

Case No.

1240

Application, Transcript,
Small Exhibits, Etc.

BEFORE THE
OIL CONSERVATION COMMISSION

SANTA FE, NEW MEXICO
April 23, 1957

IN THE MATTER OF
CASE NO. 1240

TRANSCRIPT OF PROCEEDINGS

DEARNLEY - MEIER & ASSOCIATES
INCORPORATED
GENERAL LAW REPORTERS
ALBUQUERQUE - SANTA FE
3-6851 2-2211

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
April 23, 1957

IN THE MATTER OF:

Application of Leslie Frank Hale, dba
Hale Production Company, for approval
of an unorthodox oil well location in
Section 22, Township 21 South, Range
34 East, Lea County, New Mexico, in
exception to Rule 104 of the Commission
Rules and Regulations. Applicant, in
the above-styled cause, seeks an order
authorizing the unorthodox location of
its Sanders State Well No. 1 at a point
2,386 feet from the South line and 670
feet from the West line of Section 22,
Township 21 South, Range 34 East, Lea
County, New Mexico; said location is
within one mile of the boundary of the
West Wilson Pool.

CASE NO.
1240

BEFORE:

Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

MR. NUTTER: The next case on the Docket will be Case No.
1240.

MR. COOLEY: Case 1240. Application of Leslie Frank Hale,
dba Hale Production Company, for approval of an unorthodox oil well
location in Section 22, Township 21 South, Range 34 East, Lea
County, New Mexico, in exception to Rule 104 of the Commission
Rules and Regulations.

LESLIE FRANK HALE

called as a witness, having been first duly sworn, testified as

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INCORPORATED
GENERAL LAW REPORTERS
ALBUQUERQUE - SANTA FE
3-6691 2-22...

follows:

DIRECT EXAMINATION

BY MR. TEUTSCH:

Q Will you state your name please?

A Leslie Frank Hale.

Q Do you do business as an individual under the name of Hale Producing Company?

A Yes, sir.

Q And you are the applicant in this matter?

A Yes, sir, I am.

Q Mr. Hale, you state in your application that you are the owner of New Mexico State Oil and Gas Lease Number E-1255, is that correct?

A That's correct.

Q Now, the well, owned by you that we are concerned with here, in what legal sub-division is that well located?

A Northwest of the Southwest Quarter in Section 22.

Q Township 21 South, Range 34 East?

A 34 East.

Q Now, as part of your application you have attached a plat showing the location of this well. Is that plat correctly plotted, the exact location of the well at the present?

A The well that we are drilling now is at that exact location.

Q Will you tell the Examiner the circumstances under which you drilled this well in this particular location?

A I was given this lease Friday night. It was to expire Sunday at midnight and I arrived in Hobbs late Saturday and was

unable to get out to the location on Sunday. I wasn't able to get a surveyor out there until the following Monday, so my drilling superintendent and I stepped it off ourselves, and apparently we stepped a little too far North.

Q Now, you have a rig on this location?

A Yes, it is drilling at 185 now.

Q Would your lease permit you to move this well at this time?

A No, if I moved the Land Department told me I would lose the lease. If I would move and plug it move to an orthodox location I would lose this lease because I started drilling before the lease expired, so consequently, I have to continue on the present location.

Q Do you know who owns the lease on the land to the immediate North of this location?

A What's his name, it is here in Santa Fe.

MR. TEUTSCH: It is all right if I tell him?

MR. NUTTER: Yes, sir.

MR. TEUTSCH: Catron. A Yes, Catron.

MR. TEUTSCH: I think that's all the questions I have.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Hale, is Mr. Catron's lease directly off-setting your lease to the North?

A Yes, sir.

Q Is that a state lease also?

A Yes, sir.

Q You stated that you were unable -- Now, your dead-line for commencing drilling operations was Sunday Night?

A Yes, sir.

Q And you were unable to get a surveyor out on the location Sunday?

A Yes, sir. I called two surveyors; called John West, and he told me he would be down Monday to survey it.

Q But you did get a surveyor as soon as possible?

A Yes, sir.

Q Which was the following day?

A It was actually Tuesday before he was out on the lease surveying, and he surveyed all the locations on the 320-acre tract.

MR. NUTTER: Does anyone else have any questions of the witness?

MR. UTZ: I have some.

BY MR. UTZ:

Q You say you spudded this well?

A Yes, sir.

Q Did I understand you to say it was drilled 185 feet?

A Yes, sir.

Q What was your spud date on the well, do you know?

A We started that well the 10th of March.

Q And do you know the full name of the Catron that owns

Q Is that a state lease also?

A Yes, sir.

Q You stated that you were unable -- Now, your dead-line for commencing drilling operations was Sunday Night?

A Yes, sir.

Q And you were unable to get a surveyor out on the location Sunday?

A Yes, sir. I called two surveyors; called John West, and he told me he would be down Monday to survey it.

Q But you did get a surveyor as soon as possible?

A Yes, sir.

Q Which was the following day?

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MR. NUTTER: Does anyone else have any questions of the witness?

MR. UTZ: I have some.

BY MR. UTZ:

Q You say you spudded this well?

A Yes, sir.

Q Did I understand you to say it was drilled 185 feet?

A Yes, sir.

Q What was your spud date on the well, do you know?

A We started that well the 10th of March.

Q And do you know the full name of the Catron that owns

the South Half of the Northwest Quarter?

A No, sir, my attorney does.

MR. TEUTSCH: I can testify in that respect if you want me to. It is in the name of C. C. Catron. C. C. Catron, however, has now deceased and the lands are held, at the present time, legally by F. A. Catron and Jack Catron as trustees, apparently under the will of C. C. Catron.

MR. UTZ: Have they been notified of this?

MR. TEUTSCH: I have discussed the matter thoroughly with them.

MR. UTZ: They are fully aware of it?

MR. TEUTSCH: Yes, sir. Mr. Catron and I went over the maps of his location and the location of this well, and he was thoroughly advised of the situation, and had no objection to the granting of this application, I might say.

MR. UTZ: That's all I have.

BY MR. NUTTER:

Q Mr. Hale, did you have a drilling permit approved by the Oil Conservation Commission prior to commencing operations?

A No, sir, not prior. I had to file it Monday. It was Monday when I filled it out and sent it in, because I didn't actually know that I could even hold the lease because it was in such a short time, when it was given to me until it was to expire. I just went down there and did the best I could in the short time I had, because Murray Morgan was advised of my intentions to begin drilling on this lease, and he advised me to file the application

as soon as possible, after I started it.

Q And when did you file the C-101 with the Oil Commission?

A I filed it, I believe it was on a Tuesday or Wednesday, I had to hire a secretary in Hobbs and she filled it out.

Q What date -- would that have been Tuesday or Wednesday?

A 12th or 13th.

Q You commenced drilling on the 10th?

A Yes, sir.

MR. NUTTER: Anyone else have any questions of the witness?

Mr. Cooley.

BY MR. COOLEY:

Q Mr. Hale, you are presently holding this State lease under the provision of that lease permitting you to pay the rental and drilling at the time of the expiration, and continue to drill until the completion of the well under which you are presently working?

A Yes, sir.

Q What is the provision in that lease with regard to delay?

A Well, I have had twenty days' shut-down on the thing. I checked the location, and obtained it for this Hearing and that is all I believe that I am allowed.

Q That is, if you have a cessation of drilling operations for twenty days or more, you lose your lease?

A If it is for more than 20 days I will lose my lease.

Q It would be impossible to plug this well and move to an unorthodox location?

A That's right.

MR. COOLEY: That's all.

MR. NUTTER: Does anyone else have any further questions of the witness? If not, the witness may be excused. Does anyone else have anything further they wish to offer in Case 1240?

MR. TEUTSCH: There is a small matter. I want to make a part of this record, Paragraph 16 of the Standard Lease for the State of New Mexico under which this oil and gas lease is in effect, for the purpose of advising the Examiner and the Commission of, further of the circumstances under which this unorthodox location was commenced, and that it is impossible to stop without losing the lease.

MR. NUTTER: Thank you. Does anyone else have anything further? If not, we will take Case 1240 under advisement.

MR. COOLEY: I wonder if it wouldn't be proper to make your State Lease form an exhibit in this case. Is that Paragraph 16?

MR. TEUTSCH: Paragraph 16, and I want to make it a part of the record. I didn't know whether the Commission was aware of that or not, but I will be happy to offer mine.

MR. NUTTER: We will take the lease then.

MR. TEUTSCH: Paragraph 16. This is a lease in blank form.

MR. NUTTER: Yes, sir.

MR. COOLEY: You do assert that the acreage being held under this lease form is identical to the one in Exhibit one.

MR. TEUTSCH: Lease 3-1255 under which this well was drilled is under the same form as this lease, and we are operating at the present time under the provision of Paragraph 16 thereof.

MR. NUTTER: Is there any objection to the introduction of
Sale's Exhibit Number One in Case 1240? If not, the Exhibit will
be so received. If there is no further statements in Case 1240,
we will take that case under advisement and proceed next to Case
No. 1247.

C E R T I F I C A T E

STATE OF NEW MEXICO)

: ss

COUNTY OF BERNALILLO)

I, J. A. TRUJILLO, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing was reported by me in Stenotype at the time and place hereinbefore set forth; that same was thereafter transcribed into typewritten transcript by me; and that same is a true and correct record to the best of my knowledge, skill, and ability.

WITNESS my Hand and Seal this, the 8th day of May, 1957, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

J. A. Trujillo
NOTARY PUBLIC

My Commission Expires:

October 5, 1960.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 1240 heard by me on May 12, 1957.

[Signature] Examiner
New Mexico Oil Conservation Commission

DEARNLEY - MEIER & ASSOCIATES

INCORPORATED
GENERAL LAW REPORTERS
ALBUQUERQUE - SANTE FE
3-6691 2-2211

OIL CONSERVATION COMMISSION
P. O. BOX 971
SANTA FE, NEW MEXICO

May 14, 1957

C
O
P
Y

Mr. Lyle E. Teutsch, Jr.
Attorney at Law
P.O. Box 2076
Santa Fe, New Mexico

Dear Sir:

On behalf of your client, Leslie Frank Hale, we enclose two copies of Order R-996 issued May 10, 1957, by the Oil Conservation Commission in Case 1248, which was heard on April 23rd at Santa Fe.

Very truly yours,

A. L. Porter, Jr.
Secretary - Director

bp
Encls.

**BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO**

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

**CASE No. 1249
Order No. R-896**

**APPLICATION OF LESLIE FRANK MALE,
MALE OIL PRODUCTIONS COMPANY FOR
APPROVAL OF AN UNCONVENTIONAL OIL WELL
LOCATION IN THE NW/4 SW/4 OF SECTION
22, TOWNSHIP 21 SOUTH, RANGE 24 EAST,
NEEN, LEA COUNTY, NEW MEXICO.**

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on April 22, 1937, at Santa Fe, New Mexico, before Daniel S. Hutter, Examiner, duly appointed by the Oil Conservation Commission, hereinafter referred to as the "Commission," in accordance with Rule 121d of the Commission Rules and Regulations.

NOW, on this 10th day of May, 1937, the Commission, a quorum being present, having considered the application, the evidence adduced, the recommendations of the Examiner, Daniel S. Hutter, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this case and the subject matter thereof.

(2) That the applicant is the owner of a State of New Mexico lease, a portion of which consists of the NW/4 SW/4 of Section 22, Township 21 South, Range 24 East, NEEN, Lea County, New Mexico.

(3) That as a result of inadvertence, the applicant has commenced the drilling of his Sanders-State Well No. 1, at a point 2500 feet from the South line and 670 feet from the West line of said Section 22.

(4) That the primary and secondary terms of the applicant's lease have expired and that he is holding the lease by virtue of continued drilling operations on the aforementioned Sanders-State Well No. 1 under the provisions of paragraph 14 of the standard State of New Mexico lease form.

(5) That the applicant will suffer undue hardship if the subject application is not approved since his lease will automatically terminate if he is required to abandon drilling operations on the aforementioned Sanders-State Well No. 1.

-2-
Case No. 1240
Order No. 2-906

(6) That no offset operator has entered an objection to the approval of the proposed unorthodox location.

IT IS THEREFORE ORDERED:

That the applicant, Louis Frank Hale, d/b/a Hale Production Company, be and the same is hereby granted authority to drill his Sanders-Plate Well No. 1, at a point 2,300 feet from the South line and 670 feet from the West line of Section 22, Township 21 South, Range 24 East, NMPN, Lea County, New Mexico.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

E. L. Meehan

KEVIN L. MEEHAN, Chairman

Murray E. Meehan

MURRAY E. MEEHAN, Member

A. L. Fortner, Jr.

A. L. FORTNER, Jr., Member & Secretary

DOCKET: EXAMINER HEARING APRIL 23, 1957

Oil Conservation Commission 9:00 a.m. Mabry Hall, State Capitol, Santa Fe

The following cases will be heard before Daniel S. Nutter, Examiner

- CASE 1240: Application of Leslie Frank Hale, dba Hale Production Company, for approval of an unorthodox oil well location in Section 22, Township 21 South, Range 34 East, Lea County, New Mexico, in exception to Rule 104 of the Commission Rules and Regulations. Applicant, in the above-styled cause, seeks an order authorizing the unorthodox location of its Sanders State Well No. 1, at a point 2,386 feet from the South line and 670 feet from the West line of Section 22, Township 21 South, Range 34 East, Lea County, New Mexico; said location is within one mile of the boundary of the West Wilson Pool.
- CASE 1241: Application of Gulf Oil Corporation for approval of a 234-acre non-standard gas proration unit in the Eumont Gas Pool, Lea County, New Mexico, in exception to Rule 5 (A) of the Special Rules and Regulations for said pool. Applicant, in the above-styled cause, seeks an order authorizing a 234-acre non-standard gas proration unit in the Eumont Gas Pool consisting of the E/2 SW/4 Section 6 and the NW/4 Section 7, Township 22 South, Range 37 East, Lea County, New Mexico, said unit to be dedicated to applicant's H. T. Mattern "D" Well No. 6 located 660 feet from the South line and 1980 feet from the West line of said Section 6.
- CASE 1242: Application of Gulf Oil Corporation for permission to effect a gas-oil dual completion for its Alice Paddock No. 3 Well in the Blinebry Oil Pool and Tubb Gas Pool, Lea County, New Mexico, in accordance with Rule 112-A of the Commission Rules and Regulations. Applicant, in the above-styled cause, seeks an order authorizing the dual completion of its Alice Paddock No. 3 Well in the Blinebry Oil Pool and Tubb Gas Pool located 660 feet from the South line and 660 feet from the East line of Section 1, Township 22 South, Range 37 East, Lea County, New Mexico. Applicant proposes to produce said well by means of parallel strings of tubing.
- CASE 1243: Application of Rowan Oil Company for approval of a 160-acre non-standard gas proration unit in the Eumont Gas Pool, Lea County, New Mexico, in exception to Rule 5 (A) of the Special Rules and Regulations for said Pool. Applicant, in the above-styled cause, seeks an order authorizing a 160-acre non-standard gas proration unit in the Eumont Gas Pool consisting of the N/2 S/2 Section 7, Township 22 South, Range 37 East, Lea County, New Mexico, said unit to be dedicated to the Rowan Oil Company and Neville G. Penrose, Inc. H. T. Mattern No. 1 Well located 1650 feet from the South line and 330 feet from the West line of said Section 7.

CASE 1244: Application of Amerada Petroleum Corporation for an order authorizing an oil-oil dual completion in the Penrose-Skelly Pool and the Paddock Pool in Lea County, New Mexico, in compliance with Rule 112-A of the New Mexico Oil Conservation Commission Rules and Regulations. Applicant, in the above-styled cause, proposes to dually complete, by means of parallel tubing strings, its Baker Well No. 2, located in SE/4 SE/4 of Section 10, Township 22 South, Range 37 East, Lea County, New Mexico, to produce oil from both the Penrose-Skelly and the Paddock Pools.

CASE 1245: Application of Geror Oil Corporation for an order granting an exception to Rule 309 (a) of the New Mexico Oil Conservation Commission Rules and Regulations. Applicant, in the above-styled cause, seeks an order authorizing the movement of oil before being measured from its State B-8318 lease in the SW/4 NW/4 of Section 23, from its State B-8605 lease in the NW/4 SW/4 of Section 22, and from its State B-10418 lease in the SE/4 SW/4 of Section 22 to a central tank battery on its B-10418 lease in the NE/4 SE/4 Section 22, all in Township 13 South, Range 31 East, Chaves County, New Mexico, and the commingling of the oil produced from the Caprock-Queen Pool underlying said separate leases in common tankage at the central battery.

CASE 1246: Application of Claud E. Aikman for a 160-acre non-standard drilling and proration unit or, in the alternative, for a 120-acre non-standard drilling and proration unit, in the Fulcher Kutz-Pictured Cliffs Gas Pool in exception to Rules 2, 3, and 6 (A) of the Special Rules and Regulations for said pool as set forth in Order R-565-C. Applicant, in the above-styled cause, seeks an order establishing a 160-acre non-standard drilling and gas proration unit in the Fulcher Kutz-Pictured Cliffs Pool comprising the N/2 NE/4, SE/4 NE/4, and NE/4 SE/4 of Section 24, Township 23 North, Range 12 West, San Juan County, New Mexico, or in the alternative, a 120-acre non-standard drilling and gas proration unit comprising the N/2 NE/4 and SE/4 NE/4 of said Section 24; the acreage in either non-standard unit is to be dedicated to a well to be drilled 990 feet from the North and East lines of said Section 24.

CASE 1247: Application of Pan American Petroleum Corporation for an order authorizing the drilling of a salt water disposal well in the Hobbs Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order authorizing the drilling of a salt water disposal well at a point 1650 feet from the North line and 840 feet from the West line of Section 15, Township 19 South, Range 38 East, Hobbs Pool, Lea County, New Mexico. Applicant proposes to inject salt water in the lower San Andres formation, below the oil-water contact of the Hobbs Pool.

CASE 1248:

Application of Moran Oil Producing and Drilling Corporation for an order authorizing an unorthodox location and 80-acre non-standard gas proration unit in the Tubb Gas Pool, Lea County, New Mexico, for its Lineberry No. 1 Well and further, authorizing a gas-oil dual completion for said well in the Tubb Gas Pool and Drinkard Oil Pool. Applicant, in the above-styled cause, seeks an order authorizing the unorthodox location of its Lineberry No. 1 Well at a point 2240 feet from the North line and 1980 feet from the East line of Section 29, Township 22 South, Range 38 East, Lea County, New Mexico. Applicant proposes to effect a gas-oil dual completion for said well in the Tubb Gas Pool and Drinkard Oil Pool. Applicant further proposes to establish an 80-acre non-standard gas proration unit for the Tubb Gas Pool to be dedicated to said well; said unit consists of the S/2 NE/4 of said Section 29.

ir/

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

Date 4-26-57

CASE 1240

Hearing Date 7 am 4-23-57 SF DSN

My recommendations for an order in the above numbered cases are as follows:

Enter an order approving the
unorthodox location, finding
that through inadvertence and
error the ~~location~~ was well
was commenced in the wrong
place, and

That ^{no offset} operator entered an appearance
to object to the ~~the~~ unorthodox location.

We might also find that applicant would
suffer extreme hardship if application
for approval is denied. (He would lose
his lease)

Law Hutter
Staff Member
Examiner

*Docket Mailed
by Teutsch 4-8-57
SF*

*Examined
by DSN @ SF
9 am 4-23-57*

BEFORE THE OIL CONSERVATION COMMISSION
OF THE
STATE OF NEW MEXICO

TO: OIL CONSERVATION COMMISSION
STATE CAPITOL
SANTA FE, NEW MEXICO

No. 12410

Attention: Mr. A. L. Porter

APPLICATION

Hale Production Company, operator, and Leslie Frank Hale, owner
of New Mexico State oil and gas lease B1255 covering the following
lands:

Section	Township	Range	Subdivision	Acres
1	21-S	34-E	SW $\frac{1}{4}$ NW $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$,	120
22	21-S	34-E	NE $\frac{1}{4}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$,	200
			Total	320

respectfully requests approval of a non-standard location, for its
Sanders State Well No. 1, located 2,386 feet from the south line
and 670 feet from the west line of Section 22, Township 21 South,
Range 34 East, N.M.P.M.

Said location is less than one mile from the exterior boundaries
of the West Wilson Pool.

That applicant drilled the well in the location shown on the
attached plat, which is made a part hereof by reference, by inadvertence
and mistake in an unorthodox location.

Wherefore, applicant respectfully requests that the matter of his
application be set for hearing before a duly appointed examiner as early
as convenient and that the requested approval be granted.

Hale Production Company
Frank Leslie Hale

By: Lytle E. Teutsch, Jr.
Lytle E. Teutsch, Jr.
Attorney at Law
P. O. Box 2078
Santa Fe, New Mexico

NEW MEXICO
OIL CONSERVATION COMMISSION

Form C-128

Well Location and/or Gas Proration Plat

Date 3-12-57

Operator Hale Production Co. Lease Sanders State

Well No. 1 Section 22 Township 21 S Range 34 E NMPM

Located 2386 Feet From South Line, 670 Feet From West Line.

Lea County, New Mexico. G. L. Elevation _____

Name of Producing Formation _____ Pool _____ Dedicated Acreage _____

(Note: All distances must be from outer boundaries of Section)

Calculation (20 + 2386 = 2406)

*2640
2386

254*

1. Is this Well a Dual Comp.? Yes No
2. If the answer to Question 1 is yes, are there any other dually completed wells within the dedicated acreage? Yes No

This is to certify that the above plat was prepared from field notes of actual surveys made by me or under my supervision and that the same are true and correct to the best of my knowledge and belief.

Name _____
Position _____
Representing _____
Address _____

Date Surveyed 3-11-57
John L. Fink
Registered Professional Engineer and/or
Land Surveyor

*ok - approve
but need examiner
recommendation (from) 4/24/5,*

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

Date 1-23-57
before DSN @ SF @ 9 AM
Hearing Date 1-23-57

CASE 1240

My recommendations for an order in the above numbered cases are as follows:

1. That the application be granted as requested for the Lease Production - Sanders Et. #1, 2386/S, 670/W lines of Sec. 22- 21S-39E due to an error in the original survey of the operation.
2. No other objections.


Staff Member

said lands having been awarded to lessee and designated as tract No. _____ at a public sale held by the Commissioner of Public Lands on _____, 19____ (To be filled in only where lands are offered at public sale.)

TO HAVE AND TO HOLD said lands, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term of five (5) years from the date hereof, and as long thereafter as oil and gas in paying quantities, or either of them, is produced from said land by the lessee, subject to all the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty one-eighth part of the oil produced and saved from the leased premises or the cash value thereof, at the option of the lessor, such value to be the price prevailing the day oil is run into a pipe line, if the oil be run into a pipe line, or into storage tanks, if the oil be stored.

2. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty one-eighth of the cash value of gas, including casinghead gas, produced and saved from the leased premises and marketed or utilized, such value to be equal to the greater following amounts:

(a) the net proceeds derived from sale of such gas in the field, or

(b) five cents (\$.05) per thousand cubic feet (m.c.f.), the volume of gas for such purposes to be computed on a pressure basis of 10 ounces above an assumed atmospheric pressure of 14.4 pounds per square inch, or 15.025 pounds per square inch absolute, at 60° Fahrenheit, and pursuant to appropriate regulations of the Commissioner of Public Lands which may provide, among other things, for a flowing temperature of 60° Fahrenheit to be assumed and applied in volume computation in all cases where a recording thermometer is not applied by the lessee in gas measurement, and for specific gravity tests at the lessee's expense at intervals not greater than one year in all cases where a recording gravitometer is not employed by the lessee in gas measurement;

Provided, however, the cash value for royalty purposes of carbon dioxide gas and of hydrocarbon gas delivered to a gasoline plant for extraction of liquid hydrocarbons shall be equal to the net proceeds derived from the sale of such gas, including any liquid hydrocarbons recovered therefrom.

Notwithstanding the foregoing provisions, the lessor acting by its Commissioner of Public Lands, may require the payment of royalty for all or any part of the gas produced and saved under this lease and marketed or utilized at a price per m.c.f. equal to the maximum price being paid for gas of like kind and quality and under like conditions in the same field or area or may reduce the royalty value of any such gas (to any amount not less than the net proceeds of sale thereof in the field) the Commissioner of Public Lands shall determine such action to be necessary to the successful operation of the lands for oil or gas purposes or to encouragement of the greatest ultimate recovery of oil or gas or to the promotion of conservation of oil or gas.

3. Lessee agrees to make full settlement on the 30th day of each month for all royalties due the lessor for the preceding month, under this lease, and to permit the lessor or its agents, at all reasonable hours, to examine lessee's books relating to the production and disposition of oil and gas produced. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. It is expressly agreed that the consideration hereinbefore specified is a good, valid and substantial consideration and sufficient in all respects to support each and every covenant herein, including specifically the option granted the lessee to prevent the termination of this lease from year to year, by the payment or tender of the further rental hereinafter provided for.

An annual rental, at the rate of _____ per acre shall become due and payable to the lessor by the lessee, or by any transferee or assignee of the same, or any part hereof, where such transferee or assignee has been recognized, and such transfer or assignment approved by the lessor as hereinafter provided, upon each acre of land described and then claimed by said lessee, transferee or assignee hereunder, and the same shall be due and payable in advance to the lessor on the successive anniversary dates of this lease, but the annual rental on any assignment shall in no event be less than Six Dollars (\$6.00).

In event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the Commissioner a duly executed release thereof and in event said lease has been recorded, then he shall upon request furnish and deliver to said Commissioner a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the State of New Mexico, acting by its Commissioner of Public Lands, or other authorized officer, all amounts then due as provided herein and the further sum of Ten Dollars (\$10.00), surrender and cancel this lease insofar as the same covers all or any portions of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinbefore provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and currently with the institution of any suit in any court of law or equity by the lessee, lessor or any assignee, to enforce this lease, or any of its terms express or implied.

All payments due hereunder shall be made on or before the day such payment is due, in cash or by certified exchange at the Office of the Commissioner of Public Lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor, shall have the right to assign this lease in whole or in part. Provided, however, that no assignment of any undivided interest in the lease or any part thereof nor any assignment of less than a legal subdivision shall be recognized or approved by the lessor. Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tracts and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as to such tracts.

8. Lessee agrees with reasonable diligence to effect all paying oil or gas wells drilled, within 500 feet of any of the land covered by this lease and retained hereunder.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the lessor. If any land is embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operations shall be commenced on any such lands so sold unless and until the lessee or his assignee shall have filed a good and sufficient bond with the lessor as required by law, to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any non-productive well when lessor deems it to be in the interest of the State of New Mexico to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agrees to pay for all damages to the range, livestock, growing crops or improvements caused by the lessee's operations on said lands. When requested by the lessor, the lessee shall bury pipe-lines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of paragraph 10 above.

13. Upon failure or default of the lessee or any assignee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee or assignee so defaulting, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee, or assignee so defaulting, by registered mail, addressed to the postoffice address of such lessee or assignee as shown by the records of the State Land Office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within 30 days from the date of mailing said notice the said lessee or assignee shall remedy the default specified in said notice, cancellation shall not be made.

14. All the terms of this agreement shall extend to and bind the heirs, executors, administrators, successors and assigns of the parties hereto.

15. If the lessee shall have failed to make discovery of oil and/or gas in paying quantities during the primary term hereof, the lessee may continue this lease in full force and effect for an additional term of five (5) years and as long thereafter as oil and gas in paying quantities, or either of them is produced from the leased premises, by paying each year in advance, as herein provided, double the rental provided herein for the primary term, or the highest rental prevailing at the commencement of the secondary term in any rental district, or districts in which the lands, or any part thereof, may be situated, if it be greater than double the rental provided for the primary term.

16. If the lessee shall have maintained this lease in accordance with the provisions hereof and if at the expiration of the secondary term provided herein oil or gas is not being produced on said land but lessee is then engaged in a bona fide drilling or reworking operations thereon, this lease shall remain in full force and effect so long as such operations are diligently prosecuted and, if they result in the production of oil or gas, so long thereafter as oil and gas in paying quantities or either of them is produced from said land; provided, however, such operations extending beyond the secondary term shall be approved by the lessor upon written application filed with the lessor on or before the expiration of said term, and a report of the status of all of such operations shall be made by the lessee to the lessor every 30 days and a cessation of such operations for more than 30 consecutive days shall be considered as an abandonment of such operations and thereupon the provisions hereof shall be of no further force or effect.

IN WITNESS WHEREOF, the party of the first part has hereunto signed and caused its name to be signed by its Commissioner of Public Lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year above written.

STATE OF NEW MEXICO

By _____
COMMISSIONER OF PUBLIC LANDS, Lessor.

Lessee. (SEAL)

Distributed this the _____ day of _____, 19____.

(PERSONAL ACKNOWLEDGEMENT)

STATE OF _____ }
COUNTY OF _____ } ss:

On this the _____ day of _____, 19____, personally appeared before me

to me known to be the person _____ who executed the foregoing instrument as Lessee, and acknowledged that he _____ executed the same as _____ free act and deed.

IN WITNESS WHEREOF; I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My Commission Expires: _____

Notary Public.

(ACKNOWLEDGEMENT BY ATTORNEY IN FACT)

STATE OF _____ }
COUNTY OF _____ } ss:

On this the _____ day of _____, 19____, personally appeared before me _____

to me known to be the person _____ who executed the foregoing instrument in behalf of _____

and acknowledged that he _____ executed the same as the free act and deed of said _____

IN WITNESS WHEREOF; I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My Commission Expires: _____

Notary Public.

(CORPORATE ACKNOWLEDGMENT ON BACK)

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF _____ }
COUNTY OF _____ } ss:

On this the _____ day of _____, 19____, personally appeared

to me personally known, who being by me duly sworn did say that he is the _____ of

and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said _____

acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF; I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

My Commission Expires:

Notary Public.