CASE 6097: TEXAS OIL & GAS CORP. FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO

_ase Number

6097

Application

Transcripts.

small Exhibits

FTR

TEXAS OIL & GAS CORP.
800 WILCO BUILDING
MIDLAND, TEXAS 79701
January 10, 1978

JAN 12 1978
CONSERVATION COM.

Texaco Inc.
P. O. Box 3109
Midland, Texas 79702

Attn: Mr. Bob E. Hellman

Gulf Oil Corporation
P. O. Drawer 1150
Midland, Texas 79702

Attn: Mr. R. E. Griffith

Columbia Gas Development Corporation
P. O. Drawer 1350
Houston, Texas 77001

Attn: Mr. R. L. Stephenson

Oil Conservation Commission of the
State of New Mexico, P. O. Box 2088,
Santa Fe New Mexico 87501

File Case 6097

Re: Exxon State Com "B" #1 Well
N/2 of Section 29, T-19-S, R-28-E NMPM,
Eddy County, New Mexico
COMPULSORY POOLING ORDER NO. R-5607

Gentlemen:

Enclosed for your reference is a copy of COMPULSORY POOLING ORDER No. R-5607. Pursuant to paragraphs 3 and 4 found on page 3 of the Order, Texas Oil & Gas Corp. hereby submits two copies of its Authority For Expenditure for the drilling of the captioned well. Please return one executed copy of the AFE to our office.

We expect a rig to be available near the end of this month for the drilling of our proposed well.

Copies of our Operating Agreement have previously been furnished to each of you for your review and execution.

Thank you for your cooperation.

Sincerely yours,

Doyle John Snow

Doyle John Snow

DJS/scn
encls.
cc: with attachments to:
Exxon Company U.S.A.
P. O. Drawer 1600
Midland, Texas 79702

Attn: Mr. W. H. Leifeste

TEXAS OIL & GAS CORP.
FORM 24
Rev. 7/1/73

AUTHORITY FOR EXPENDITURE

DRILLING WELL

District West Texas Date September 6, 1977

Lease Name Exxon State Com. (Sec. 29) Well No. #1 Depth 11100

Field So. Milliman (Morrow) County Eddy State New Mexico

Requested By: SPR Approved By:

NATURE OF EXPENDITURE	QUANTITY	PRICE	ESTIMATED COST CASH		MAT'L. ON HAND	
DRILLING						
243 Location, Roads, Dirt Work			10	000		
DRILLING CONTRACT - 231 Footage	8500	13.50	114	800		
265 Daywork WDP	16	3400	54	400		
265 Daywork WODP	2	3300	6	600		
267 Turnkey						
102 Casing 13-3/8", 8-5/8"			34	900		
104 Casinghead			8	000		
233 Cementing Service & Supplies			12	000		
242 Rentals			10	000		
230 Mud & Chemicals Water			50	000		
234 Testing & Logging 2 DST			21	000		
204 Supervision			3	000		
290 Other fuel, etc.			30	000		
TOTAL DRILLING			354	700		
COMPLETION						
241 Rig (Incl. Day Work)	8	900	7	200		
102 Casing 4½			55	000		
233 Cementing Service & Supplies			9	000		
242 Rentals			2	500		
103 Tubing 2-3/8", 4.7#, N-80, EUE	11100		31	000		
108 Sub-Surface Equipment			4	000		
234 Testing, Logging & Perforating			4	500		
236 Stimulation Frac			20	000		
104 Wellhead			6	000		
204 Supervision			1	000		
290 Other			5	000		
TOTAL COMPLETION			145	700		
PRODUCTION EQUIPMENT						
105 Pumping Unit						
106 Engine & Motors						
107 Rods						
110 Flow Lines			2	000		
111 Installation			3	000		
115 Storage			4	500		
117 Seperators, Heaters, Treaters			12	000		
120 Other Equipment			2	000		
TOTAL PRODUCTION EQUIPMENT			23	500		
TOTALS			523	900		

OWNER NAME	WORKING INTEREST	DATE APPROVED
Texas Oil & Gas Corp.	25.00%	
Columbia Gas Devlopment Corporation	25.00%	
Texaco Inc.	37.50%	
Gulf Oil Corporation	12.50%	

APPROVED:

TEXACO INC.

By:

Name:
Title:

Date:

AFE No. Lease No.

TEXAS OIL & GAS CORP.
FORM 24
Rev. 7/1/75

AUTHORITY FOR EXPENDITURE

DRILLING WELL

District West Texas Date September 6, 1977

Lease Name Exxon State Com. (Sec. 29) Well No. #1 Depth 11900

Field So. Millman (Morrow) County Eddy State New Mexico

Requested By: SPR 80% max Approved By:

NATURE OF EXPENDITURE	QUANTITY	PRICE	ESTIMATED COST CASH		MAT'L. ON HAND	
DRILLING						
243 Location, Roads, Dirt Work			10	000		
DRILLING CONTRACT - 231 Footage	8500	13.50	114	800		
265 Daywork WDP	16	3400	54	400		
265 Daywork WODP	2	3300	6	600		
267 Turnkey						
102 Casing 13-3/8", 8-5/8"			34	900		
104 Casinghead			8	000		
233 Cementing Service & Supplies			12	000		
242 Rentals			10	000		
230 Mud & Chemicals Water			50	000		
234 Testing & Logging 2 DST			21	000		
204 Supervision			3	000		
290 Other fuel, etc.			30	000		
TOTAL DRILLING			354	700		
COMPLETION						
241 Rig (Incl. Day Work)	8	900	7	200		
102 Casing 4½			55	000		
233 Cementing Service & Supplies			9	000		
242 Rentals			2	500		
103 Tubing 2-3/8", 4.7#, N-80, EUE	11100		31	000		
108 Sub-Surface Equipment			4	000		
234 Testing, Logging & Perforating			4	500		
236 Stimulation Frac			20	000		
104 Wellhead			6	500		
204 Supervision			1	000		
290 Other			5	000		
TOTAL COMPLETION			145	700		
PRODUCTION EQUIPMENT						
105 Pumping Unit						
106 Engine & Motors						
107 Rods						
110 Flow Lines			2	000		
111 Installation			3	000		
115 Storage			4	500		
117 Seperators, Heaters, Treaters			12	000		
120 Other Equipment			2	000		
TOTAL PRODUCTION EQUIPMENT			23	500		
TOTALS			523	900		

OWNER NAME	WORKING INTEREST	DATE APPROVED
Texas Oil & Gas Corp.	25.00%	
Columbia Gas Devlopment Corporation	25.00%	
Texaco Inc.	37.50%	
Gulf Oil Corporation	12.50%	

APPROVED:

GULF OIL CORPORATION

By:

Name:

Title:

Date:

AFE No. Lease No.

TEXAS OIL & GAS CORP.
FORM 24
Rev. 7/1/73

AUTHORITY FOR EXPENDITURE

DRILLING WELL

District West Texas Date September 6, 1977

Lease Name Exxon State Com. (Sec. 29) Well No. #1 Depth 11100

Field So. Millman (Morrow) County Eddy State New Mexico

Requested By: SDR Approved By:

NATURE OF EXPENDITURE	QUANTITY	PRICE	ESTIMATED COST CASH		MAT'L. ON HAND	
DRILLING						
243 Location, Roads, Dirt Work			10	000		
DRILLING CONTRACT - 231 Footage	8500	13.50	114	800		
265 Daywork UDP	16	3400	54	400		
255 Daywork WODP	2	3300	6	600		
267 Turnkey						
102 Casing 13-3/8", 8-5/8"			34	900		
104 Casinghead			8	000		
233 Cementing Service & Supplies			12	000		
242 Rentals			10	000		
230 Mud & Chemicals Water			50	000		
234 Testing & Logging 2 DST			21	000		
204 Supervision			3	000		
290 Other fuel, etc.			30	000		
TOTAL DRILLING			354	700		
COMPLETION						
241 Rig (Incl. Day Work)	8	900	7	200		
102 Casing 4½			55	000		
233 Cementing Service & Supplies			9	000		
242 Rentals			2	500		
103 Tubing 2-3/8", 4.7#, N-80, EUE	11100		31	000		
108 Sub-Surface Equipment			4	000		
234 Testing, Logging & Perforating			4	500		
235 Stimulation Frac			20	000		
104 Wellhead			6	500		
204 Supervision			1	000		
290 Other			5	000		
TOTAL COMPLETION			145	700		
PRODUCTION EQUIPMENT						
105 Pumping Unit						
106 Engine & Motors						
107 Rods						
110 Flow Lines			2	000		
111 Installation			3	000		
115 Storage			4	500		
117 Seperators, Heaters, Treaters			12	000		
120 Other Equipment			2	000		
TOTAL PRODUCTION EQUIPMENT			23	500		
TOTALS			523	900		

OWNER NAME	WORKING INTEREST	DATE APPROVED
Texas Oil & Gas Corp.	25.00%	
Columbia Gas Devlopment Corporation	25.00%	
Texaco Inc.	37.50%	
Gulf Oil Corporation	12.50%	

APPROVED:

COLUMBIA GAS DEVELOPMENT CORPORATION

By:

Name:

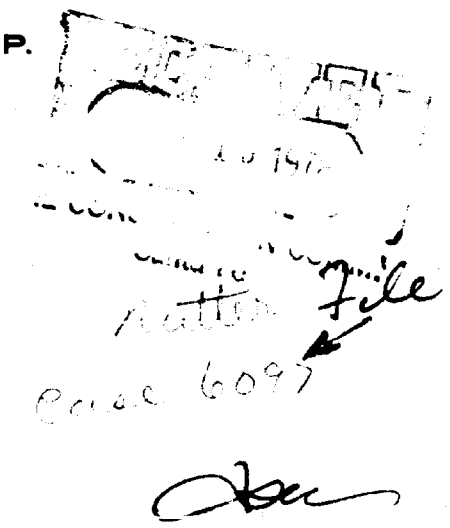
Title:

Date:

AFE No. Lease No.

TEXAS OIL & GAS CORP.
900 WILCO BUILDING
MIDLAND, TEXAS 79701

July 10, 1978



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

Attn: Mr. Joe D. Ramey
Division Director

Re: Order No. R-5607

Gentlemen:

Pursuant to the above order dated December 27, 1977, Texas Oil & Gas Corp. submits herewith an itemized schedule of actual well costs for the drilling and completion of the Exxon State Com "B" #1 well. The costs tabulated on the attachment represent actual costs as of May, 1977. However, the figures are not the final figures since the account is still subject to adjustments and late vendor charges.

Thank you for your assistance.

Sincerely yours,

Doyle John Snow

Doyle John Snow

DJS:lm

Attachments

cc Texaco, Inc.
P.O. Box 3109
Midland, TX 79702
Attn: Mr. O. D. Tatsch

Gulf Oil Corp.
P.O. Drawer 1150
Midland, TX 79702
Attn: Mr. R. A. Griffith

Exxon Company U.S.A.
P.O. Box 1600
Midland, TX 79702
Attn: Mr. William H. Leifeste

Columbia Gas Development Corporation
P.O. Box 1350
Houston, TX 77001
Attn: Mr. Ron Dye

AFE NUMBER	AFE NAME	OPERATOR STATUS	PROPERTY NUMBER	WELL	DATE APPROVED	DIST	TYPE	TXO OWNERSHIP	BDGT CODE
17430	EXXON STATE COM B 01 D/C	TXO	90174	01	01/26/78	03	1	43.75	312

LN	ACCOUNT	NATURE OF EXPENDITURE	ESTIMATED COST		ACTUAL COST TO DATE		
01	243	LOCATION, ROAD, DIRT WORK	10,000.00		21,715.53		
02	231	DRILLING - FOOTAGE	114,800.00		.00		
03	265	DRILLING - WOOP	54,400.00		205,926.01		
04	265	DRILLING - WOOP	6,600.00		32,435.50		
05	257	DRILLING - TURNKEY	.00		.00		
06	102	CASING 13-3/8 , 8-5/8	34,900.00		39,667.78		
07	104	WELLHEAD	8,000.00		11,766.59		
08	233	CEMENTING SERVICE & SUPPLIES	12,000.00		25,095.74		
09	242	RENTALS - EQUIPMENT	10,000.00		17,840.93		
10	230	MUD & CHEMICALS WATER	50,000.00		45,387.23		
11	234	TESTING & LOGGING 2 DST	21,000.00		5,048.92		
12	204	SUPERVISION	3,000.00		1,054.47		
13	120	OTHER EQUIPMENT	.00		.00		
14	246	WELL ABANDONMENT	.00		.00		
15	290	OTHER FUEL, ETC.	30,000.00		4,454.80		
		TOTAL DRILLING	354,700.00	*	409,883.50	*	
16	241	SERVICE RIG	7,200.00		1,628.64	CR	
17	102	CASING 4 1/2	56,000.00		43,293.97		
18	233	CEMENTING SERVICE & SUPPLIES	9,000.00		69.16		
19	242	RENTALS - EQUIPMENT	2,500.00		3,273.59		
20	103	TUBING 2-3/8 , 4.7 , N-80, EUE	31,000.00		34,578.45		
21	230	MUD AND CHEMICALS	.00		.00		
22	108	SUB-SURFACE EQUIPMENT	4,000.00		1,511.12		
23	234	TESTING, LOGGING OR PERFORATING	4,500.00		6,539.74		
24	236	STIMULATION FRAC	20,000.00		44,090.25		
25	104	WELLHEAD	6,500.00		9,560.15		
26	204	SUPERVISION	1,000.00		489.82		
27	227	OVERHEAD	.00		903.20		
28	246	WELL ABANDONMENT	.00		.00		
29	243	LOCATION, ROAD, DIRT WORK	.00		3,092.33		
30	290	OTHER	5,000.00		.00		
		TOTAL COMPLETION	145,700.00	*	146,673.14	*	
31	105	PUMPING UNIT	.00		.00		
32	106	ENGINES AND MOTORS	.00		165.88		
33	107	SUCKER RODS	.00		.00		
34	110	LINES	2,000.00		1,467.91		
35	111	INSTALLATION	3,000.00		2,550.20		
36	115	TANKS	4,500.00		2,964.00		
37	117	SEPARATOR - HEATER - TREATER	12,000.00		171.08		
38	120	OTHER EQUIPMENT	2,000.00		.00		
39	290	OTHER	.00		.00		
		TOTAL EQUIPMENT	23,500.00	*	7,314.77	*	
		AFE TOTAL	523,900.00	**	563,871.41	**	

sid morrish reporting service
General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
November 30, 1977

EXAMINER HEARING

IN THE MATTER OF:

Application of Texas Oil & Gas Corporation for compulsory pooling, Eddy County, New Mexico.

CASE 6097

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the New Mexico Oil Conservation Commission: Lynn Teschendorf, Esq.
Legal Counsel for the Commission
State Land Office Building
Santa Fe, New Mexico

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Phone (505) 982-9212

I N D E X

EXHIBIT INDEX

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Phone (505) 982-9212

MR. NUTTER: Call Case No. 6097.

MS. TESCHENDORF: Case 6097, application of Texas Oil and Gas Corporation for compulsory pooling, Eddy County, New Mexico.

MR. CARSON: Mr. Examiner, my name is Joel Carson, Losee and Carson, P.A., Artesia, New Mexico, representing Texas Oil & Gas Corporation and I will have two witnesses to be sworn.

(THEREUPON, the witnesses were sworn.)

MR. CARSON: The first witness I'll call will be Mr. Doyle Snow.

DOYLE J. SNOW

was called as a witness by the applicant, and having been first duly sworn, testified upon his oath as follow, to-wit:

DIRECT EXAMINATION

BY MR. CARSON:

Q. Would you state your name, please?

A. Doyle John Snow.

Q. And Mr. Snow, what is your address and by whom are you employed?

A. My address is 4308 Mercedes, Midland, Texas, and I am employed by Texas Oil & Gas Corporation.

Q. In what capacity?

A. As a landman.

Q. How long have you been employed by Texas Oil & Gas?

A. Since June 1, 1977.

Q. Mr. Snow, would you explain the purpose of Texas Oil & Gas Corporation's application in this cause?

A. Yes. We would like to compulsory pool the north half of Section 29, Township 18 South -- excuse me, Township 19 South, Range 28 East, as to interpool the top of the Wolfcamp formation to the base of the Morrow formation for the drilling of the Exxon State Com B Well No. 1 to the Morrow formation.

Q. Mr. Snow, I hand you what has been marked as Applicant's Exhibit Number One and ask if that was prepared by you or under your supervision?

A. Yes.

Q. What does that map show?

A. It represents the current ownership of the north half of Section 29.

Q. Would you explain the colors for the purpose of the record?

A. Okay. The yellow area, the area shaded in yellow, is the lease owned by Exxon Corporation that they have farmed out to Texas Oil and Gas.

Q. And the orange?

A. A lease owned by Gulf Oil Corporation.

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Q. And Gulf has joined you in this venture, is that right?

A. That's right, they have agreed to join.

Q. And the blue?

A. It represents the lease owned by Texaco.

Q. And that is the interest that you are seeking to force pool, is that correct?

A. That's correct.

Q. Mr. Snow, I hand you what has been marked as Applicant's Exhibit Number Two and would ask if you would identify for the Commission what that is and tell us, generally, what that exhibit contains?

A. This is correspondence from our file pertaining to our proposal to drill to the Morrow formation.

Starting at the bottom of the exhibit, I suppose, is our first offer of June 27, 1977, to Texaco requesting a farm out of their interests in the northeast-northeast quarter of Section 29.

We had, at that time, proposed to drill a well on the east half of Section 29.

Q. Without going through all of the letters, individually, you have given Texaco -- you have asked them to join in the well have you not?

A. Yes, we have, several times.

Q. And what is your latest correspondence with them?

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A. The latest correspondence of November 23rd, states that Texaco has not yet made a final decision concerning joinder in the proposed well.

Q. Mr. Snow, is that the total correspondence between your company and Texaco concerning this project?

A. There has been some verbal communication over the telephone.

Q. I would refer you to Applicant's Exhibit Number Three and ask that you identify that?

A. This is the authority for the expenditure for the drilling of the well prepared by engineers of Texas oil & Gas Corporation.

Q. Has that application for expenditure been submitted to Texaco?

A. Yes.

Q. And that is the A.F.E. that you propose to use in the drilling of the well, is that correct?

A. Yes, it is.

Q. I hand you what has been marked as Applicant's Exhibit Number Four, and would ask you to identify it?

A. This is our proposed joint operating agreement for the drilling of our proposed well which covers that north half of Section 29.

Q. Mr. Snow, does that joint operating agreement contain what you intend to charge as overhead?

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A. Yes.

Q. What is that?

A. Overhead rate of eighteen hundred dollars drilling well rate and three hundred and five dollars producing well rate.

Q. Do you consider those rates to be reasonable?

A. Yes, sir.

Q. That is the uniform rate that Texas Oil & Gas charges in the area, is that correct?

A. That's right.

MR. CARSON: I would like to move the admission of these Exhibits Numbers One through Four, Mr. Nutter.

MR. NUTTER: Exhibits One through Four will be admitted in Case Number 6097.

MR. CARSON: I don't have any further questions of this particular witness.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Snow, what section is that overhead cost covered in in the contract?

A. It's on page three of the COPUS, the COPUS form -- Mr. Examiner, it's Exhibit C to the operating agreement.

Q. Okay. Here it is. I didn't get that far back -- eighteen hundred and three oh five?

A. Yes.

Q. Now, what is the status of your negotiations with Texaco?

A. We have submitted, as we have stated, the offer and have been trying to negotiate an agreement with them since June and have been unsuccessful in receiving a response either to join or to farm out.

Q. Well now, the latest correspondence that you have here in this exhibit is the letter from Texaco on November 23?

A. Right.

Q. Now, they haven't declined to join you in the drilling of the well, actually, have they?

A. They haven't.

Q. They have just said that they think that certain changes should be made in the agreement and they will let you know, then?

MR. CARSON: I don't construe the letter to mean that.

MR. NUTTER: Well, it says here that they have not made a final decision on joinder so the following comments on the operating agreement are being made subject to final decision and then they make certain suggested changes in the agreement. So, I don't know --

MR. CARSON: I understand that but I think what that means is that you make all of these changes, then, we

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Phone (505) 982-9212

will tell you whether we are going to do it.

MR. NUTTER: Well, what is Texas Oil & Gas response to these proposed changes in the contract, are they objectionable or impossible?

A. We feel that some of them are redundant and, yes, some of them are objectionable.

Q. (Mr. Nutter continuing.) And you don't think that you could agree to them, what they proposed here?

A. No, not to some of them.

Q. Apparently, they wouldn't agree without those changes because they haven't agreed today?

A. It would be a matter of negotiations but we haven't been able to reach an agreement since near the first of June.

Q. I notice your first letter was dated June 27, when you first propositioned them?

A. We have been successful in reaching an agreement with Exxon and Gulf.

Q. What do you have? Do you have an actual farm out with Exxon on this acreage?

A. Yes.

Q. And Gulf is joining with you on this?

A. That's correct.

Q. Okay. Now, the contract with Gulf, does it call for eighteen hundred dollars and three oh five for overhead charges?

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Phone (505) 982-9212

A. That's the one we submitted.

Q. And Gulf agreed to that?

A. We haven't had a negative response -- they haven't responded to our joint operating agreement as yet.

Q. Well, do you know whether you will get an agreement from Gulf or not?

They say that they are willing to participate subject to receipt of an acceptable operating agreement and Texaco hasn't said much worse than that?

A. Yes, I think we can reach an agreement with Gulf. There won't be any problem there. It will be a matter of negotiations.

However, our problem with Texaco is not necessarily the operating agreement it is that we have not been able to get a decision whether to join or to farm out.

MR. NUTTER: What was the other witness going to cover, Mr. Carson?

MR. CARSON: The other witness was going to cover the geological considerations as well as the risk factor and --

MR. NUTTER: And the cost of the well?

MR. CARSON: Well, this witness has already been through that.

Q. (Mr. Nutter continuing.) Okay. I want to clarify a couple of points here, then.

Mr. Snow, this A.F.E. that you have offered here,

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Exhibit Three, calls for a total cost of five hundred twenty-three thousand nine hundred dollars for the well.

Is this for a completed well?

A. Yes, it is.

Q. Now, what is the proposed depth of this well?

A. Eleven thousand one hundred feet.

Q. Is this the typical cost for an eleven thousand one hundred foot well in this area?

A. Yes, sir.

Q. Has Texas Oil & Gas drilled other wells in the area, or in southeast New Mexico?

A. Yes, we have.

Q. And this approximates the cost that you have encountered on those wells?

A. That's right.

MR. NUTTER: Are there any other questions of Mr. Snow? He may be excused.

(THEREUPON, the witness was excused.)

JERRY ELGER

was called as a witness by the applicant, and having been first duly sworn, testified upon his oath as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARSON:

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General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

Q. Would you state your name, please?

A. Jerry Elger.

Q. Mr. Elger, by whom are you employed?

A. By Texas Oil & Gas Corporation.

Q. And in what capacity?

A. Staff geologist.

Q. And how long have you been employed by Texas Oil & Gas Corporation?

A. Seven months.

Q. Would you tell the Hearing Examiner a little bit about your educational background?

A. I received a Bachelor of Science Degree from the University of Wisconsin in Geology in December of 1972.

I attended graduate school and did cases research between September of '72 and October of '74.

In October of '74, I was hired by Cities Service Oil Company as a Staff geologist with responsibilities in southeast New Mexico, primarily, as a development geologist.

I worked there through March of this year and I have now been employed since then with Texas Oil & Gas.

Q. Mr. Elger, what kind of experience have you had in southeastern New Mexico with particular reference to the Morrow formation?

A. Well, with Cities Service Oil Company, I was a developmental geologist and my work involved well-site geology,

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General Court Reporting Service
825 Calle Mejia, No. 122, Santa Fe, New Mexico 87501
Phone (505) 982-9212

isopach mapping and various geologic mapping and projects and during the span of time I worked for Cities Services approximately twenty Morrow wells were drilled by that company in southeast New Mexico.

MR. CARSON: Are his qualifications acceptable, Mr. Examiner?

MR. NUTTER: Yes, they are.

Q. (Mr. Carson continuing.) Mr. Elger, I hand you what has been marked as Applicant's Exhibit Number Four and ask if that was prepared by you or under your supervision?

A. Yes, it was.

Q. Would you explain to the Hearing Examiner what that exhibit shows or purports to show?

A. It is a production map with total cumulative oil and gas and daily rates through September 1st of this year of these surrounding wells of the proposed location.

Q. I hand you what has been marked as Applicant's Exhibit Number 5 and ask you to identify that?

A. It's a sand isolith map of the main pay in the Penroc Angell Ranch well in the north half of Section 33 as I interpret it in the vicinity of the proposed location.

Q. Was that exhibit prepared by you or under your supervision?

A. Yes, sir, it was.

Q. I hand you what has been marked as Applicant's

Exhibit Number Six and ask you to identify that?

A. It is a cross section, a Morrow cross section, through the proposed location from various locations that have been drilled in the vicinity.

Q. Was that prepared by you or under your supervision?

A. Yes, it was.

MR. CARSON: I would like to move the introduction of the exhibits?

MR. NUTTER: Applicant's Exhibits Four through Six will be admitted in evidence.

Q. (Mr. Carson continuing.) Mr. Elger, could you tell the Examiner how many of the wells as shown by the exhibit penetrated the Wolfcamp through the Morrow formation?

A. Four wells have.

Q. How many of them have been dry holes?

A. None have been dry holes.

Q. How many of these wells have paid out and produced a reasonable profit or are expected to pay out and produce a reasonable profit?

A. Two of these wells.

Q. Which are those?

A. The two wells in Section 33.

Q. What other wells do you show in your -- tell the Examiner a little bit about the Southland Featherstone State?

A. It was a well drilled this year and had an absolute

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open flow from the lower Morrow of one point four million.

MR. NUTTER: That was the Featherstone well?

A. Yes, sir. I believe it is waiting a pipeline at this stage.

MR. NUTTER: One point four million?

A. Yes, sir.

Q. (Mr. Carson continuing.) Is that well expected to pay out or can you tell?

A. I can't tell. We have not released any pressure data on it.

Q. Now, the Gulf Pacheco Federal what is the story on that well?

A. It is a recently drilled Morrow test by Gulf and it is currently completed as a completion right now.

Q. Can you tell the Commission anything as far as its prospects?

A. To date I have not seen any gauges of gas or oil from that well. I really can't tell you much.

Q. Mr. Elger, Texas Oil & Gas asks that the Commission set a risk factor in this case. What do you consider to be a reasonable risk factor based on your experience as a geologist and studies of this area?

A. What was your question?

Q. Texas Oil and Gas has asked the Commission to set a risk factor of cost plus two hundred percent in this case.

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Based on your experience as a geologist and your studies of this area do you consider that to be a reasonable risk factor?

A. Yes, I do.

Q. Mr. Elger, do you believe that the granting of this application will have the affect of the preventing of drilling unnecessary wells and will protect correlative rights and prevent waste?

A. Yes, sir.

MR. CARSON: I have no further questions of this witness, Mr. Nutter.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Elger, your Exhibit Number Five is the map showing the colored band traversing the exhibit, and is this your idea of a possible Morrow channel that cuts across through here?

A. Yes, sir.

Q. And the Angell Ranch well is the only one that is producing from the main pay of the Morrow formation or the upper Morrow? The Featherstone well is the lower Morrow and the Penroc apparently didn't have anything in the Morrow, is that correct?

A. That's correct.

Q. And it had a potential of fifteen million but that's

all from the Atoka?

A. That's correct.

Q. Now, has Gulf got a well on the Pacheco Federal?

A. Not to my knowledge. They have run casing and they have a completion unit on there presently completing that well but I have not seen any flow rates.

Q. You don't know by rumor or anything else whether they have got a well or not, then?

A. Yes, generally, if Gulf feels like they have a good Morrow gas well when they run casing they will use band tools system to perforate. If they feel like they don't need a great deal of stimulation for the Morrow.

But in this particular instance they did not use band tools. They went with the conventional perforating system because they feel like the sands they have in the Morrow will probably need treating indicating to me, at least, that it will probably be below an average Morrow well.

Q. They are in the Morrow are they?

A. Yes.

Q. So, you feel that you are taking a long-shot here and you deserve a two hundred percent risk factor?

A. Yes, sir.

MR. NUTTER: Are there any other questions of the witness? He may be excused.

Do you have anything further in this case?

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MR. CARSON: We have nothing further.

MR. NUTTER: Does anyone have anything they wish to offer in Case Number 6097? Take the case under advisement.

(THEREUPON, the witness was excused and the case was concluded.)

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REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Certified Shorthand Reporter, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me, and the same is a true and correct record of the said proceedings to the best of my knowledge, skill and ability.

Sidney F. Morrish, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6097, heard by me on 11/30, 1977.

New Mexico Oil Conservation Commission, Examiner

OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

DIRECTOR
JOE D. RAMEY

LAND COMMISSIONER
PHIL R. LUCERO

STATE GEOLOGIST
EMERY C. ARNOLD

December 27, 1977

Re: CASE NO. 6097
ORDER NO. R-5607

Mr. Joel Carson
Losee & Carson
Attorneys at Law
Post Office Box 239
Artesia, New Mexico 88210

Applicant:

Texas Oil & Gas Corporation

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 6097
Order No. R-5607

APPLICATION OF TEXAS OIL & GAS
CORPORATION FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 30, 1977, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 27th day of December, 1977, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Texas Oil & Gas Corporation, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 29, Township 19 South, Range 28 East, NMPM, Eddy County, New Mexico to form a standard spacing and proration unit for said formations.

(3) That the applicant has the right to drill and proposes to drill its Exxon State Com B Well No. 1 at a standard location on said unit.

(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 that 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 that 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 $1800.00 per month while drilling and $305.00 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 March 1, 1978, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 29, Township 19 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to the Texas Oil and Gas Corporation Exxon State Com B Well No. 1 to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of March, 1978, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of March, 1978, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Commission 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 Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Texas Oil & Gas Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission 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 Commission 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 Commission and the Commission 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 Commission 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 that 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 $1800.00 per month while drilling and $305.00 per month while producing is 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 interests 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 be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

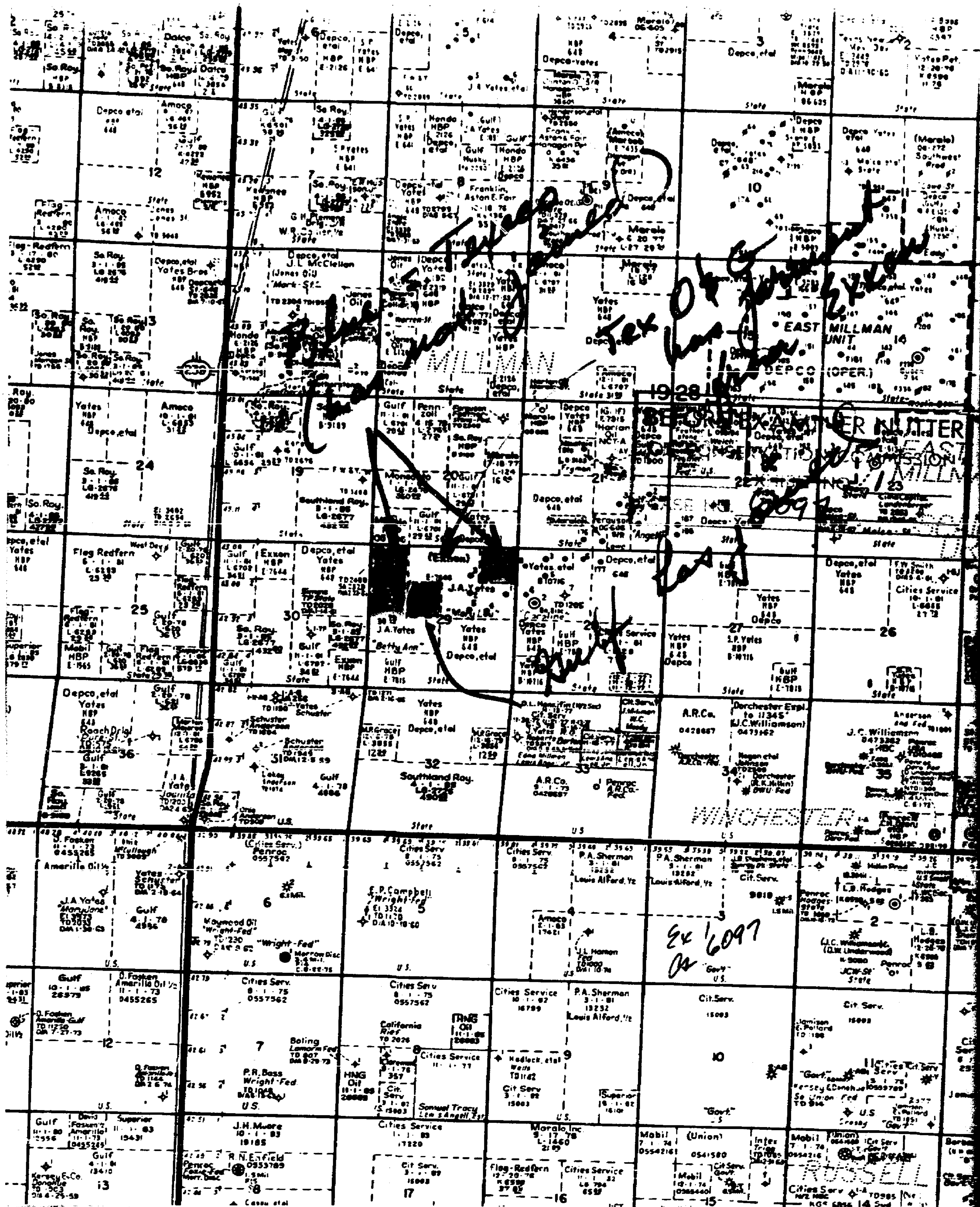
PHIL R. LUCERO, Chairman

EMERY C. ARNOLD, Member

JOE D. RAMEY, Member & Secretary

S E A L

jr/



MILLMAN
EAST MILLMAN UNIT
DEPCO (OPER.)
WINCHESTER
RUSSELL
Depco, etal
J.A. Yates
Southland Roy.
Ex 6097

Gulf Energy and Minerals Company-U.S.

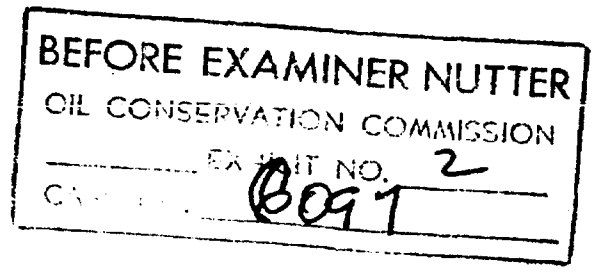
SOUTHWEST DIVISION

R. E. Griffith
MANAGER-LAND

September 20, 1977

P. O. Drawer 1150
Midland, TX 79702

Re: Proposed Morrow Test, N/2 Section 29,
T-19-S, R-28-E, NMPM, EDDY COUNTY,
New Mexico



Texas Oil and Gas Corporation
900 Wilco Building
Midland, Texas 79702

Attention: Mr. Doyle J. Snow

Dear Doyle:

Reference is made to your letter of August 1, 1977, wherein you requested Gulf join with you in the drilling of the captioned well.

Please be advised that we have carefully considered your proposal and Gulf is willing to participate subject to receipt of an acceptable operating agreement and AFE.

If we can be of any assistance, please contact Ches Blackham of our Land Department.

Best regards,

R. E. GRIFFITH

CTB:yb

TEXAS OIL & GAS CORP.
FORM 24
Rev. 7/1/75

AUTHORITY FOR EXPENDITURE

DRILLING WELL

District West Texas Date September 6, 1977

Lease Name Exxon State Com. (Sec. 29) Well No. #1 Depth 11100

Field So. Millman (Morrow) County Eddy State New Mexico

Requested By: SPR SPR MAF Approved By:

NATURE OF EXPENDITURE	QUANTITY	PRICE	ESTIMATED COST CASH		ESTIMATED COST MAT'L. ON HAND	
DRILLING						
243 Location, Roads, Dirt Work			10	000		
DRILLING CONTRACT - 231 Footage	8500	13.50	114	800		
265 Daywork WDP	16	3400	54	400		
265 Daywork WODP	2	3300	6	600		
267 Turnkey						
102 Casing 13-3/8", 8-5/8"			34	900		
104 Casinghead			8	000		
233 Cementing Service & Supplies			12	000		
242 Rentals			10	000		
230 Mud & Chemicals Water			50	000		
234 Testing & Logging 2 DST			21	000		
204 Supervision			3	000		
290 Other fuel, etc.			30	000		
TOTAL DRILLING			354	700		
COMPLETION						
241 Rig (Incl. Day Work)	8	900	7	200		
102 Casing 4½			55	000		
233 Cementing Service & Supplies			9	000		
242 Rentals			2	500		
103 Tubing 2-3/8", 4.7#, N-80, EUE	11100		31	000		
108 Sub-Surface Equipment			4	000		
234 Testing, Logging & Perforating			4	500		
236 Stimulation Frac			20	000		
104 Wellhead			6	500		
204 Supervision			1	000		
290 Other			5	000		
TOTAL COMPLETION			145	700		
PRODUCTION EQUIPMENT						
105 Pumping Unit						
106 Engine & Motors						
107 Rods						
110 Flow Lines			2	000		
111 Installation			3	000		
115 Storage			4	500		
117 Seperators, Heaters, Treaters			12	000		
120 Other Equipment			2	000		
TOTAL PRODUCTION EQUIPMENT			23	500		
TOTALS			523	900		

OWNER NAME	WORKING INTEREST	DATE APPROVED
Texas Oil & Gas Corp.	25.00%	
Columbia Gas Devlopment Corporation	25.00%	
Texaco, Inc.	37.50%	
Gulf Oil Corporation	12.50%	

APPROVED:

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 3
CASE NO. 6097

AFE No. Lease No.

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956

Non-Federal Lands

OPERATING AGREEMENT

DATED

August 22, 19 77,

FOR UNIT AREA IN TOWNSHIP 19 South, RANGE 28 East N.M.P.M.,

Eddy COUNTY, STATE OF New Mexico.

South Millman W. I. Unit

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

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 4
CASE NO. 6097

A.A.P.L. FORM 610

TABLE OF CONTENTS

A.A.P.L. FORM 610

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 22nd day of August, 19 77, between TEXAS OIL & GAS CORP.,

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

WITNESSETH, THAT:

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

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

(1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.

(2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.

(3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.

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

(5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

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

(7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.

(8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

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

A. Title Examination:

Each party hereto shall furnish Operator with certified or photostatic copies of all leases, title papers and opinions and with all abstracts in its possession covering a proposed drillsite and drilling unit.

No well shall be drilled in the Unit Area until the title to the drilling tract has been examined and approved by Operator's attorney, or until the title has been accepted by all the parties who are to participate in the drilling of the well. Each title opinion shall contain a list of fee owners and their interests, shall state the attorney's opinion concerning validity of their interests, and shall contain an enumeration and description of title defects, if any, a report upon mortgages, taxes, pending suits and judgments, and unleased oil and gas leases, and a list of requirements, if any, upon which the examiner's approval of title to the lease or oil and gas interest is contingent. The title opinions shall also contain a specific description of the oil and gas lease being subjected to this contract, with a statement of its form, term amount of royalty, status of delay rental payments, and unusual drilling obligations and of excess royalty, oil payments and other special burdens.

Costs of title examination shall be borne proportionately by all working interest owners who are to participate in the drilling of the well.

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

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

B. Failure of Title:

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

(1) The party whose lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and

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

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

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

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

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

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

3. UNLEASED OIL AND GAS INTERESTS

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

4. INTERESTS OF PARTIES

Exhibit "A" for the purpose of this agreement as between the parties hereto, the royalty interest is and shall be treated as 1/8 of 8/8ths, and the working interest of the parties hereto shall be treated as 7/8 of 8/8ths, and all oil and gas, including casinghead gas, and condensates attributable to the working interest covered by this agreement shall be owned in the proportions shown in Exhibit "A".

It is understood and agreed that all charges to the Joint Account, except as hereinafter specifically provided, shall be made and paid by the parties hereto in accordance with the interests of participation in the working interest as set forth in Exhibit "A".

It is understood by and between the parties hereto that if any of them is obligated to pay and lessor royalties at a rate in excess of the usual 1/8 of 8/8ths royalty or to pay to anyone any overriding royalty, payments out of production, net profit obligations, carried interests, or any other outstanding obligations now existing or hereafter coming into existence against any of the parties hereto or their respective interests, or with respect to the respective interests in the production from the above described land, all such royalties, obligations and payments by which any of the parties hereto is now bound or may hereafter become bound shall remain the obligation of the respective party or parties, as the case may be, and shall be paid and satisfied in each instance, unless otherwise paid and satisfied, out of the interests of the obligated party in the 7/8 of 8/8ths working interest set forth above.

Title to the leases and mineral interests contributed by each of the parties to this agreement is to remain in each of the respective parties except as herein specifically provided.

5. OPERATOR OF UNIT

TEXAS OIL & GAS CORP. shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained, or liabilities incurred, except such as may result from gross negligence or from breach of the provisions of the agreement.

6. EMPLOYEES

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

7. TEST WELL

On or before the 31st day of December, 1977, Operator shall commence operations for the drilling of a well for oil and gas in the following location:

North-half (N/2) of Section 29,
Township 19 South, Range 28 East N.M.P.M.
Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to depth of 11,100 feet beneath the surface or to a depth sufficient to test the Morrow formation of Pennsylvanian Age, whichever is lesser,

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

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

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

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or

obligated to pay ... 8/8ths royalty or to pay to anyone any overriding royalty, payments out of production, net profit obligations, carried interests, or any other outstanding obligations now existing or hereafter coming into existence against any of the parties hereto or their respective interests, or with respect to the respective interests in the production from the above described land, all such royalties, obligations and payments by which any of the parties hereto is now bound or may hereafter become bound shall remain the obligation of the respective party or parties, as the case may be, and shall be paid and satisfied in each instance, unless otherwise paid and satisfied, out of the interests of the obligated party in the 7/8 of 8/8ths working interest set forth above.

Title to the leases and mineral interests contributed by each of the parties to this agreement is to remain in each of the respective parties except as herein specifically provided.

5. OPERATOR OF UNIT

TEXAS OIL & GAS CORP. shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained, or liabilities incurred, except such as may result from gross negligence or from breach of the provisions of the agreement.

6. EMPLOYEES

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

7. TEST WELL

On or before the 31st day of December, 1977, Operator shall commence operations for the drilling of a well for oil and gas in the following location:

North-half (N/2) of Section 29,
Township 19 South, Range 28 East N.M.P.M.
Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to depth of 11,100 feet beneath the surface or to a depth sufficient to test the Morrow formation of Pennsylvanian Age, whichever is lesser,

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

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

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

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Article I (3) of the attached Exhibit "C". ~~at the rate of six percent (6%) per annum until paid~~. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

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

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

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

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of or, if productive, if thereafter plugged and abandoned one hundred eighty (180) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Five Thousand Dollars ($ 5,000.00) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of $ 5,000.00

12. OPERATIONS BY LESS THAN ALL PARTIES

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

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

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

(B) 300% ~~200%~~ of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and 300% ~~200%~~ of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

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

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

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

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

13. RIGHT TO TAKE PRODUCTION IN KIND

Subject to existing contracts and the Gas Storage and Balancing Agreement attached as Exhibit "E", each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties or other payments which may become due on its lease or leases contributed to the Unit Area, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Subject to existing contracts and the Gas Storage and Balancing Agreement attached as Exhibit "E", each party shall execute such division orders and contracts as may be required for the sale of its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale and such party, within sixty (60) days from and after the receipt of such notice, shall have failed to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the production at its sole cost and expense.

14. ACCESS TO UNIT AREA

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

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation within thirty (30) days after receipt of notice to plug and abandon such well shall tender to each of the ~~other~~ abandoning parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

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

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Delay rentals and shut-in well payments which may be required under the terms of any lease shall be paid by the party who has subjected such lease to this agreement, at its own expense. Proof of each payment shall be given to Operator at least ten (10) days prior to the rental or shut-in well payment date. Operator shall furnish similar proof to all other parties concerning payments it makes in connection with its leases. Any party may request, and shall be entitled to receive, proper evidence of all such payments. If, through mistake or oversight, any delay rental or shut-in well payment is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to pay a rental or shut-in well payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, the interests of the parties shall be revised on an acreage basis effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Unit Area on account of the ownership of the lease which has terminated. In the event the party who failed to pay the rental or the shut-in well payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

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

(3) any moneys, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Unit Area or becoming a party to this contract.

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

~~18. PREFERENTIAL RIGHT TO PURCHASE~~

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

19. SELECTION OF NEW OPERATOR

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

20. MAINTENANCE OF UNIT OWNERSHIP

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

(1) the entire interest of the party in all leases and equipment and production; or

(2) an equal undivided interest in all leases and equipment and production in the Unit Area.

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

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

21. RESIGNATION OF OPERATOR

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

22. LIABILITY OF PARTIES

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

23. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

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

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

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

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

24. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties participating in such operation to this agreement in proportion to their interests in such operation the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area. Notwithstanding the above, Texas Oil & Gas Corp. shall not be obligated to assign any portion of the acreage earned under the terms of the Exxon farmout agreement covering interests in the Unit Area.

26. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered [illegible] contained in the Subchapter of

[illegible] and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties participating in such operation to this agreement in proportion to their interests in such operation the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area. Notwithstanding the above, Texas Oil & Gas Corp. shall not be obligated to assign any portion of the acreage earned under the terms of the Exxon farmout agreement covering interests in the Unit Area.

26. PROVISION CONCERNING TAXATION

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

Operator shall render for assessment and pay all taxes which may be legally assessed against the leasehold estate or on personal property located thereon insofar as they cover and affect the oil and gas rights in the lands covered hereby. Except as hereinafter provided, Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If the Operator is required hereunder to pay ad valorem taxes based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the percentage of tax value generated by each party's working interest.

If 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. If the interest of a working interest owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a 1/8th royalty, such working interest owner shall notify Operator of such interest prior to the rendition date.

If any party to this agreement owns a royalty interest, overriding royalty, or production payment in addition to the leasehold interest committed to the Unit, such party shall render and pay all ad valorem taxes on such interest.

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

27. INSURANCE

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

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

28. CLAIMS AND LAWSUITS

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

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

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

29. FORCE MAJEURE

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

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

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

30. NOTICES

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

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

31. OTHER CONDITIONS, IF ANY, ARE:

(a) In spite of any provision to the contrary appearing hereof, consent to the drilling of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice to Non-Operator. The party receiving such notice shall have forty-eight (48) hours in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of all the parties. If one or more, but less than all, of the parties elect to set pipe and to attempt a completion, the provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties.

(b) If any party hereto shall, after having executed this agreement, create any overriding royalty, production payment or other burden against its working interest (such interest as created being hereafter referred to as a "new interest"), the same shall be subject to the terms and provisions of this agreement. If any party or parties should conduct non-consent operations pursuant to any provision of this agreement and, as a result, become entitled to the working interest production from which a "new interest" has been created, the party or parties entitled to receive such working interest production shall receive the same free and clear of such "new interest" and the non-participating party who created such "new interest" shall save the participating party or parties harmless with respect to the receipt of the working interest production.

Any lien provided for in this instrument may be enforced against the "new interest" in the same manner as the lien was enforceable against the original interest from which the "new interest" was created.

(c) If a well is completed on the Unit Area as a well capable of commercial production, the Operator shall have title to all of the tracts included in the drilling unit for such well examined on a complete abstract record or search of the County Records by Operator's attorney. Each such title opinion shall contain a list of fee and royalty owners and their interests, shall state the attorney's opinion concerning validity of their interests, and shall contain an enumeration and description of title defects, if any, upon which the examiner's approval of title to the leases or oil and gas interests is contingent. The title opinions shall also contain a specific description of the oil and gas leases being subjected to this contract, with a statement of their form, term, amount of royalty, status of delay rental payments, and unusual drilling obligations and of excess royalty, oil payments and other special burdens. A copy of said title opinions and applicable curative material shall be sent to all parties as soon as available.

(d) If a purchaser of any oil, gas or other hydrocarbons produced from the Unit Area declines to make disbursements of all royalties, overriding royalties and other payments out of, or with respect to, production which are payable on the Unit Area, Operator will, if any Non-Operator so desires, make such disbursements on behalf of said Non-Operator at his direction, provided, Non-Operator shall execute such documents as may be necessary in the opinion of Operator to enable Operator to receive all payments for oil, gas or other hydrocarbons directly from said purchaser. In that event, Operator will use its best efforts to make disbursements correctly but will be liable for incorrect disbursement only in the event of gross or willful negligence.

(e) This agreement is subject to all applicable laws, rules, regulations and orders of any governmental agency having jurisdiction. In the event this agreement, or any of its provisions, or any of the operations contemplated hereby are found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this contract shall be regarded as modified accordingly, and as so modified, shall continue in full force and effect. It is understood that this contract may not be cancelled, terminated or suspended for noncompliance with the Nondiscrimination Clause set forth in Exhibit "F" attached hereto until a final determination of noncompliance has been made by the Director, Office of Federal Contract Compliance, U.S. Department of Labor, as authorized in Executive Order No. 11246 of September 24, 1965.

(f) It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Unit Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Unit, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

(g) If permitted by the statutes of the State in which this property is located, each party hereto owning an undivided interest in the Unit Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

(h) This agreement shall never be construed as in any way cross-assigning any lease or leases or oil and gas interests, or any interest therein, and no party hereto shall ever be construed as having any right, title or interest in or to any lease, or leases, or oil and gas interests, or interest therein contributed by any other party beyond the term of this agreement.

(i) Gas well production shall be governed by Exhibit "E", Gas Storage and Balancing Agreement attached hereto.

(j) Each Non-Operator shall have a lien on the working interest of Operator in the Unit Area and on the oil and gas produced therefrom and on the proceeds thereof to secure the payment of any amount that may at any time become due and payable by Operator to such Non-Operator under the terms of this agreement, together with interest thereon as provided in Section 8 hereof.

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

OPERATOR

TEXAS OIL & GAS CORP.

ATTEST:

By: _____
Charles L. Canfield, Vice President

NON - OPERATOR

COLUMBIA GAS DEVELOPMENT CORPORATION

ATTEST:

By: _____

EXXON CORPORATION

ATTEST:

By: _____

TEXACO INC.

ATTEST:

By: _____

GULF OIL CORPORATION

ATTEST:

By: _____

ACKNOWLEDGMENTS

STATE OF TEXAS

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared CHARLES L. CANFIELD, Agent and Attorney-in-Fact for TEXAS OIL & GAS CORP., a corporation, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 15TH day of NOVEMBER, 1977.

My Commission Expires:

JUNE 15, 1979

Notary Public in and for
Midland County, Texas

* * * * * * * * * *

STATE OF

COUNTY OF

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared _____, a partner of COLUMBIA GAS DEVELOPMENT CORPORATION, a corporation, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____, 1977.

My Commission Expires:

_____

Notary Public in and for
_____ County, _____

* * * * * * * * * *

STATE OF

COUNTY OF

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared _____, a partner of EXXON CORPORATION, a corporation, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____, 1977.

My Commission Expires:

_____

Notary Public in and for
_____ County, _____

STATE OF

COUNTY OF

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared _____, a partner of TEXACO INC., a corporation, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____, 1977.

My Commission Expires:

_____
Notary Public in and for
_____ County, _____

_____

* * * * * * * * * *

STATE OF

COUNTY OF

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared _____, a partner of GULF OIL CORPORATION, a corporation, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____, 1977.

My Commission Expires:

_____
Notary Public in and for
_____ County, _____

_____

EXHIBIT "A"

SOUTH MILLMAN WORKING INTEREST UNIT

I. UNIT AREA: All of the North One-half (N/2) of Section 29, Township 19 South, Range 28 East, N.M.P.M., Eddy County, New Mexico below 1300'

II. PARTICIPATION:

	I. Initial Acreage Ownership	II. Acreage in the initial test well	III. Participation in initial test well prior to payout (Percentage)	IV. Acreage Ownership after payout of initial test well a.	V. Participation in the initial test well after payout a. (Percentage)
Texas Oil & Gas Corp.	-0-	80.00	25.00000	48.00	15,00000
Columbia Gas Development Corporation	-0-	80.00	25.00000	48.00	15.00000
Exxon Corpcration	160.00	-0-	-0-	64.00	20.00000
Texaco Inc.	120.00	120.00	37.50000	120.00	37.50000
Gulf Oil Corporation	40.00	40.00	12.50000	40.00	12.50000
TOTAL	320.00	320.00	100.00000	320.00	100.00000

a. Should Exxon elect not to convert its overriding royalty to a working interest, participation in the Unit Area after payout will be the same as shown in column III.

III. ADDRESS OF PARTIES:

Texas Oil & Gas Corp.
900 Wilco Building
Midland, Texas 79701

Attention: Charles L. Canfield
Vice-President

Columbia Gas Development Corporation
P. O. Box 1350
Houston, Texas 77001

Attention: Mr. John King

Exxon Company U.S.A.
P. O. Box 1600
Midland, Texas 79701

Attention: Mr. Jack Naumann

Texaco Inc.
P. O. Box 3109
Midland, Texas 79701

Attention: District Landman

Gulf Oil Corporation
P. O. Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

THERE IS NO EXHIBIT "B" TO
THIS OPERATING AGREEMENT

EXHIBIT "C" OF OPERATING AGREEMENT

Accounting Procedure, COPAS-1974, with the following changes and options:

Section II - Direct Charges

Paragraph 6 - Services: Change this paragraph as follows:

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II of Paragraph

COPAS — 1974
Recommended by the Council of Petroleum Accountants Societies of North America
COPAS

EXHIBIT "C"

Attached to and made a part of the SOUTH MILLMAN W.I. UNIT Operating Agreement dated August 22, 1977, between TEXAS OIL & GAS CORP., Operator, and COLUMBIA GAS DEVELOPMENT CORPORATION, et al, Non-Operators, covering the N/2 of Section 29, T-19-S, R-28-E NMPM, Eddy County, New Mexico

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

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

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

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

3. Employee Benefits

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

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B.. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 1,800.00
Producing Well Rate $ 305.00

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

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

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

A. 3 % of total costs if such costs are more than $ 25,000.00 but less than $ 100,000.00 ; plus

B. 3 % of total costs in excess of $ 100,000.00 but less than $1,000,000; plus

C. 2 % of total costs in excess of $1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

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.

E X H I B I T "D"
to
Operating Agreement

Dated August 22, 1977, between Texas Oil & Gas Corp., Operator; and Columbia Gas Development Corporation, et al, Non-Operators

SCHEDULE OF INSURANCE

Unit Operator shall carry the following insurance covering operations under this agreement at the expense and for the benefit of the parties hereto and shall require contractors and subcontractors to carry the same, to-wit:

1. Workmen's Compensation and Employer's Liability Insurance as required by the laws of the state where the property is located.

2. Contractor's or Comprehensive General Public Liability Insurance with minimum limits of at least $100,000.00 for injuries to one person; $500,000.00 for injury in one accident and $100,000.00 for property damage in one accident.

3. Automobile-Public Liability and Property Damage Insurance (with an endorsement covering non-owned and hired cars) with minimum limits of at least $100,000.00 for injuries to one person; $500,000.00 for injuries in one accident and $100,000.00 for property damage in any one accident.

4. Insurance coverage on equipment as the operator deems necessary for the protection of the joint account.

5. Catastrophe Comprehensive Liability Insurance with minimum limits of not less than $1,000,000.00.

EXHIBIT "E"

Attached to and made a part of an Operating Agreement dated August 22, 1977, between TEXAS OIL & GAS CORP., as Operator, and COLUMBIA GAS DEVELOPMENT CORPORATION et al, as Non-Operators, Eddy County, New Mexico

GAS STORAGE AND BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the Unit 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 thereto has the right, subject to existing contracts, to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market or fails to take it share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the state regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production; however, no party shall be entitled to take or deliver to a purchaser gas production in excess of three hundred percent (300%) of its current share of the volumes capable of being delivered or its current share of the allowable gas production if assigned thereto by the state regulatory body having jurisdiction unless that party has gas in storage. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator 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, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

At all times while gas is produced from the Unit 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 only, of total gas production exclusive of gas used in lease operations, vented or lost. Each party hereto agrees to hole 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 interest.

After notice to the Operator, and party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proratior unit under which it has gas in storage less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying twenty five percent (25%) of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the proration unit of such party with gas in storage and the demoninator of which is the total percentage interest in such proration unit of all parties with gas in storage currently taking or delivering to a purchaser.

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

Nothing herein shall be contrued to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid. Such settlement shall be based upon the weighted average price, defined below, received by each overproduced party for its share of gas produced and sold. For gas sold in intrastate commerce, the price basis shall be the price received for sale of the gas. For gas sold in interstate commerce, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Power Commission pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

This agreement shall constitute a separate agreement as to each proration unit within the Unit Area and 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
between TEXAS OIL & GAS CORP., as Operator;
and COLUMBIA GAS DEVELOPMENT CORPORATION, et al,
as Non-Operators, Eddy County, New Mexico

NONDISCRIMINATION CLAUSE

TEXAS OIL & GAS CORP., hereinafter referred to as TEXAS OIL & GAS CORP., is a "contractor" within the meaning of Executive Order No. 11246 dealing with non-discrimination and equal employment opportunity.

COLUMBIA GAS DEVELOPMENT CORPORATION, ET AL, hereinafter called "contractor" in this exhibit, agrees, unless exempt therefrom, to comply with all applicable provisions of Executive Order No. 11246, as amended by Executive Order No. 11375, all applicable provisions of which are incorporated herein by reference, and (a) if contractor has more than fifty (50) employees or a contract with TEXAS OIL & GAS CORP. in excess of $10,000.00, contractor must file Standard Form 100(EEO-1), or (b) if contractor has fifty (50) or more employees and a contract of $50,000.00 or more, contractor is required to 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. Further, contractor 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 Tiele 41, Chapter 60-1.8, Code of Federal Regulations, revised as of 1/1/69, unless exempt therefrom. Contractor further warrants that no other law, regulation or ordinance of the United States, or any state, or any governmental authority or agency has been violated in the manufacture, procurement or sale of any goods furnished, work performed or service rendered pursuant to this contract.

TEXACO

PETROLEUM PRODUCTS

PRODUCING DEPARTMENT
CENTRAL UNITED STATES
MIDLAND DIVISION

November 23, 1977

TEXACO INC.
P. O. BOX 3109
MIDLAND, TEXAS 79701

205629 - State of New Mexico
Lease K-1429
Eddy County, New Mexico
South Millman W.I. Unit

Texas Oil & Gas Corporation
900 Wilco Building
Midland, Texas 79701

Attention: Darrell F. Smith

Gentlemen:

Texaco has received your proposed Operating Agreement covering the North Half (N/2) of Section 29, T-19-S, R-28-E, N.M.P.M., Eddy County, New Mexico.

Texaco has not yet made a final decision concerning joinder and so the following comments on said Operating Agreement are being made subject to a final decision.

1. Texaco objects to Paragraph 2 A. Title Examination. A title examination should be unnecessary if individual loss is provided. Texaco will furnish copies of leases, title papers and opinions and available abstracts to the other parties if they will reciprocate so that each party can make its own title examination.

2. In Paragraph 8. Costs and Expenses on page 3, Texaco prefers that the interest rate be stated as ten percent (10%) since this is the legal maximum in the State of New Mexico and Article I(3) of Exhibit "C" does not cover interest rates for advance payments.

3. The word "gas" should be deleted from that portion of Paragraph 13. Right to Take Production in Kind which appears on page 7. Also the last sentence, which begins "Notwithstanding the foregoing ... ", should be deleted. These changes are requested to eliminate the conflicts with Exhibit "E" which now exist.

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4. The word "renewal" should be deleted from Paragraph 23 on page 9 because of the technical legal definition of that term.

5. Texaco prefers no casing point election and requests deletion of Paragraph 31(a).

6. Title examination has been covered by Paragraph 2, therefore Texaco requests deletion of Paragraph 31(c).

7. Texaco requests deletion of Paragraph 31(d).

8. Because Paragraph 4 states that title will remain in each respective party, it is not necessary to state that cross-assigning will not be effective beyond the term of the agreement. Please delete Paragraph 31(h).

9. Paragraph 31(i) is redundant and should be deleted.

10. Paragraph 31(j) is unnecessary. A careful reading of Section (sic) 8 shows it applies to interest on advances only.

11. Texaco requests that a Paragraph 31 clause be inserted which will terminate the agreement as to lands and depths farmed out from Exxon which are not earned upon completion of the first producing well.

12. Texaco requests the following two clauses be inserted in Paragraph 31.

INDEMNIFICATION PROVISION

As to any contract executed by operator with an independent contractor covering operations or services to be performed on properties covered by this operating agreement, operator shall require that any indemnification provision contained therein shall extend to and inure to the benefit of non-operator in the same manner as operator.

PUBLIC RELATIONS PROVISION

No party shall distribute any information or photographs to the press or other media without the approval

of all the parties except as required by law or regulation. When all parties have reviewed such material, and all parties have approved the issuance of the material, the company designated as operator shall have the principal responsibility for its issuance. The only other exception to the foregoing shall be that in the event of an emergency involving extensive property damage, operations failure, loss of human life or other clear emergency, the party designated as operator is authorized to furnish such minimum strictly factual information as shall be necessary to satisfy the legitimate public interest on the part of the press and duly constituted authorities. If time does not permit the obtaining of prior approval by the other party or parties, such party shall thereupon promptly advise the other party or parties of the information so furnished.

13. Texaco suggests a New Mexico form of acknowledgment be used. Please note that if Texaco joins, execution will be by Attorney-in-Fact.

14. Texaco requests Exhibit "C", Section III 1. A. (1) be changed to $2200.00 Drilling Well Rate and $250.00 Producing Well Rate.

15. Texaco requests that the last paragraph on the first page of Exhibit "E" be deleted because payment to royalty owners is covered by Paragraph 13 of the agreement.

16. Texaco requests that the multiplier mentioned in the first paragraph on the second page of Exhibit "E" be changed to fifty percent (50%).

17. The fourth paragraph on the second page of Exhibit "E" states "Such settlement shall be based upon the weighted average price, defined below, ... ", but the weighted average price is not defined. Texaco requests that sentence be deleted and the following sentence added "Makeup of overproduction shall be in the order of accrued overproduction."

Yours very truly,

G. M. Patterson
Contracts Supervisor

By: Donna L. Divine
Donna L. Divine

DLD-BW

TEXAS OIL & GAS CORP.
800 WILCO BUILDING
MIDLAND, TEXAS 79701

November 16, 1977

WORKING INTEREST OWNERS
(Address List Attached)

RE: South Millman W. I. Unit
N/2 of Section 29
T-19-S, R-28-E, NMPM
Eddy County, New Mexico

Gentlemen:

Enclosed are two sets of revised pages 2 and 3 for replacement of those so numbered pages contained in the Joint Operating Agreement tendered you in connection with drilling and operations on the above referenced property. Please discard pages 2 and 3 originally submitted and substitute therefor these revisions which correct typeographic errors in the representation of royalty and working interest in item "4. Interests of Parties".

Thanking you for your attention to this matter, I am,

Very truly yours,

Darrell F. Smith
District Land Manager

DFS/gv

Attachment

TEXAS OIL & GAS CORP.
800 WILCO BUILDING
MIDLAND, TEXAS 79701

November 11, 1977

WORKING INTEREST OWNERS
(Address List Attached)

Re: South Millman W. I. Unit
N/2 of Section 29,
T-19-S, R-28-E NMPM,
Eddy County, New Mexico

Gentlemen:

Enclosed herewith for your review and execution are two (2) copies of the captioned Operating Agreement dated August 22, 1977, and two (2) copies of the Authority For Expenditure for the drilling of the 11,100 foot Morrow formation test well.

Please return one fully executed copy of the Operating Agreement and Authority For Expenditure to Texas Oil & Gas Corp. After each party has returned an executed copy of the Operating Agreement, all parties will be furnished a complete set of signature pages.

Thank you for your cooperation.

Sincerely yours,

Doyle John Snow

DJS/scn
encls.

ADDRESSEE LIST FOR:

South Millman W. I. Unit
N/2 of Section 29, T-19-S, R-28-E NMPM
Eddy County, New Mexico

Columbia Gas Development Corporation
P. O. Box 1350
Houston, Texas 77001

Attention: Mr. John King

Exxon Company U.S.A.
P. O. Box 1600
Midland, Texas 79701

Attention: Mr. Jack Naumann

Texaco Inc.
P. O. Box 3109
Midland, Texas 79701

Attention: District Landman

Gulf Oil Corporation
P. O. Drawer 1150
Midland, Texas 79702

Attention: Mr. R. E. Griffith

Peirce

TEXAS OIL & GAS CORP.
800 WILCO BUILDING
MIDLAND, TEXAS 79701

October 5, 1977

Texaco Inc.
P. O. Box 3109
Midland, Texas 79702

Attn: Mr. Bob Hellman

Re: South Millman Prospect
N/2 of Section 29,
T-19-S, R-28-E NMPM,
Eddy County, New Mexico

Gentlemen:

Enclosed for your review and approval are two copies of the Authority for Edpenditure for the Exxon State Com. "B" #1 Well, to be located 1980 feet FN&EL's of Section 29. Please return one original fully executed copy of the Authority for Expenditure to our office.

As soon as we are advised as to Texaco's decision whether to participate or farmout, we will commence the preparation of the appropriate agreement.

Sincerely yours,

Doyle John Snow

DJS/sc

TEXACO

PETROLEUM PRODUCTS

PRODUCING DEPARTMENT
CENTRAL UNITED STATES
MIDLAND DIVISION

TEXACO INC.
P. O. BOX 3109
MIDLAND, TEXAS 79701

August 3, 1977

205629 - State of New Mexico Lease
Eddy County, New Mexico
So. Millman Prospect

Texas Oil & Gas Corporation
900 Wilco Building
Midland, Texas 79701

Attention: Mr. Doyle Snow

Gentlemen:

Reference is made to your letter of August 1, 1977, wherein you request Texaco's joinder in the drilling of an 11,200' Morrow well or for Texaco to farmout our interest covering the $W\frac{1}{2}NW\frac{1}{4}$, $NE\frac{1}{4}NE\frac{1}{4}$ and $N\frac{1}{2}SW\frac{1}{4}$ of Section 29, T-19-S, R-28-E. The above mentioned Morrow test well is to be drilled at a location in the $N\frac{1}{2}$ of Section 29.

Please be advised that your request is now under consideration, and we will contact you as soon as a decision has been reached.

Yours very truly,

J. A. Cooper
District Land Representative

By: B. L. Tidwell

SSB

TEXAS OIL & GAS
AUG 4 1977
MIDLAND, TEXAS

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TEXAS OIL & GAS CORP.
800 WILCO BUILDING
MIDLAND, TEXAS 79701

August 1, 1977

Texaco, Inc.
P. O. Box 3109
Midland, Texas 79702

Attention: Mr. Webb H. McDaniel

Re: State Lease #K-1429
covering the W/2/NW/4/
NE/4/NE/4 and N/2/SW/4
Sec. 29, T-19-S, R-28-E,
NMPM, Eddy Co., NM

Gentlemen:

Reference is made to our letter of June 27, 1977, wherein we requested a farmout of the NE/4/NE/4 of the above described acreage and the subsequent conversation between Mr. Cooper and myself.

Texas Oil & Gas Corp. requests Texaco's joinder in the drilling of an 11,200' Morrow formation test well to be drilled at a legal location on the N/2 of Sec. 29. The drilling of the proposed well will be subject to the terms of an Operating Agreement and AFE acceptable to all parties.

In the event Texaco elects not to participate in our proposed well, Texas Oil & Gas Corp. requests a farmout of the above described acreage subject to the following terms:

1. By drilling and completing the above described initial test well as a well capable of commercial production, Texas Oil & Gas Corp. will earn all of Texaco's interest in the initial test well proration unit, until payout.

2. Texaco will retain a 1/16 of 8/8 overriding royalty interest, proportionately reduced, in the initial test well until payout. At payout, Texaco will have the option to increase the overriding royalty to a 1/8 of 8/8 override or to convert the overriding royalty to a 50% working interest, proportionately reduced.

3. By drilling and completing the initial test well as a well capable of commercial production, Texas Oil & Gas Corp. will earn an undivided 50% interest in that portion of Texaco's acreage in Sec. 29, not included in the initial test well proration unit. Operations on such acreage as well as on the initial test well after payout will be subject to the terms of the Operating Agreement.

Exxon has agreed to farmout their acreage to Texas Oil & Gas Corp. which is the basis for our proposing the above described well. Texas Oil & gas Corp. cannot divide the Exxon farmout with the other working interest owners in the N/2 of Sec. 29, since such a division would reduce our interest by 1/2.

Thank you for considering this proposal.

Sincerely yours,

Doyle John Snow

DJS/cf

June 27, 1977

I told Jerry Cooper of Texaco we would take a 120 option to Ø the W/2 if they wanted to farm it all out - 7-14-77 WJA

Texaco, Inc.
P. O. Box 3109
Midland, Texas 79702

Attetntion: Mr. Webb H. McDaniel

Re: State Lease #k-1429 covering the NE/4 NE/4 of Section 29, T-18-S R-28-E, NMPM Eddy County, New Mexico

Gentlemen:

Texas Oil & Gas Corp. request a farmout of your acreage above described, subject to the following terms:

1. Within 90 days after execution of a formal agreement, Texas Oil & Gas Corp. will commence the drilling of an 11,200' Morrow formation test well at a legal location on the E/2 of Section 29.

2. By drilling and completing the initial test well as a well capable of commercial production, Texas Oil & Gas Corp. will earn all of your interests in the initial test well proration unit until payout.

3. You will retain a 1/16 of 8/8 overriding royalty interest, proportionately reduced, in the initial test well until payout, at which time you will have the option to oonvert the override to a 50% working interest proportionately reduced.

4. Operations on each well after payout will be subject to the terms of an operating agreement mutually acceptable to all of the working interest owners in the E/2 of Section 29.

We will appreciate your advising us any existing gas contracts covering your gas rights within Section 29.

Failure on behalf of Texas Oil & Gas Corp. to commence the timely drilling of the initial test well will result only in the forfeiture of all rights to have been earned by the drilling of the initial test well. Thank you for considering our proposal.

Sincerely yours,

Doyle John Snow

DJS/cf

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 $ 1,800.00
Producing Well Rate $ 305.00

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

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. **Overhead - Major Construction**

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

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

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

3. **Amendment of Rates**

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

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

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

1. **Purchases**

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

2. **Transfers and Dispositions**

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

E X H I B I T "D"
to
Operating Agreement

Dated August 22, 1977, between Texas Oil & Gas Corp., Operator; and Columbia Gas Development Corporation, et al, Non-Operators

SCHEDULE OF INSURANCE

Unit Operator shall carry the following insurance covering operations under this agreement at the expense and for the benefit of the parties hereto and shall require contractors and subcontractors to carry the same, to-wit:

1. Workmen's Compensation and Employer's Liability Insurance as required by the laws of the state where the property is located.

2. Contractor's or Comprehensive General Public Liability Insurance with minimum limits of at least $100,000.00 for injuries to one person; $500,000.00 for injury in one accident and $100,000.00 for property damage in one accident.

3. Automobile-Public Liability and Property Damage Insurance (with an endorsement covering non-owned and hired cars) with minimum limits of at least $100,000.00 for injuries to one person; $500,000.00 for injuries in one accident and $100,000.00 for property damage in any one accident.

4. Insurance coverage on equipment as the operator deems necessary for the protection of the joint account.

5. Catastrophe Comprehensive Liability Insurance with minimum limits of not less than $1,000,000.00.

EXHIBIT "E"

Attached to and made a part of an Operating Agreement dated August 22, 1977, between TEXAS OIL & GAS CORP., as Operator, and COLUMBIA GAS DEVELOPMENT CORPORATION et al, as Non-Operators, Eddy County, New Mexico

GAS STORAGE AND BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the Unit 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 thereto has the right, subject to existing contracts, to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market or fails to take it share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the state regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production; however, no party shall be entitled to take or deliver to a purchaser gas production in excess of three hundred percent (300%) of its current share of the volumes capable of being delivered or its current share of the allowable gas production if assigned thereto by the state regulatory body having jurisdiction unless that party has gas in storage. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator 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, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

At all times while gas is produced from the Unit 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 only, of total gas production exclusive of gas used in lease operations, vented or lost. Each party hereto agrees to hole 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 interest.

After notice to the Operator, and party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in storage less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying twenty five percent (25%) of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the proration unit of such party with gas in storage and the demoninator of which is the total percentage interest in such proration unit of all parties with gas in storage currently taking or delivering to a purchaser.

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

Nothing herein shall be contrued to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid. Such settlement shall be based upon the weighted average price, defined below, received by each overproduced party for its share of gas produced and sold. For gas sold in intrastate commerce, the price basis shall be the price received for sale of the gas. For gas sold in interstate commerce, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Power Commission pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

This agreement shall constitute a separate agreement as to each proration unit within the Unit Area and 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
between TEXAS OIL & GAS CORP., as Operator;
and COLUMBIA GAS DEVELOPMENT CORPORATION, et al,
as Non-Operators, Eddy County, New Mexico

NONDISCRIMINATION CLAUSE

TEXAS OIL & GAS CORP., hereinafter referred to as TEXAS OIL & GAS CORP., is a "contractor" within the meaning of Executive Order No. 11246 dealing with non-discrimination and equal employment opportunity.

COLUMBIA GAS DEVELOPMENT CORPORATION, ET AL, hereinafter called "contractor" in this exhibit, agrees, unless exempt therefrom, to comply with all applicable provisions of Executive Order No. 11246, as amended by Executive Order No. 11375, all applicable provisions of which are incorporated herein by reference, and (a) if contractor has more than fifty (50) employees or a contract with TEXAS OIL & GAS CORP. in excess of $10,000.00, contractor must file Standard Form 100(EEO-1), or (b) if contractor has fifty (50) or more employees and a contract of $50,000.00 or more, contractor is required to 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. Further, contractor 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 Tiele 41, Chapter 60-1.8, Code of Federal Regulations, revised as of 1/1/69, unless exempt therefrom. Contractor further warrants that no other law, regulation or ordinance of the United States, or any state, or any governmental authority or agency has been violated in the manufacture, procurement or sale of any goods furnished, work performed or service rendered pursuant to this contract.

CASE 6095: Application of Harvey E. Yates Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of its Travis Deep Unit Well No. 4 to be drilled 1980 feet from the South line and 1180 feet from the East line of Section 7, Township 18 South, Range 29 East, Eddy County, New Mexico, the S/2 of said Section 7 to be dedicated to the well.

CASE 6096: Application of Texas Oil & Gas Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the S/2 of Section 14, Township 21 South, Range 34 East, Lea County, New Mexico, to be dedicated to applicant's South Wilson State Well No. 1 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6097: Application of Texas Oil & Gas Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 29, Township 19 South, Range 28 East, Eddy County, New Mexico, to be dedicated to applicant's Exxon State Com B Well No. 1 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 6098: Application of Robert K. Hillin for a unit agreement, Chaves and Otero Counties, New Mexico. Applicant, in the above-styled cause, seeks approval for its Burro Canyon Unit Area comprising 18,656 acres, more or less, of Federal, State, and fee lands in Townships 20, 20 1/2, and 21 South, Range 20 East, Chaves and Otero Counties, New Mexico.

CASE 6099: Application of Shell Oil Company for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Blinebry, Drinkard, and Tubb production in the wellbore of its Livingston Well No. 10 located in Unit P of Section 4, Township 21 South, Range 37 East, Lea County, New Mexico.

CASE 6100: Application of D. B. Baxter for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox gas well location of his Lewis State Well No. 1 to be drilled 2180 feet from the North line and 460 feet from the West line of Section 31, Township 22 South, Range 37 East, Jalmat Gas Pool, Lea County, New Mexico, the NW/4 of said Section 31 to be dedicated to the well.

CASE 6076: (Continued from November 16, 1977, Examiner Hearing)

Application of E. L. Latham, Jr., Roy G. Barton, Jr., and R. L. Foree for a gas well curtailment and gas pool prorationing, Chaves County, New Mexico. Applicants, in the above-styled cause, seek an order temporarily shutting in, or limiting production from the La Rue and Muncy Nola Well No. 1, located in Unit O of Section 8, Township 14 South, Range 28 East, Sams Ranch Grayburg Gas Pool, Chaves County, New Mexico. Applicants further request that the Commission institute gas prorationing in said pool retroactively to date of first production and direct the gas purchaser(s) in said pool to take ratably from all wells in said pool.

BEFORE THE OIL CONSERVATION COMMISSION

OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF TEXAS OIL & GAS CORPORATION FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO	:	CASE NO. 6097

APPLICATION

COMES NOW TEXAS OIL & GAS CORPORATION, by its attorneys, and in support hereof, respectfully states:

1. Applicant has the right to drill its Exxon State Com. B No. 1 Well in the Morrow formation as a gas well, which is to be located at a point 1,980 feet from the North line and 1,980 feet from the East line of Section 29, Township 19 South, Range 28 East, N.M.P.M., Eddy County, New Mexico.

2. The applicant has dedicated the N/2 of said section to this well, and there are interest owners in the proration unit who have not agreed to pool their interests.

3. Applicant should be designated the operator of the well and the proration unit.

4. 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 unit, all mineral interests, whatever they may be, from the Wolfcamp through the Morrow formation underlying the N/2 of said Section 29, should be pooled.

5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

WHEREFORE, applicant prays that:

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

B. Upon hearing the Commission enter its order pooling all mineral interests, whatever they may be, from the Wolfcamp through the Morrow formation underlying the N/2 of said Section 29, Township 19 South, Range 28 East, N.M.P.M., Eddy County, New Mexico, to form a 320-acre spacing unit dedicated to applicant's well.

C. And for such other relief as may be just in the premises.

TEXAS OIL & GAS CORPORATION

By: _____
Joel M. Carson

LOSEE & CARSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

DRAFT

dr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 6097

Order No. R-5607

APPLICATION OF TEXAS OIL & GAS CORPORATION

FOR COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 30, 1977, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of December, 1977, the Commission, a quorum being present, 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 Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Texas Oil & Gas Corporation, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 29, Township 19 South, Range 28 East, NMPM, _____, Eddy County, New Mexico to form a standard spacing and proration unit for said formation.

(3) That the applicant has the right to drill and proposes to drill its Exxon State Com B Well No. 1 ~~located on~~ at a ~~Exxon #1 well~~ standard location ~~thereon~~ on said unit.

(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 that 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 that 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 $1800.00 per month while drilling and $305.00 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 March 1, 1978, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp and Pennsylvanian formations underlying the N/2 of Section 29, Township 19 South, Range 28 East, NMPM, ~~[illegible]~~, Eddy County, New Mexico, are hereby pooled to form a standard 320- acre gas spacing and proration unit to be dedicated to The Texas Oil and Gas Corporation ~~applicant's~~ Exxon State Com B Well No. 1 to be drilled at a standard ~~location thereon.~~

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of March, 1978, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of March, 1978, Order (1) of this order shall be null and void and of no effect whatsoever; unless said operator obtains a time extension from the Commission 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 Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Texas Oil & Gas Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the Commission 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 Commission 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 Commission and the Commission 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 Commission 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 that 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. $1800.00 per month while drilling and while producing

(9) That $305.00 per month is hereby fixed as reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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 interests 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 be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

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

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

Case 6097

Texas Oil & Gas

Compulsory pooling

Exxon State Com B #1

Morrow formation

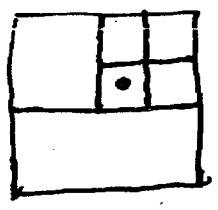
1980 FNL

May be delayed 1980 FEL

S29 T19S R28E

Ellis Co.

N/2 of S



Wolfkamp Com

Morrow

formation

Called in by Joel Carson

11-10-77