orders.

B. GOVERNING LAW:

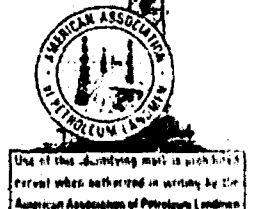
The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV OTHER PROVISIONS

A. SUBSTITUTE WELL:

1. If, in the drilling of the Initial Well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of Operator, to drill the well to the Objective Depth, then and in any of such events on or before sixty (60) days after completion of the Initial Well, Operator shall have the option to commence the actual drilling of another well (Substitute Well) at a lawful location of Operator's selection on the Unit Area, and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to the Objective Depth. For all purposes of this agreement, the drilling of the Substitute Well shall be considered as the drilling of the Initial Well.

2. Any provision herein concerning the Initial Well shall also apply to the Substitute Well, and any provision herein excepting the Initial Well shall also except the Substitute Well.



A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 15th day of January, 19 82.

OPERATOR

ATTEST:

HARVEY E. YATES COMPANY

By:

Secretary

President

NON-OPERATORS

ATTEST:

SPIRAL, INC.

By:

Secretary

President

ATTEST:

EXPLORERS PETROLEUM CORPORATION

By:

Secretary

President

ATTEST:

FRED G. YATES, INC.

By:

Secretary

President

ATTEST:

YATES ENERGY CORPORATION

By:

Secretary

President

WITNESS:

POWHATAN CARTER

WITNESS:

ANDERSON CARTER



Use of this country's name is prohibited
except when authorized in writing by the
American Association of Petroleum Landmen

STATE OF NEW MEXICO)
) SS
 COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1982, by GEORGE M. YATES, President of HARVEY E. YATES COMPANY, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

 Notary Public

STATE OF NEW MEXICO)
) SS
 COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1982, by HARVEY E. YATES, President of SPIRAL, INC., a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

 Notary Public

STATE OF NEW MEXICO)
) SS
 COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1982, by GEORGE M. YATES, President of EXPLORERS PETROLEUM CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

 Notary Public

STATE OF NEW MEXICO)
) SS
 COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1982, by FRED G. YATES, President of FRED G. YATES, INC., a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

 Notary Public

STATE OF NEW MEXICO)
) SS
 COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1982, by FRED G. YATES, President of YATES ENERGY CORPORATION, a New Mexico Corporation, on behalf of said corporation.

My Commission Expires:

 Notary Public

STATE OF NEW MEXICO)
) SS
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1982, by POWHATAN CARTER.

My Commission Expires:

Notary Public

STATE PF NEW MEXICO)
) SS
COUNTY OF _____)

The foregoing instrument was aknowledged before me this _____ day of _____, 1982, by ANDERSON CARTER.

My Commission Expires:

Notary Public

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THE OPERATING AGREEMENT
DATED JANUARY 15, 1982,
BETWEEN HARVEY E. YATES COMPANY AS OPERATOR
AND OTHER PARTIES SIGNATORY THERETO AS NON-OPERATORS

1. LANDS SUBJECT TO CONTRACT:

Township 11 South, Range 31 East, N.M.P.M.
Section 21: E/2
Chaves County, New Mexico
Containing 320.0 acres, more or less

2. RESTRICTIONS AS TO FORMATIONS AND DEPTH:

All depths

3. PERCENTAGE INTERESTS OF THE PARTIES TO THIS AGREEMENT:

<u>NAME</u>	<u>WORKING INTEREST</u>
Harvey E. Yates Company	44.093024%
Yates Energy Corporation	21.584059%
Spiral, Inc.	5.885417%
Explorers Petroleum Corporation	5.885417%
Fred G. Yates, Inc.	5.885417%
Powhatan Carter	8.333333%
Anderson Carter	8.333333%
	<u>100.000000%</u>

4. OIL AND GAS LEASES AND/OR OIL AND GAS INTERESTS SUBJECT TO THIS AGREEMENT:

- a. Oil and Gas Lease dated April 1, 1981, by and between Lorene Whitley Longwell as Lessor, and Harvey E. Yates Company as Lessee; insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

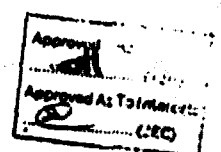
Township 11 South, Range 31 East, N.M.P.M.
Section 21: E/2
Containing 320.0 acres, more or less
(HEYCO REF: PBE-3736)

- b. Oil and Gas Lease dated April 7, 1981, by and between Larry D. Whitley as Lessor, and Harvey E. Yates Company as Lessee; insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.
Section 21: E/2
Containing 320.0 acres, more or less
(HEYCO REF: PBE-3737)

- c. Oil and Gas Lease dated April 1, 1981, by and between Thomas W. Evans, et al as Lessors, and Harvey E. Yates Company as Lessee; insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.
Section 21: E/2
Containing 320.0 acres, more or less
(HEYCO REF: PBE-3738)



- d. Oil and Gas Lease dated April 7, 1981, by and between Dixie Eileen Whitley Wilda as Lessor and Harvey E. Yates Company as Lessee; insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

Containing 320.0 acres, more or less
(HEYCO REF: PBE-3761)

- e. Oil and Gas Lease dated April 7, 1981, by and between Loretta Mildred Whitley Wilson as Lessor and Harvey E. Yates Company as Lessee; insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

Containing 320.0 acres, more or less
(HEYCO REF: PBE-3762)

- f. Oil and Gas Lease dated March 13, 1981, by and between Linda Allison Wright as Lessor and Harvey E. Yates Company as Lessee; insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

Containing 320.0 acres, more or less
(HEYCO REF: PBE-3697)

- g. Oil and Gas Lease dated March 24, 1981, by and between Johnson Properties, a limited partnership as Lessors and Harvey E. Yates Company as Lessee; insofar as said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

Containing 320.0 acres, more or less
(HEYCO REF: PBE-3707)

- h. Oil and Gas Lease dated July 13, 1978, by and between Security National Bank of Roswell, Trustee for the Emma Allison Test. Trust as Lessors, and Harvey E. Yates Company as Lessee, insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

Containing 320.0 acres, more or less
(HEYCO REF: PBE-2052)

- i. Oil and Gas Lease dated July 18, 1978, by and between Pauline D. Allison as Lessor and Harvey E. Yates Company as Lessee; insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

Containing 320.0 acres, more or less
(HEYCO REF: PBE-2059)

- j. Oil and Gas lease dated July 7, 1978, by and between Eugene Allison as Lessor and Harvey E. Yates Company as Lessee; insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

Containing 320.0 acres, more or less
(HEYCO REF: PBE-2069)

- k. Oil and Gas Lease dated July 1, 1981 by and between the First National Bank of Roswell, Trustee U/W of Loretta Proctor, deceased as Lessors and Harvey E. Yates Company as Lessee; insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

Containing 320.0 acres, more or less
(HEYCO REF: PBE-3841)

- l. Oil and Gas Lease dated April 7, 1981, by and between Theresa Arliss Whitley Smith as Lessor and Harvey E. Yates Company as Lessee; insofar as a portion of said lease covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

Containing 320.0 acres, more or less
(HEYCO REF: PBE-3777)

- m. Unleased oil and gas interest owned by Powhatan Carter and Anderson Carter, insofar as said interest covers the following described lands situated in Chaves County, New Mexico:

Township 11 South, Range 31 East, N.M.P.M.

Section 21: E/2

Containing 320.0 acres, more or less

EXHIBIT " C "

Attached to and made a part of the Operating Agreement
dated January 15, 1982.
by and between HARVEY E. YATES COMPANY, as Operator and
other signatory parties thereto as Non-Operators

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within thirty(30)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. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**
Lease rentals and royalties paid by Operator for the Joint Operations.
2. **Labor**
 - A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
 - (2) Salaries of First Level Supervisors in the field.
 - (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
 - B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
 - C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
 - D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.
3. **Employee Benefits**
Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).
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**
 - A. Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.
 - B. Expenses incurred by Operator in representing the Joint Property at hearings or proceedings before state or federal regulatory or administrative agencies.

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 \$	<u>4,900.00</u>
Producing Well Rate \$	<u>400.00</u>

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 2 of Section II and all salvage credits.

(b) Operating

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

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

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

2. Overhead - Major Construction

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

A. _____ % of total costs if such costs are more than \$ _____ * but less than \$ _____ * ; plus

B. _____ % of total costs in excess of \$ _____ * but less than \$1,000,000; plus

C. _____ % of total costs in excess of \$1,000,000.

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

***TO BE NEGOTIATED**

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF THE
OPERATING AGREEMENT DATED JANUARY 15, 1982,
BETWEEN HARVEY E. YATES COMPANY AS OPERATOR,
AND THE OTHER PARTIES SIGNATORY THERETO AS
NON-OPERATORS

At all times during the conduct of operations hereunder, Operator shall maintain in force the following insurance:

A. Workman's Compensation Insurance and Employer's Liability Insurance as required by the laws of the State in which operations are being conducted.

B. Comprehensive General Public Liability in the following:

Bodily Injury:	\$200,000 each person
	\$300,000 each accident
Property Damage:	\$100,000 each accident
	\$100,000 aggregate

C. Automobile Public Liability and Property Damage Insurance with limits of not less than \$100,000 for any one person injured in any accident and not less than \$300,000 for any number of persons injured in one accident, and with not less than \$50,000 property damage coverage for one accident.

All premiums paid on such insurance shall be charged to the Joint Account. Except by mutual consent of the parties, no other insurance shall be maintained for the Joint Account, and all losses not covered by such insurance shall be charged to the Joint Account.

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED
January 15, 1982 BETWEEN HARVEY E. YATES COMPANY AS OPERATOR,
AND OTHER PARTIES SIGNATORY THERETO ET AL AS NON-OPERATORS.

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this gas storage agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party hereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not able to market its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this storage agreement shall automatically become effective.

During the period of periods when any party hereto has no market for its share of gas produced from the Contract Area, or its purchaser is unable to take its share of gas produced from the Contract Area, the other parties shall be entitled to produce each month one hundred percent of the allowable gas production assigned to such Contract Area by the regulatory agency having jurisdiction thereover, and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this gas storage agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, and the total quantity of liquid hydrocarbons recovered therefrom.

At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share alone. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to its share plus fifty percent (50%) of the overproduced party or parties' share of gas produced from the Contract Area. If two or more parties are entitled to the fifty percent (50%) of the overproduced party or parties' share of gas produced, they shall divide such fifty percent (50%) in accordance with their percentage of participation in the Contract Area.

In the event production of gas from the Contract Area permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement between the parties. Such settlement shall be based upon the price actually received by the parties for overproduction when it occurred of a volume of gas equal to that for which settlement is made.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THE
OPERATING AGREEMENT DATED JANUARY 15, 1982,
BETWEEN HARVEY E. YATES COMPANY AS OPERATOR AND
OTHER SIGNATORY PARTIES THERETO AS NON-OPERATORS

NONDISCRIMINATION CLAUSE

HARVEY E. YATES COMPANY, hereinafter referred to as 'Operator' agrees, unless exempt therefrom, to comply with all provisions of Executive Order 11246, which are incorporated herein by reference, and if Operator has more than 50 employees, Operator must file Standard Form 100 (EEO-1) and develop a written "Affirmative Action Compliance Program" for each of its establishments according to the Rules and Regulations published by the United States Department of Labor in 41 C.F.R., Chapter 60. Operator further hereby certifies that it does not now and will not maintain any facilities provided for its employees in a segregated manner or permit its employees to perform their services at any location under its control where segregated facilities are maintained, as such segregated facilities are defined in Title 41, Chapter 60-1.8, Code of Federal Regulations, revised as of January 1, 1969, unless exempt therefrom.

Unless exempt by rules, regulations or orders of the United States Secretary of Labor, issued pursuant to Section 204 of the Executive Order 11246 dated September 24, 1965, during the performance of this contract, the Operator agrees as follows:

- "(1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure the applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting office setting forth the provisions of this nondiscrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
- (3) The Operator will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- (6) In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rules, regulations or orders of the Secretary of Labor, or as otherwise provided by law.
- (7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance; provided however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States."

LEASE Mescalero Spring UnitWELL NUMBER 1LOCATION 1980' FNL & 660' FEL, Section 21, T-11S, R-31ECOUNTY ChavesDEPTH 11200PRODUCING FORMATION Atoka - Miss

	Producing Well Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Location	\$ 20000	\$ 20000
Footage <u>11200</u> @ <u>39.50/ft</u>	442400	442400
Daywork <u>3 1/4 days</u> @ <u>7600/7300</u>	54000	54000
Surface casing service	4000	4000
Intermediate casing service	15000	15000
Mud, water	25000	25000
Company supervisor, engineer	7500	7500
Rentals, coring service	28000	28000
Miscellaneous	13500	13500
Total intangible drilling costs	609400	609400
Intangible formation evaluation cost		
Logs, <u>CNL-D</u> , <u>DLL-Rxc</u>	25500	25500
DST <u>5</u> @ <u>3500</u>	17500	17500
Geological mud logging service	7500	7500
Miscellaneous	6000	6000
Total intangible formation evaluation	56500	56500
Intangible completion costs		
Unit cost <u>20 days</u> @ <u>\$1500/day</u>	30000	
Production casing service	20000	
Completion fluid	2000	
Perforating/production logging	12500	
Treating	25000	
Company supervision	5000	
Plugging expense		15000
Miscellaneous	10000	12000
Total intangible completion costs	104500	27000
Tangible drilling costs and completion costs		
Surface casing		
<u>380</u> of <u>13 3/8</u>	8500	8500
Intermediate casing		
<u>4350</u> of <u>8 5/8</u>	61000	61000
Production casing		
<u>11200</u> of <u>5 1/2</u>	115000	
Production tubing		
<u>11150</u> of <u>2 3/8</u>	62000	
Casing head	1900	
Tubing head	13100	
Christmas tree	7000	
Subsurface equipment	4000	
Total tangible drilling costs and completion costs	272500	69500
Equipment		
Tanks <u>2</u> , <u>500 Bbl</u>	10000	
Separator	10000	
Flow lines	3500	
Meter runs	2000	
Pumping unit		
Installation costs	3500	
Total lease equipment	29000	
Total intangible costs	770400	692900
Total tangible costs	272500	69500
Total lease equipment	29000	
Administrative	6000	4500
TOTAL COSTS	\$ 1077900	\$ 766900

Prepared by: Peck Hardee Date: 1/12/82

APPROVED BY:

"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

Company

LOCATION 1980' PNL & 660' FEL, Section 21, T-11S, R-31E

COUNTY Chaves

DEPTH 11200

PRODUCING FORMATION Aroha - Miss

Producing
Well Cost

Dry Hole
Cost

Drilling and completion costs

Intangible drilling costs

Location
Footage 11200 @ 39.50/ft
Daywork 3 1/4 days @ 1600/1800
Surface casing service
Intermediate casing service
Mud, water
Company supervisor, engineer
Rentals, drilling service
Miscellaneous
Total intangible drilling costs

\$ 20000
442400
54000
4000
15200
25000
7500
28000
13500
609400

Intangible formation evaluation cost
Logs, CNL-D, DLL-Rxo,

25500

25500

DST 5 @ 3500
Geological mud logging service
Miscellaneous

Total intangible formation evaluation

17500
7500
6000
56500

17500
7500
6000
56500

Unit cost 20 days @ \$1500/day
Production casing service
Completion fluid
Perforating/production logging
Treating
Company supervision
Plugging expense
Miscellaneous

30000
20000
2000
12500
25000
5000
10000
104500

15000
12000
27000

Total intangible completion costs
Tangible drilling costs and completion costs

Surface casing

380 of 13 3/8

8500

8500

Intermediate casing

4350 of 8 5/8

61000

61000

Production casing

11200 of 5 1/2

115000

Production tubing

11150 of 2 3/8

62000

Casing head

1900

Christmas tree

13100

Subsurface equipment

7000

Total tangible drilling costs and completion costs

4000

272500

69500

BEFORE EXAMINER RICHARD STAMETS

OIL CONSERVATION DIVISION

APPLICANT

7551

HEYCO

Tanks 2 500 Bbl
Separator
Flow lines
Mud pumps
Pumping unit
Installation costs
Total lease equipment
Total intangible costs
Total tangible costs
Total lease equipment
Administrative

10000
10000
3500
2000
3500
29000
770400
272500
29000
6000
\$ 1077900

692900
69500

TOTAL COSTS
Prepared by: Peck Hardee Date: 1/12/82

APPROVED BY:

4500
766900

"It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."

Dockets Nos. 14-82 and 15-82 are tentatively set for May 26 and June 9, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MAY 12, 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 June, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
 - (2) Consideration of the allowable production of gas for June, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

CASE 7540: (Continued and Readvertised)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Pauly-Anderson-Pritchard, William H. Pauly, and all other interested parties to appear and show cause why the Maloy Well No. 1, located in Unit P, Section 16, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7538: (Continued and Readvertised)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Francis L. Harvey and all other interested parties to appear and show cause why the Pinkstaff Estate Well No. 2, located in Unit A, Section 29, Township 29 North, Range 10 West, San Juan County, should not be re-entered and plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7566: In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Flag-Redfern Oil Co., Principal, National Surety Corporation, and all other interested parties to appear and show cause why four wells, being the Julander No. 1 located in Unit L, Section 34; Julander No. 2 located in Unit I, Section 33; Hargis No. 1 located in Unit G, Section 33; and Hargis No. 2 located in Unit J, Section 33, all in Township 30 North, Range 12 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7560: (Continued from April 28, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Charles H. Heisen, Fidelity and Deposit Company of Maryland, Surety, and all other interested parties to appear and show cause why the Crownpoint Well No. 1, located in Unit F, Section 18, Township 18 North, Range 13 West, McKinley County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 7542: (Continued from April 14, 1982, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Benson-Montin-Greer Drilling Corporation, Hartford Accident and Indemnity Company, and all other interested parties to appear and show cause why the following wells: Dustin No. 1, located in Unit K, Section 6, and the Gallegos Canyon Unit No. 2, located in Unit K, Section 35, both in Township 29 North, Range 12 West, and the Segal No. 1, located in Unit K, Section 10, and the Price No. 1, located in Unit N, Section 15, both in Township 31 North, Range 13 West, San Juan County, should not be plugged and abandoned in accordance with Division-approved plugging programs.

CASE 7567: Application of Harvey E. Yates Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Richardson Unit Area, comprising 1,263.35 acres, more or less, of State and Fee lands in Townships 13 and 14 South, Range 36 East.

CASE 7565: (Continued from April 28, 1982, Examiner Hearing)

Application of Delta Drilling Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the North Mescalero Unit Area, comprising 719.77 acres, more or less, of State, Fee and Federal lands in Townships 9 and 10 South, Range 32 East.

CASE 7368: Application of Petroleum Corp. of Delaware for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Superior Federal Well No. 6 located in Unit N of Section 6, Township 20 South, Range 29 East, East Burton Flat Field, to produce oil from the Strawn formation through tubing and gas from the Morrow formation through the casing-tubing annulus by means of a cross-over assembly.

Examiner Hearing - WEDNESDAY - MAY 12, 1982

CASE 7569: Application of Petroleum Corp. of Delaware for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Atoka and Morrow production in the wellbores of its Parkway West Unit Well No. 3, located in Unit X of Section 29, and Well No. 10, located in Unit G of Section 27, both in Township 19 South, Range 29 East.

CASE 7570: Application of J. Cleo Thompson for three unorthodox oil well locations, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for three unorthodox well locations, being 660 feet from the North line and 1330 feet from the West line, 660 feet from the North line and 2630 feet from the East line, and 660 feet from the North line and 1310 feet from the East line, all in Section 2, Township 17 South, Range 30 East, Square Lake Pool.

CASE 7516: (Continued from March 31, 1982, Examiner Hearing)

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 7571: Application of Yates Petroleum Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface through the Abo formation underlying the SE/4 of Section 9, the SW/4 of Section 10, the NW/4 of Section 15, all in Township 6 South, Range 26 East, each to form a standard 160-acre spacing and proration unit 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 7551: (Continued from April 14, 1982, Examiner Hearing)

Application of Harvey E. Yates Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 21, Township 11 South, Range 31 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 7572: Application of Anadarko Production Company for a waterflood expansion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its Ballard GSA Waterflood Project by drilling and converting ten wells located in Unit N of Section 5, Units N and P of Section 6, Units F, H, J, and P of Section 7, Units F and N of Section 8, and Unit F of Section 17, all in Township 18 South, Range 29 East, Loco Hills Pool.

CASE 7573: Application of Anadarko Production Company for a waterflood expansion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its West Square Lake Waterflood Project by the conversion to water injection of five wells located in Units J and N of Section 9, D and H of Section 10, and J of Section 3, all in Township 17 South, Range 30 East.

CASE 7574: Application of Sun Exploration and Production Company for two non-standard gas proration units and an unorthodox location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of two 160-acre non-standard Jalmat gas proration units comprising the NW/4 of Section 21, for its Boren & Greer Com Well No. 2 in Unit C and the NE/4 of Section 20, for its Boren & Greer Com Well No. 3, to be drilled at an unorthodox location 660 feet from the North line and 940 feet from the East line of said Section 20, all in Township 22 South, Range 36 East. Applicant further seeks rescission of Order No. R-568E.

CASE 7575: Application of Eagle Oil & Gas Co. for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox gas well location for a Wolfcamp-Pann test well to be drilled 1500 feet from the South line and 660 feet from the East line of Section 2, Township 17 South, Range 27 East, the S/2 of said Section 2 to be dedicated to the well.

CASES 7576 and 7577: Application of Apollo Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in each of the following cases, seeks an order pooling all mineral interests from the surface through the base of the San Andres formation underlying the lands specified in each case, each to form a standard 40-acre oil spacing and proration unit 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 7576: NE/4 SW/4 Section 6, Township 19 South, Range 38 East

CASE 7577: SE/4 SW/4 Section 6, Township 19 South, Range 38 East

- CASE 7576:** Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Seven Rivers formation underlying the SE/4 of Section 31, Township 19 South, Range 39 East, to form a standard 160-acre gas proration unit 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 7578:** Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Seven Rivers formation underlying the N/2 NW/4 of Section 5, Township 20 South, Range 39 East, to form a non-standard 80-acre gas proration unit 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 7580:** Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Seven Rivers formation underlying the SW/4 of Section 31, Township 19 South, Range 39 East, to form a standard 160-acre gas proration unit 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 7581:** Application of Estoril Producing Corp. for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the South line and 990 feet from the East line of Section 10, Township 23 South, Range 34 East, Antelope Ridge-Morrow Gas Pool, the S/2 of said Section 10 to be dedicated to the well.
- CASES 7582 thru 7585:** Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following 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 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 7582:** NW/4 Section 13, Township 6 South, Range 24 East
 - CASE 7583:** NE/4 Section 13, Township 6 South, Range 24 East
 - CASE 7584:** SW/4 Section 13, Township 6 South, Range 24 East
 - CASE 7585:** NW/4 Section 24, Township 6 South, Range 24 East
- CASES 7525 thru 7534:** (Continued from April 28, 1982, Examiner Hearing)
- Application of Jack J. Grynberg for compulsory pooling, Chaves County, New Mexico. Applicant, in each of the following 10 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 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 7515: (Continued from April 14, 1982, Examiner Hearing)

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.

CASE 7586: Application of Standard Resources Corp. for designation of a tight formation, Chaves and Eddy Counties, New Mexico. Applicant, in the above-styled cause, seeks the designation of the Abo formation underlying all or portions of Township 15 South, Ranges 23 through 25 East, Township 19 South, Range 20 East, and Township 20 South, Range 20 East, all in Chaves County; in Eddy County: Township 16 South, Ranges 23 through 26 East, Township 17 South, Ranges 21, 23, 24, and 25 East, and Township 18 South, Ranges 21, 23, 24 and 25 East, Township 19 South, Ranges 21, 23, and 24 East, and Township 20 South, Ranges 21, 23, and 24 East, containing 460,800 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 7587: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, and extending vertical and horizontal limits of certain pools in Chaves, Eddy, and Lea Counties, New Mexico:

- (a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the Draper Mill-Wolfcamp Gas Pool. The discovery well is the HNG Oil Company Vaca Draw 16 State Well No. 1 located in Unit E of Section 16, Township 25 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 25 SOUTH, RANGE 33 EAST, NMPM
Section 16: W/2

- (b) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Jabalina-Morrow Gas Pool. The discovery well is the Amoco Production Company Perro Grande Unit Well No. 1 located in Unit J of Section 6, Township 26 South, Range 35 East, NMPM. Said pool would comprise:

TOWNSHIP 26 SOUTH, RANGE 35 EAST, NMPM
Section 6: E/2

- (c) ABOLISH the Diamond Mound-Morrow Gas Pool in Chaves and Eddy Counties, New Mexico, as heretofore classified, defined, and described as:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM
Section 35: All

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM
Section 31: E/2

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM
Section 3: Lots 1 through 16
Section 4: Lots 1 through 16
Section 5: Lots 1 through 16
Section 6: Lots 1, 2, 7, 8, 9, 10, 15, 16, and S/2

- (d) EXTEND the vertical limits of the Diamond Mound-Atoka Gas Pool in Chaves and Eddy Counties, New Mexico, to include the Morrow formation, and redesignate said pool to Diamond Mound-Atoka-Morrow Gas Pool, and extend the horizontal limits of said pool to include acreage from abolished Diamond Mound-Morrow Gas Pool and one additional well as follows:

TOWNSHIP 15 SOUTH, RANGE 27 EAST, NMPM
Section 35: All

TOWNSHIP 15 SOUTH, RANGE 28 EAST, NMPM
Section 31: E/2

TOWNSHIP 16 SOUTH, RANGE 27 EAST, NMPM
Section 9: S/2

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM
Section 3: Lots 1 through 16
Section 4: Lots 1 through 16
Section 5: Lots 1 through 16
Section 6: Lots 1, 2, 7, 8, 9, 10, 15, 16, and S/2

- (e) EXTEND the Burton Flat-Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM
Section 35: E/2
Section 36: N/2

- (f) EXTEND the Crow Flats-Morrow Gas Pool in Eddy County, New Mexico to include therein:

TOWNSHIP 17 SOUTH, RANGE 27 EAST, NMPM
Section 1: All
Section 12: N/2

- (g) EXTEND the South Culebra Bluff-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 28 EAST, NMPM
Section 10: All
Section 11: W/2
Section 14: W/2
Section 15: W/2
Section 34: W/2

- (h) EXTEND the South Empire-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 29 EAST, NMPM
Section 17: N/2

- (i) EXTEND the Golden Lane-Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 30 EAST, NMPM
Section 28: All

- (j) EXTEND the Kennedy Farms-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 26 EAST, NMPM
Section 10: N/2

- (k) EXTEND the East LaRica-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 36: S/2

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM
Section 31: S/2

- (l) EXTEND the Little Box Canyon-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 22 EAST, NMPM
Section 18: E/2

- (m) EXTEND the Malaga-Atoka Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 24 SOUTH, RANGE 28 EAST, NMPM
Section 11: E/2

- (n) EXTEND the South Millman-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 16: N/2

- (o) EXTEND the East Millman-Queen-Grayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM
Section 7: NE/4

- (g) EXTEND the Millman Strawn Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM
Section 8: S/2

- (q) EXTEND the West Nadine-Blinebry Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 5: SW/4

- (r) EXTEND the West Ousdo-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 35 EAST, NMPM
Section 11: S/2
Section 12: S/2

- (s) EXTEND the Pacos Slope-Abo Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 4 SOUTH, RANGE 24 EAST, NMPM

Section 24: S/2
Section 25: All
Section 26: E/2
Section 35: W/2 and NE/4
Section 36: W/2

TOWNSHIP 4 SOUTH, RANGE 25 EAST, NMPM

Section 19: SW/4
Section 30: W/2
Section 31: NW/4

TOWNSHIP 5 SOUTH, RANGE 24 EAST, NMPM

Section 2: NW/4
Section 7: All
Section 8: All
Section 9: W/2 and SW/4
Section 16: W/2
Section 17 thru 20: All
Section 21: W/2
Section 28: W/2
Section 29: All
Section 30: All
Section 31: W/2
Section 32: W/2
Section 33: NW/4

TOWNSHIP 5 SOUTH, RANGE 25 EAST, NMPM

Section 1 thru 5: All
Section 6: E/2
Section 7: SW/4 and E/2
Section 8 thru 12: All
Section 14 thru 22: All
Section 23: W/2
Section 27: W/2
Section 28 thru 30: All
Section 31: NE/4
Section 32: W/2
Section 33: All
Section 34: All

TOWNSHIP 6 SOUTH, RANGE 24 EAST, NMPM

Section 2: All
Section 11 thru 14: All
Section 22 thru 28: All
Section 34: E/2
Section 35: All
Section 36: All

Examiner Hearing - WEDNESDAY - MAY 12, 1982

TOWNSHIP 6 SOUTH, RANGE 26 EAST, NMPM

Section 4 thru 6: All
Section 7 thru 8: All
Section 9: N/2
Section 17 thru 20: All
Section 29 thru 32: All

TOWNSHIP 7 SOUTH, RANGE 24 EAST, NMPM

Section 1: All
Section 2: All
Section 3: E/2
Section 9 thru 15: All
Section 22 thru 27: All
Section 34 thru 36: All

TOWNSHIP 7 SOUTH, RANGE 25 EAST, NMPM

Section 6: W/2
Section 7: S/2
Section 13: SW/4
Section 14: S/2
Section 15: S/2
Section 18 and 19: All
Section 20: S/2
Section 22 thru 27: All
Section 29 thru 32: All
Section 34 thru 36: All

TOWNSHIP 7 SOUTH, RANGE 26 EAST, NMPM

Section 5: All
Section 6: All
Section 7 thru 10: All
Section 11: W/2
Section 15 thru 17: All
Section 18: W/2
Section 19 thru 22: All
Section 28 thru 32: All

TOWNSHIP 8 SOUTH, RANGE 24 EAST, NMPM

Section 1 through 3: All
Section 10: E/2
Section 11: All
Section 12: All

TOWNSHIP 8 SOUTH, RANGE 25 EAST, NMPM

Section 1 through 12: All
Section 13 through 16: N/2

TOWNSHIP 8 SOUTH, RANGE 26 EAST, NMPM

Section 6: W/2

- (5) EXTEND the West Pecos Slope-Abo Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 22 EAST, NMPM

Section 23: SE/4
Section 24: S/2 and NE/4
Section 25 through 27: All
Section 28: E/2

TOWNSHIP 8 SOUTH, RANGE 23 EAST, NMPM

Section 3 through 5: All
Section 6: N/2
Section 8 through 10: N/2
Section 17: W/2
Section 18: SE/4
Section 19: All
Section 20: W/2
Section 29: W/2
Section 30: All
Section 31: All
Section 32: W/2

TOWNSHIP 9 SOUTH, RANGE 23 EAST, NMPM

Section 3: W/2
Section 4: All
Section 5: All
Section 6: E/2
Section 8: All

- (u) EXTEND the East Red Lake-Queen-Crayburg Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM

Section 25: E/2 NE/4 and NE/4 SE/4

- (v) EXTEND the Sand Ranch-Morrow Gas Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 29 EAST, NMPM

Section 26: All

- (w) EXTEND the Sawyer-San Andres Associated Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 10 SOUTH, RANGE 36 EAST, NMPM

Section 4: SW/4

- (x) EXTEND the Tom-Tom-San Andres Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 31 EAST, NMPM

Section 7: All

- (y) EXTEND the Turkey Track-Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM

Section 2: W/2
Section 7: N/2

- (z) EXTEND the Twin Lakes-San Andres Associated Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 29 EAST, NMPM

Section 18: N/2 SE/4 and SE/4 SE/4

- (aa) EXTEND the South Vacuum-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 35 EAST, NMPM

Section 16: SE/4

DOCKET, COMMISSION HEARING - MONDAY - MAY 17, 1982

Docket No. 14-82

OIL CONSERVATION COMMISSION - 9 A.M.
ROOM 205 - STATE LAND OFFICE BUILDING,
SANTA FE, NEW MEXICO.

CASE 7522: (DE NOVO)

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, Permian-Penn, Strawn, Atoka and Morrow formations, the N/2 of said Section 14 to be dedicated to the well.

Upon application of Chama Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7476: (DE NOVO)

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 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.

Upon application of Mesa Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 7513: (DE NOVO)

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.

Upon application of Mesa Petroleum Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.

Dockets No. 11-82 and 12-82 are tentatively set for April 28 and May 12, 1982. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 14, 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. Mutter, Alternate Examiner:

- ALLOWABLE:** (1) Consideration of the allowable production of gas for May, 1982, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
- (2) Consideration of the allowable production of gas for May, 1982, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.
- CASE 7536:** In the matter of the hearing called by the Oil Conservation Division on its own motion to permit A. H. Bernstein and all other interested parties to appear and show cause why the Allan Well No. 1 located in Unit F, Section 23, Township 29 North, Range 13 West, San Juan County, should not be re-entered and plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 7537:** In the matter of the hearing called by the Oil Conservation Division on its own motion to permit F. K. Umbarger, Trustee and all other interested parties to appear and show cause why the Davis Pooled Unit Well No. 1, located in Unit I, Section 27, Township 29 North, Range 11 West, San Juan County, should not be re-entered and plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 7538:** In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Francis L. Harvey and all other interested parties to appear and show cause why the Pinkstaff Estate Well No. 1, located in Unit A, Section 29, Township 29 North, Range 10 West, San Juan County, should not be re-entered and plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 7539:** In the matter of the hearing called by the Oil Conservation Division on its own motion to permit B.M.S. Company, American Employers Insurance and all other interested parties to appear and show cause why the following wells: Waggoner No. 1, Brown No. 2, Wyper No. 2, located in Units K, M, and O, respectively, of Section 29, Township 30 North, Range 12 West, San Juan County, should not be plugged and abandoned in accordance with Division-approved plugging programs.
- CASE 7540:** In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Pauly-Anderson-Pritchard and all other interested parties to appear and show cause why the Maloy Well No. 1, located in Unit P, Section 16, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 7541:** In the matter of the hearing called by the Oil Conservation Division on its own motion to permit E. J. Miley and all other interested parties to appear and show cause why the Hare (Ransom) Well No. 1, located in Unit N, Section 14, Township 29 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 7542:** In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Hanson-Montin-Greer Drilling Corporation, Hartford Accident and Indemnity Company, and all other interested parties to appear and show cause why the following wells: Dustin No. 1, located in Unit K, Section 6, and the Gallegos Canyon Unit No. 2, located in Unit K, Section 35, both in Township 29 North, Range 12 West, and the Segal No. 1, located in Unit K, Section 10, and the Price No. 1, located in Unit M, Section 15, both in Township 31 North, Range 13 West, San Juan County, should not be plugged and abandoned in accordance with Division-approved plugging programs.
- CASE 7543:** In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Calvin Petroleum Corporation, United States Fidelity and Guaranty Co., and all other interested parties to appear and show cause why the Kaempf SWD Well No. 1, located in Unit N, Section 19, Township 30 North, Range 11 West, San Juan County, should not be plugged and abandoned in accordance with a Division-approved plugging program.

- CASE 7544:** Application of Dinero Operating Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 560 feet from the North and East lines of Section 20, Township 22 South, Range 28 East, Morrow formation, the N/2 of said Section 20, to be dedicated to the well.
- CASE 7545:** Application of Baker Engineering for a non-standard gas proration unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 258.16-acre non-standard gas proration unit for the Morrow formation comprising all of partial Section 32, Township 26 South, Range 30 East.
- CASE 7546:** Application of Sonny's Oil Field 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 its salt water disposal site in the NW/4 NE/4 of Section 29, Township 18 South, Range 38 East.
- CASE 7547:** 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 2550 feet from the North line and 1350 feet from the West line of Section 15, Township 22 South, Range 37 East, Penrose Skelly Pool, the SE/4 NW/4 of said Section 15 to be dedicated to the well.
- CASE 7517:** (Continued from March 31, 1982, Examiner Hearing)
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 7548:** Application of Tahoe Oil & Cattle Co. for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the San Andres formation in the perforated interval from 4932 feet to 4992 feet in its Schwalbe Well No. 1, located in Unit P of Section 21, Township 9 South, Range 37 East, West Sawyer-San Andres Pool.
- CASE 7549:** Application of H. L. Brown for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox Pennsylvanian gas well location 609 feet from the South line and 1665 feet from the East line of Section 32, Township 15 South, Range 32 East, the S/2 of said Section 32 to be dedicated to the well, an existing well which is to be deepened.
- CASE 7550:** Application of Harvey E. Yates Company for the Rescission of Order No. R-6918, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks the rescission of Order No. R-6918, which compulsorily pooled the Atoka-Morrow formation underlying the N/2 of Section 19, Township 8 South, Range 30 East, Chaves County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Applicant now seeks the rededication of the E/2 of said Section 19 to the aforesaid well without compulsory pooling.
- CASE 7551:** Application of Harvey E. Yates Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 21, Township 11 South, Range 31 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 7552:** Application of Merrion Oil & Gas Company for compulsory pooling, Sandoval County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down through and including the Gallup formation underlying the S/2 SE/4 of Section 20, Township 23 North, Range 6 West, 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 7553:** Application of Fred Pool Drilling Company for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Abo formation, underlying the SW/4 of Section 17, Township 6 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 charge for risk involved in drilling said well.

CASE 7520: (Continued and Readvertised)

Application of Lewis B. Burleson, Inc. for compulsory pooling and a non-standard oil proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Jalmat Pool underlying a 30-acre non-standard oil proration unit comprising the N/2 of the Easternmost 60 acres of the NW/4 of Section 15, Township 24 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 7554: Application of Morris R. Antweil for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the top of the Drinkard formation underlying the NW/4 SW/4 of Section 5, Township 20 South, Range 38 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 7555: Application of Morris R. Antweil for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the top of the Drinkard formation underlying the SW/4 NW/4 of Section 5, Township 20 South, Range 38 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 7556: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the San Andres formation underlying the NE/4 NW/4 of Section 5, Township 20 South, Range 39 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 7557: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Seven Rivers formation underlying the SW/4 of Section 32, Township 19 South, Range 39 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 7558: Application of MGF Oil Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface down through the Seven Rivers formation underlying the SE/4 of Section 31, Township 19 South, Range 39 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 7515: (Continued from March 31, 1982 Examiner Hearing)

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, Range 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.

Page 4 of 5

Examiner Hearing - WEDNESDAY - APRIL 14, 1982

CASE 7559: In the matter of the hearing called by the Oil Conservation Division on its own motion for an order creating, abolishing, and extending certain pools in Lea and Roosevelt Counties, New Mexico.

(a) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Mississippian production and designated as the Caudill-Mississippian Gas Pool. The discovery well is the Moran Exploration, Inc. Cann Well No. 1 located in Unit D of Section 9, Township 15 South, Range 36 East, NMPM. Said pool would comprise:

TOWNSHIP 15 SOUTH, RANGE 36 EAST, NMPM
Section 9: NW/4

(b) CREATE a new pool in Roosevelt County, New Mexico, classified as an oil pool for Pennsylvanian production and designated as the North Dora-Pennsylvanian Pool. The discovery well is the Enserch Exploration, Inc. Collier Well No. 1 located in Unit I of Section 29, Township 4 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 4 SOUTH, RANGE 33 EAST, NMPM
Section 29: E/2

(c) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Johnson Ranch-Morrow Gas Pool. The discovery well is the Mesa Petroleum Company Jackson Unit Well No. 1 located in Unit G of Section 22, Township 24 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 24 SOUTH, RANGE 33 EAST, NMPM
Section 22: E/2

(d) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Delaware production and designated as the East Trista Draw-Delaware Pool. The discovery well is the Getty Oil Company Getty 28 State Well No. 1 located in Unit J of Section 28, Township 24 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 24 SOUTH, RANGE 33 EAST, NMPM
Section 28: SE/4

(e) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Trista Draw-Morrow Gas Pool. The discovery well is the Amoco Production Company State 16 Com Well No. 1 located in Unit B of Section 32, Township 23 South, Range 32 East, NMPM. Said pool would comprise:

TOWNSHIP 23 SOUTH, RANGE 32 EAST, NMPM
Section 32: N/2

(f) CREATE a new pool in Lea County, New Mexico, classified as a gas pool for Wolfcamp production and designated as the Vaca Draw-Wolfcamp Gas Pool. The discovery well is the HNG Oil Company Bell Lake 11 Federal Well #1 located in Unit B of Section 11, Township 25 South, Range 33 East, NMPM. Said pool would comprise:

TOWNSHIP 25 SOUTH, RANGE 33 EAST, NMPM
Section 11: N/2

(g) CREATE a new pool in Lea County, New Mexico, classified as an oil pool for Bone Spring production and designated as the West Vacuum-Bone Spring Pool. The discovery well is the Amoco Production Company State HS Com Well No. 1 located in Unit K of Section 9, Township 18 South, Range 34 East, NMPM. Said pool would comprise:

TOWNSHIP 18 SOUTH, RANGE 34 EAST, NMPM
Section 9: SW/4

(h) CREATE a new pool in Roosevelt County, New Mexico, classified as a gas pool for Granite Wash production and designated as the South Tannehill-Granite Wash Gas Pool. The discovery well is the Threshold Development Company Harris 14 Well No. 1 located in Unit B of Section 14, Township 6 South, Range 33 East, NMPM, currently classified as producing from the Pennsylvanian formation and in the Tannehill-Pennsylvanian Gas Pool. The well has been re-evaluated and the producing interval is more correctly defined as Granite Wash. Said pool would comprise:

TOWNSHIP 6 SOUTH, RANGE 33 EAST, NMPM
Section 14: N/2

- (i) ABOLISH the Tansyhill-Pennsylvanian Gas Pool in Roosevelt County, New Mexico, as heretofore classified, defined, and described as:

TOWNSHIP 6 SOUTH, RANGE 33 EAST, NMPM
Section 14: All

- (j) EXTEND the Baum-Upper Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 14 SOUTH, RANGE 33 EAST, NMPM
Section 7: SE/4

- (k) EXTEND the Bilbrey-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 32 EAST, NMPM
Section 4: N/2
Section 5: NE/4

- (l) EXTEND the Blinebry Oil and Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 20 SOUTH, RANGE 38 EAST, NMPM
Section 33: NW/4

- (m) EXTEND the Bootleg Ridge-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 22 SOUTH, RANGE 33 EAST, NMPM
Section 17: W/2

- (n) EXTEND the Buffalo-Pennsylvanian Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 33 EAST, NMPM
Section 9: N/2

- (o) EXTEND the North Peterson-Pennsylvanian Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 4 SOUTH, RANGE 33 EAST, NMPM
Section 16: SE/4
Section 20: NE/4

- (p) EXTEND the South Peterson-Pennsylvanian Associated Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 6 SOUTH, RANGE 33 EAST, NMPM
Section 14: All

- (q) EXTEND the Sowell-Morrow Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 15 SOUTH, RANGE 32 EAST, NMPM
Section 11: NW/4

- (r) EXTEND the Wantz-Abo Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 21 SOUTH, RANGE 37 EAST, NMPM
Section 9: NE/4

HEYCO

PETROLEUM PRODUCERS



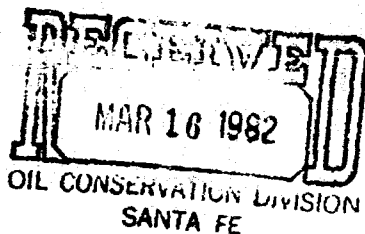
HARVEY E. YATES COMPANY

P. O. BOX 1933

SUITE 300, SECURITY NATIONAL BANK BUILDING

505-823-8871

ROSWELL, NEW MEXICO 88201



March 15, 1982

Case 7551

Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

RE: Mescalero Sands Unit
Compulsory Pooling Request
Section 21, Township 11 South
Range 31 East, N.M.P.M.
Chaves County, New Mexico
(HEYCO Ref: 9169)

Gentlemen:

Please accept the attached Application for Compulsory
Pooling on the above referenced well.

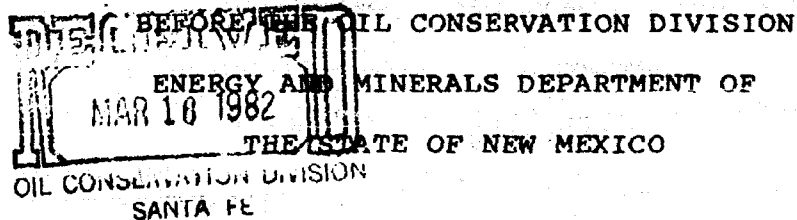
Thank you.

Sincerely,

Jo Fendergrass

JP:ms

Attachment



IN THE MATTER OF THE APPLICATION :
OF HARVEY E. YATES COMPANY : Case No. 7551
FOR COMPULSORY POOLING, :
CHAVES COUNTY, NEW MEXICO :

APPLICATION

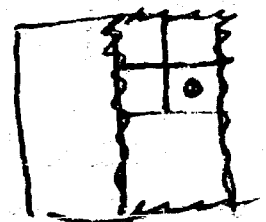
COMES NOW HARVEY E. YATES COMPANY by its attorney and respectfully states:

1. Applicant proposes to drill a well situated 1980 FNL and 660 FEL, Section 21, Township 11 South, Range 31 East, N.M.P.M., Chaves County, New Mexico, to the Atoka-Morrow formation and dedicate the E/2 of Section 21 to said well.

2. Applicant is the owner of, and/or holds the contractual right, to drill and develop from the Wolfcamp through Mississippian formations underlying the following described lands situated within the E/2 of Section 21:

<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
E/2	100.00%	Working Interest	266.67

3. Applicant has obtained voluntary consent to pooling of interests in the Wolfcamp through Mississippian formations underlying the E/2 of said Section 21, with the exception of the parties named below, whose addresses, and interests owned, according to Applicant's information and belief, are as follows:



<u>Owner</u>	<u>Description</u>	<u>Interest Owned</u>	<u>Type of Interest</u>	<u>Net Acres</u>
Mr. Powhatan Carter, Jr. Post Office Box 328 Ft. Sumner, N.M. 88119 and Mr. Anderson Carter Post Office Box 725 Lovington, N.M. 88260	E/2	100%	Mineral Interest	53.33

4. Applicant has been unable to obtain voluntary agreement for pooling of the interests described in paragraph 3 immediately above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, all interests from the Wolfcamp through the Mississippian formation underlying the E/2 of said Section 21 should be pooled pursuant to the provisions of §70-2-17 N.M.S.A. 1978 (formerly §65-3-14 N.M.S.A, 1953).

5. Applicant should be designated operator of said pooled lands.

6. The risk and expense of drilling and completing the proposed well is great, and if the owners of the interests described in paragraph 3 above, or any other unknown owners of interests in the proposed proration unit, do not choose to pay their share of the costs of drilling and completing said proposed well, then Applicant should be allowed a reasonable charge for supervision of said well, and a charge for the risk involved in addition to recovery of the actual cost of drilling and completing said well.

WHEREFORE, Applicant Prays:

A. That this application be set for hearing before an examiner and that notice of said hearing be given as required by law.


B. That upon such hearing the Division enter its order pooling all interests from the Wolfcamp through the Mississippian formation underlying the E/2 of Section 21, Township 11 South, Range 31 East, N.M.P.M., Chaves County, New Mexico, designating applicant as Operator of said pooled lands, making provision for applicant to recover its costs from production, including an appropriate risk factor, and provisions for payment of operating costs and costs of supervision from production, to be allocated among the interest owners as their interests may be determined.

C. For such further relief as the Division deems just and proper.

DATED this 15 day of March, 1982.

HARVEY E. YATES COMPANY

BY:


Thomas J. Hall III
Attorney for Applicant
P. O. Box 1933
Roswell, New Mexico 86201

TJH:jo

OCD-1 #24

*Plurkii
Cases*

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7551

Order No. R-6979

Jack
APPLICATION OF HARVEY E. YATES
COMPANY FOR COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 12, 1982,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this _____ day of May, 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, Harvey E. Yates Company, seeks an order pooling all mineral interests in the Wolfcamp through Mississippian formations underlying the E/2 of Section 21, Township 11 South, Range 31 East, NMPM, Chaves 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 \$ 4000⁰⁰ per month while drilling and \$ 400⁰⁰ 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 September 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 through Mississippian formations underlying the E/2 of Section 21, Township 11 South, Range 31 East, NMPM, Chaves 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 1st day of September, 1982, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Mississippian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of September, 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 Harvey E. Yates Company 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 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 \$ 4000⁰⁰ per month while drilling and \$ 400⁰⁰ 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 Chaves 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

