CASE 6264: DOYLE HARTMAN FOR COMPULSORY POOLING, AND AN UNORTHODOX GAS WELL LOCATION, LEA COUNTY

Continue to July 6

CASE NO.

6264

APPLICATION,

TRANSCRIPTS,

SMALL EXHIBITS,

ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

JERRY APODACA
GOVERNOR

NICK FRANKLIN
SECRETARY

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

October 20, 1978

Mr. Doyle Hartman
Suite 508
C & K Petroleum Building
Midland, Texas 79701

Re: Extension of Time
Order No. R-5767

Dear Mr. Hartman:

Reference is made to your letter of September 21, 1978, copy of which arrived today, requesting an extension of time in which to commence the drilling of the unit well on the lands pooled by Order No. R-5767. This order requires the unit well to be commenced by October 1, 1978, and it is our understanding that you are negotiating with certain of the pooled parties in order to work out an amicable agreement with them. You have therefore delayed commencing the unit well.

Your request for an extension of time until December 1, 1978, in which to commence the drilling of a well on the W/2 NE/4 of Section 36, Township 24 South, Range 36 East, Lea County, New Mexico, is hereby approved.

Very truly yours,

JOE D. RAMEY
Division Director

JDR/DSN/og

cc: Oil Conservation Division
Box 1980
Hobbs, New Mexico

DOYLE HARTMAN
Oil Operator
SUITE 508
C & K PETROLEUM BUILDING
MIDLAND, TEXAS 79701

(915) 684-4011

September 21, 1978

Energy and Minerals Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Case 6264
Order R-5767
W/2 NE/4 Sec. 36,
T-24-S, R-36-E,
Lea County, N. M.

Attention: Mr. Dan Nutter

Gentlemen:

Reference is made to our telephone conversation today concerning the above noted case in which the NMOCC's Order (No. R-5767) dated July 17, 1978, provided for the proposed well to be commenced by October 1, 1978.

Some of the force-pooled parties, representing a substantial interest, are attempting to work out a mutually agreeable arrangement with me as to their interest in the well. I am making every effort to accommodate these parties, but have encountered fairly complicated legal problems with their attorney. These problems are taking more time than anticipated resulting in an unforeseen delay in commencing the proposed well. As a matter of fact, I am drilling other previously unscheduled wells in an effort to keep control of the rig with which I plan to drill on the force-pooled tract.

Phillips Petroleum Company, which voluntarily farmed out one half of our proposed 80-acre Jalmat proration unit, is agreeable to an extension of time to allow me to settle these problems.

Therefore, I respectfully request an extension of time under Order No. R-5767 until December 1, 1978, in which to commence a well.

Your consideration will be very much appreciated and please let me hear from you as soon as is conveniently possible.

Yours very truly,

Doyle Hartman

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
6 July 1978

EXAMINER HEARING

IN THE MATTER OF:

Application of Doyle Hartman for compulsory pooling, Lea County, New Mexico. CASE 6264

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Lynn Teschendorf, Esq.
Legal Counsel for the Division
State Land Office Building
Santa Fe, New Mexico 87501

For the Applicant: JASON KELLAHIN, ESQ.
KELLAHIN & FOX
500 Don Gaspar
Santa Fe, New Mexico 87501

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CERTIFIED SHORTHAND REPORTER
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I N D E X

E X H I B I T S

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730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

MR. NUTTER: We'll call Case Number 6264.

MS. TESCHENDORF: Case 6264. Application of Doyle Hartman for compulsory pool and an unorthodox gas well location, Lea County, New Mexico.

MR. KELLAHIN: If the Examiner please, Jason Kellahin, Kellahin and Fox, appearing for the applicant.

I have two witnesses to be sworn.

(Witnesses sworn.)

MR. KELLAHIN: Call as our first witness Mr. Davidson.

J. A. DAVIDSON

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Would you state your name, please?

A. James A. Davidson.

Q. What business are you engaged in?

A. Independent Land Man.

Q. And where do you live?

A. Midland, Texas.

Q. In connection with your work as an independent land man, have you done anything for Doyle Hartman in

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connection with Case 6264?

A. Yes. I've done all the land work.

Q. Have you ever testified before the Oil Conservation Commission and its successor and made your qualifications a matter of record?

A. Yes, sir.

MR. KELLAHIN: Are the witness' qualifications acceptable?

MR. NUTTER: Yes, they are.

Q. (Mr. Kellahin continuing.) Mr. Davidson, referring first to what has been marked as the applicant's Exhibit Number One, would you identify that exhibit, please?

A. This is essentially a large land plat showing the proposed 80-acre unit and the location of the proposed well.

Q. Now, the area colored in yellow, is that the area to be dedicated?

A. Yes, sir.

Q. And what is the ownership of that unit?

A. The ownership is 1/2 Phillips, the southwest of the northeast is owned by Phillips Petroleum Company, and the northwest northeast is owned by Shell Oil Company with a question mark as to the ownership that we'll get into later. We have a farm-out from Phillips so we re-

present the southeast of the southwest southeast.

Q. Now, the northwest portion is shown to be Millard Deck. You'll discuss that later, will you not?

A. Yes, sir. We have some exhibits to submit on that.

Q. Now, you do have a farm-out then for the 40 acres tract?

A. Yes, sir.

Q. And your only concern, then, is force pooling the remainder of that to form a west half of the northeast quarter unit?

A. Yes, sir.

Q. Now, what effort have you made to obtain voluntary agreement?

A. Well, we have been trying to reach an agreement either to get a farm-out from Shell, get Shell to join and pay its way, or to sell us its lease for over two months.

Q. Now, you've written a series of letters to Shell, have you not?

A. Yes, sir.

Q. And those are Exhibits Two, Three, and Four?

A. Yes, sir.

Q. Would you discuss those three exhibits, please, sir?

A. Exhibit Two is a letter of March 7 when we proposed to Shell that we drill this 80-acre tract and that we take just simply a farm-out from Shell.

Q. Now, did you get a response to that letter?

A. We got -- had a phone call from this Mr. Teague, who said that he was no longer in the New Mexico and that we should get hold of Mr. Hrachovy.

Q. So Exhibit Number Three, then, is --

A. Is our subsequent letter after that conversation wherein we again just simply re-reviewed our prior request, but addressed it to Mr. Hrachovy.

MR. NUTTER: Well now, Mr. Davidson, this case involves the west half of the northeast of Section 36, but this letter is in reference to the northeast of the northwest of 36, which isn't these lands.

MR. KELLAHIN: It's the northwest of the northeast in letter, Exhibit Three, Mr. Nutter. Maybe I didn't --

MR. NUTTER: Northeast of the northwest.

A. Oh, yeah, it's a typographical error in part of it, Mr. Nutter, but it -- we went ahead and talked about it further down here as in this paragraph two, didn't we, the northwest --

MR. NUTTER: Well, yeah, but you were talking about then, you were talking about a unit comprising the

northeast of the northwest and the northwest of the northeast, which would be an 80-acre unit running east-west in the middle of the section there, and this case involves the west half of the northeast.

A. Well, we corrected that. Now, let's look at Exhibit Three. I think, did we not then correct it -- this letter has, it has the correct descriptions, I believe, the northwest northeast and southwest northeast; that letter's --

MR. NUTTER: Okay, so probably what we have to do is completely disregard Exhibit Two.

A. Yes, sir, probably so. When we said in this Exhibit Three that please disregard that prior letter.

MR. NUTTER: Okay.

A. So we probably shouldn't even submit this.

MR. NUTTER: Okay.

Q. (Mr. Kellahin continuing.) In Exhibit Number Three, you did ask for a unit to be formed in the northwest of the northeast and the southwest of the northeast?

A. Yes, sir.

Q. As shown in paragraph two of that Exhibit, is that correct?

A. Yes, sir.

Q. Did you get a response to that letter?

A. No, we didn't hear from Shell at all in regard

to this letter and --

Q. Did you write them again?

A. Yes, sir, then we wrote them Exhibit Four on May the 22nd and we told them briefly that we had this Phillips farm-out with time running on it and that if they did not wish to farm-out to this 80-acre unit, we would like for them to pay their way and we submitted an AFE with this letter.

MR. NUTTER: Well now, how deep does Shell own the rights, or does Shell -- Shell is indicated here on Exhibit One as having the deep rights and Phillips is the lease owner there, right?

A. Yes, sir.

MR. NUTTER: Okay, where do Shell's rights start?

A. Well, Shell's rights start at surface yet they have terminated an agreement that has expired, which is Exhibit Five.

MR. NUTTER: And we're coming to that.

A. Yes, sir, we're coming to that.

Q. (Mr. Kellahin continuing.) But did you get a response then to your Exhibit Number Four?

A. Yes, Shell told us that they were not interested in participating in the well and also that they wouldn't farm-out to us.

Q. Did they put that in writing?

A. No, sir, they -- it was a phone call.

Q. Now, on your Exhibit Number Four, there are a couple of attachments. What is the purpose of those?

A. The first attachment is to show that this Warrior Shell State that is underlined and involves this farm-out that we have in Exhibit Five, has not produced since 1973, and the other is the AFE that we sent Shell with this letter.

Q. Now is that the same AFE that has been submitted to other interest owners?

A. Yes, sir.

Q. And accepted by them?

A. Yes, sir.

Q. Now, referring to Exhibit Number Five, would you explain what --

A. Okay, in 1969 Shell made a farm-out to Schuehle and Yuronka in Midland, and it has a paragraph in here -- that a well was completed but it has a paragraph in here in paragraph four, in which it says that at such time -- in effect, it says that in such time as the well produces then Shell can give a telegraphic or written notice and receive a reassignment of this acreage.

Q. You said at such -- if Shell produces. You mean if it ceased production, did you not?

A. Ceased, yeah, if the well ceased producing, and we've asked Shell on several occasions in letters and also as late as last week, had they exercised this right of reassignment, and they won't tell us. They just say they haven't had time to check their files.

Q. Now, as shown by the attachment to your Exhibit Number Four, that well ceased production when?

A. In 1973.

Q. Now, did you contact Mr. Yuronka?

A. Well, sir, we -- we set out as shown here on Exhibit Six, we sent a letter. When we could not get Shell to tell us whether they had given this notice of cancellation. We sent a letter on June 16th, which is Exhibit Six, to all the parties that held under the Yuronka assignment, and explained to them that we -- the title was confused and we weren't sure whether they owned these rights or Shell.

Q. Well now, did Mr. Yuronka tell you --

A. Yes.

Q. -- who he had assigned --

A. No, we checked the Lea County records, or I did, and then Mr. Yuronka called me and confirmed the fact that he and Schuehle had no interest. All they had was an override, but as best we know, these people that we listed here are the owners under that chain of title.

Q. As shown by the records in Lea County?

A. Yes, sir.

Q. Did you get a response from those people?

A. We heard finally from Mr. Nelson -- well, we -- Mr. Nelson from Hobbs called and he was -- he said he thought his rights had expired but he didn't know, and that's the only one we heard from.

Q. Now, General Petroleum did not respond?

A. No, sir.

Q. Nor did Mr. Bryant?

A. No, sir.

Q. Now, where does Mr. --

A. Mr. Deck?

Q. Mr. Deck.

A. Okay, he --

Q. Let's go to Exhibit Number Seven.

A. All right, sir. I was in Houston on some other business on June the 15th, so I called Shell and told them this hearing was getting pretty close, and they acted quite agitated that we had docketed it.

So we then, Mr. Hartman and I got together, and we wrote them this letter in which we offered them $50,000 and a 3/32nds override for rights down to 4000 feet on a 120-acres that includes this 40-acre tract that would go in our unit, and we, of course, also told them

here that we were assuming this gas would be dedicated to El Paso or an interstate system. That's the only way we could handle it.

Q. Now, did you get a response to that proposal?

A. We got a call from them in which they offered to sell us rights just through the Jalmat on the 40 that's involved in this -- in the forced pooling hearing, the northwest of the northeast, for a third of this money. This figures out about $400-plus an acre, but we -- and we then called them back the next day and told them we'd accept that if they would cut the override to a 1/16th, and we never did hear from them again.

Q. So then you filed the forced pooling action?

A. Yes, sir. It was filed and we just came on to the hearing.

Q. Now, referring to what has been marked as Exhibit Number Eight.

A. Okay, sir, the biggest owner under the Schuehle-Yuronka assignment that comes from Shell is Mr. Deck of Eunice, New Mexico, and the reason we didn't send him one of these prior letters, we have an agreement with him if he owns anything, he's agreed under this farm-out letter to farm it out to us, and his lawyer, the terms are agreed to, but his lawyer's examining it and that's why we don't have a signed copy.

MR. NUTTER: Now, he's got a farm-out from Yuronka and Schuehle.

A. He just was assigned that -- those rights.

MR. NUTTER: Okay, he was assigned under the Yuronka and Schuehle agrement.

A. Yes, sir.

MR. NUTTER: Or contract. Yuronka - Schuehle have lost theirs.

A. Yuronka and Schuehle ended up with just a 1/32nd and they sold it to some other people.

And the title went from Deck to this group of people that we listed in that copy of the letter and Deck retained the biggest interest, 11/16ths, Mr. Deck did.

So what we've got is two chains of title. We've got Shell, if the Schuehle - Yuronka assignment is cancelled. We've got Mr. Deck and these General Petroleum, et al, if it hasn't been cancelled, and Shell won't tell us what they've done about it.

MR. NUTTER: Well now, if Shell cancelled the -- if Shell cancels, the Schuehle - Yuronka deal, because the well was abandoned back in '73, does that also cancel this other group of people --

A. Yes, sir.

MR. NUTTER: -- and Deck's interest?

A. Yes, that cancels everybody from Schuehle and

Yuronka through Deck.

MR. NUTTER: And the only thing you have left is the Shell --

A. Yes, sir, the original owner of this State of New Mexico lease.

MR. KELLAHIN: The confusion is brought about by the fact that Shell won't tell you whether they did or did not terminate that assignment.

Q. (Mr. Kellahin continuing.) Is that correct?

A. Yes, or plan to or think they can or anything.

MR. NUTTER: Well, I can't read what that paragraph four says on this copy. Can -- do you have a copy there that you can read it?

MR. KELLAHIN: I can't read mine. I was hoping you wouldn't say that.

A. Okay, it says whenever after the time of commencement of the said well there is neither production from said land nor work at a wellsite in trying to obtain or restore production, I think it's either by reworking a well thereon or drilling a new well, for as many as 120 consecutive days, --

MR. NUTTER: Now read that. Can't read the rest of it there on that line.

A. Yeah, it's going to say assignor has the right by giving written or telegraphic notice to assignee thereof

and thereupon the leasehold estate covered by this assignment shall -- can't read that -- and the termination notice revert to and be owned by Shell.

We may have to get our file copy that's in Midland and send you a copy, because there's one -- there's three words we can't read.

MR. NUTTER: Well, what I was going to drive at, does it take actual written notice from Shell to cancel it?

A. Yes, sir, it takes a telegram or a written letter, that's what the --

MR. NUTTER: It doesn't just die of its own accord.

A. No, sir. It says that Shell has to give them this notice.

Of course, we've had two of them, Yuronka and Deck, that their opinion is that it's terminated and Shell has it, but we still don't know if this notice was given, and there's no re-assignments in Lea County from these people to Shell. I've checked those records.

MR. NUTTER: Would there have to be filed or when -- if it reverted back to Shell, would it --

A. Yes, sir, I would think --

MR. NUTTER: Would the re-assignment back to Shell have to be recorded?

A. Yes, sir, you would expect it to be recorded --

MR. KELLAHIN: If the Examiner please, that's a legal question, and I would say it would not have to be recorded except to give notice to other parties.

If I were representing Shell I would certainly record it.

A. Yeah.

MR. KELLAHIN: But --

A. I could be in Shell's file in Houston, you know. It's possible.

MR. KELLAHIN: A recording of the instrument would not affect the validity of the assignment. They could hold it.

MR. NUTTER: It does take a notice from Shell to these people to terminate it.

A. Yes, sir, they have to give them written notice or telegraphic notice.

MR. NUTTER: And as far as you know, they haven't done that?

A. No, sir, and I asked them --

MR. NUTTER: At least Yuronka - Schuehle never got it.

A. They didn't get it, and Shell, I asked them again as late as, oh, four days ago, I called them, and in Mr. Hartman's presence, and asked them that question again

because I could anticipate this muddle of these -- this title and they said we haven't had time to check our file to tell what's been done. So we still don't know.

Q. (Mr. Kellahin continuing.) Mr. Davidson, in any event, Mr. Hartman is asking that the 80 acres be compulsory pooled regardless of where the ownership may be.

A. Yes, sir.

Q. Were Exhibits One through Seven prepared by you or consist of letters directed by you and in the regular course of business?

A. Yes, sir, and Mr. Hartman prepared the AFE. I did not prepare that, but I sent it; mailed it. So between us we prepared all that.

MR. KELLAHIN: At this time we offer in evidence Exhibits One through Seven, inclusive.

MR. NUTTER: Applicant's Exhibits One through Seven will be admitted in evidence.

MR. KELLAHIN: That's all I have for Mr. Davidson.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Well, Mr. Davidson, before you leave, you stated that Shell had agreed --

A. That statement I made about the one 40 -- the one that we're force pooling, Mr. Nutter?

Q. They had agreed to sell this one 40-acre tract from the surface down -- not from the surface down to 4000, but only the Jalmat, right?

A. Yes, sir, and I mislead you in this degree. When they called, they said we've got three layers of management and one layer will recommend this deal if you'll take this one 40 down through the Jalmat on the 3/32nds for the $400-plus an acre.

Mr. Hartman and I talked about it and we decided that that would be acceptable to us if we could cut the override to a 1/16th.

Q. Now the 4000 feet that you had proposed in your letter of June 16th, was considerably deeper than the Jalmat, wasn't it?

A. Yes, sir, it's a little bit deeper.

Q. Well, I notice that in one letter here you -- the letter of March 15th to Shell, you were proposing that you would commence a 3650-foot Queen test, so that would be -- that 3650 feet would be well below the Jalmat and --

A. Yes, we were proposing to buy rights through the Queen and with a little bit of leeway for the $400, and you know, plus dollars an acre and a 3/32nds override. We thought that was a, you know, a fairly handsome offer

to try to arbitrate this thing.

Q. And this way you might be able to get a well in what pool is it here, the Langlie Mattix or what?

MR. HARTMAN: Langlie Mattix.

Q. You might be able to get a Langlie Mattix-Queen oil well then, also.

A. Yes, sir.

Q. Okay.

MR. HARTMAN: Mr. Nutter, the reason we made the 4000-foot offer was just, you know, to add a little extra acreage in case there was any argument as to geological picks, because we've noticed in their records, you know, in their dealings with Yuronka and Schuehle and, I think, with Deck, that we did not agree with some of their geological picks to start with and just to make things simple we would --

Q. 4000 feet was ample to take care of all the Queen production that was there.

MR. HARTMAN: Right, that would eliminate any arguments, that is correct.

DOYLE HARTMAN

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

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Santa Fe, New Mexico 87501

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Would you state your name, please?

A. Doyle Hartman.

Q. Are you the applicant in this case?

A. Yes, I am.

Q. Mr. Hartman, are you familiar with the application in this case?

A. Yes, sir.

Q. Just what is it you're proposing to do?

A. We're proposing to compulsory pool the 80-acre tract located in the west half of the northeast quarter of Section 36, Township 24 South, 36 East, and let that be dedicated to the Jalmat Pool in the event a commercial well is drilled, commercial Jalmat well is drilled on that tract.

Q. Now, before we get into the other exhibits, would you refer back to the AFE which is attached to Exhibit Number Four. Was that prepared by you?

A. Yes, it was.

Q. And that's also the same AFE that is attached to Exhibit Number Nine, is it not?

A. That is correct.

Q. Okay, would you identify Exhibit Number Nine?

A. Okay, Exhibit Number Nine is a letter to all the working interest owners that come down -- all the working interest owners in the northeast quarter -- I mean the northwest quarter of the northeast, that come through the Yuronka - Schuehle chain of title, other than Millard Deck. Millard Deck had agreed to us to farm out his interest subject to his lawyer's approval, and we had sent him -- it was Exhibit Eight -- a copy of a farm out agreement, and Exhibit Nine is just a letter to the rest of the working interest owners in the event they actually owned, you know, these rights and they wished to participate with us in drilling the well. We were sending them a copy of the AFE.

Q. Now, is that the group of people that were discussed by Mr. Davidson?

A. Yes, that's M. F. Nelson and Mr. Bryant.

Q. Now, did you get a response from them?

A. The only response we've received actually came through Millard Deck and it was from Mr. Nelson. Mr. Nelson was concerned when he received notice of this forced pooling that we were trying to take his acreage away from him in the northwest quarter of Section 36.

I explained to Mr. Deck that wasn't the case and, you know, he could either join us in drilling the well or, you know, farm out his interest on the same terms

that we were offering Deck.

Q. Now, your AFE, is that based on your drilling experience in the area?

A. Yes, it is, and sometimes a well will be a slight amount cheaper but these are very realistic costs.

Q. Do you feel they're reasonable?

A. Yes, I do.

Q. Now, referring you to Exhibit Number Ten, will you identify that exhibit?

A. Exhibit Number Ten is an AFE -- not an AFE, but a model form operating agreement that we would be -- we would enter into with either Shell or any other participants that wish to join us in the drilling of a well.

Q. Now, does that make provision for cost of supervision?

A. Yes, it does.

Q. And what are those costs?

A. Okay, we are -- $1500 per well drilling well overhead rate. By the way these costs are listed under Exhibit C of the operating agreement. $200 per well, producing well overhead, and the overhead rates do not include field supervision.

Q. Do you have no charge for field supervision?

A. We charge separately for field supervision.

Q. And what charge is that?

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A. It typically, I use a consultant on all our work, and his bills average $250 per day. That's his fee plus expenses.

Q. That's while he's working?

A. That's while he's working on location.

MR. NUTTER: Well, that's directly chargeable to the well's operating cost, though, isn't it?

A. Well, that's correct. That's what we're implying, it is operating cost.

MR. NUTTER: And these are combined fixed rates that you don't have to justify or keep account of?

A. Yes, sir.

Q. So you're talking about $1500 a day for a drilling well --

A. That's $1500 per month.

Q. I mean per month, and $200 per month for supervision of a producing well.

A. Right.

Q. And that's your normal rates?

A. Yes.

Q. Is this a standard form of operating agreement?

A. Yes, sir.

Q. Has it been accepted by the other interest owners?

A. Well, as of this point we've had no one join

us but it's --

Q. Mr. Deck has approved it, in the event he does join you?

A. Well, Mr. Deck said he was going to farm out. Right.

Q. Now, referring to Exhibit Number Eleven, would you identify that exhibit, please?

A. Okay, Exhibit Number Eleven is the -- is, I guess, a well schematic on the east offset to our proposed location. This well was originally -- it's called the -- it was originally drilled by R. Olsen Oil Company and it was named the McKinney No. 1. It was drilled to total depth of 3500 feet in the Langlie - Mattix out of the Seven Rivers and the Queen interval for initial potential of 9 barrels of oil per day and 2-million cubic feet of gas.

Q. Now where is that well located with reference to your proposed location on the --

A. Okay, it's the east offset.

Q. A direct offset?

A. That's right, it's a direct east offset.

Q. Now, what happened to that well?

A. Okay. The reason we're -- that we've included this as an exhibit and we're concerned about this well, in approximately 1969 Texas Pacific requested and received

approval to convert this well to a water disposal well out of the open hole interval below 3140 feet, 3148 feet, and as of this -- as of May of this year, the well had a cumulative water disposal injection of 6.167 million barrels of water, and the current injection rate is approximately 4000 barrels per day at 715 psi.

Q. And injection is still going on?

A. That is correct.

Q. Now have you drilled any other wells in this area?

A. Yes, in this -- in both of these pools, the Langlie - Mattix and Jalmat.

Q. Now, did you encounter water in any of them?

A. We have encountered some water problems and our experience has shown us -- that's one of the reasons we started checking this well out, is to make sure no one was injecting water into one of our pay zones around us.

And it scared us quite a bit when we actually saw what -- how much water they had injected.

MR. NUTTER: When did they start injecting in that well?

A. 1969. This is the information Mrs. Carpenter gave me down at Hobbs.

Q. Now if you drill the well at the location you propose, is there a chance you could encounter the water

that has been injected into this well?

A. Yes. As a matter of fact, any place on that 40 in that lower -- lower part of the Seven Rivers, there's an excellent chance we're going to encounter water.

Q. That would then be in the Langlie - Mattix Pool, would it not?

A. Well, in the lower part of the Jalmat gas pool, also.

Q. More in Jalmat?

A. Right.

Q. Does that increase your risk in drilling this well?

A. Well, I think it increases the risk because 6-million barrels of water is pretty hard to account for even, you know, in those zones, and our -- that's the reason we're asking for a non-standard location, so that we can get as far away from, you know, the injection that's occurred there.

Q. And you feel the location you have chosen would best avoid the water, if possible?

A. It would best avoid the water from this well other than say in the southwest of the northwest, but also wells, say the well in the southeast of the northwest on this other Shell tract, they've had water problems, too, so we would -- we're trying to -- we feel like getting up

in the extreme northwest corner of our tract would allow us to get away from the water as likely as any other location.

Q. Now under the circumstances you've outlined, what do you feel is a reasonable risk factor for drilling this well?

A. Well, considering the fact that there are very few good producers in Section 36, or at least in this portion of Section 36, and the possible water problem, I think I feel like we should receive the maximum penalty allowed by the Commission.

Q. Do you ask that the Commission designate you as the operator of the well?

A. Yes, I do.

Q. Were Exhibits Nine through Eleven prepared by you or under your supervision?

A. That's correct.

MR. KELLAHIN: At this time we offer Exhibits Nine through Eleven, inclusive.

MR. NUTTER: You didn't offer Eight awhile ago. You got through Seven.

MR. KELLAHIN: I didn't? Well, at this time I would like to offer Eight.

MR. NUTTER: So it's Eight through Eleven.

MR. KELLAHIN: Eight through Eleven, thank you.

MR. NUTTER: Will be admitted in evidence.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Hartman, I don't know if you discussed it or not, I may not have been listening --

A. Okay.

Q. -- but this Petco 2-Y, which is immediately south of this Texas Pacific injection well, disposal well, it's noted here on the Exhibit Number One that it's a dual completion. Is it a Jalmat gas well?

A. The upper part is.

Q. Does it -- has it been affected by the disposal of water into the No. 1?

A. I'm not exactly sure. It is a poor producer but it does make gas. It hasn't been affected drastically. Maybe if you use pumping equipment you could overcome the problem, but in the lower portion they have. I called Petco last Thursday and talked with the production superintendent in Breckenridge, Texas, about this problem and he said it -- the lower was shut in and that they had been watered out several years ago.

Q. Well, that's in the Langlie - Mattix well.

A. Yes, that is in the Langlie - Mattix.

Q. And he didn't -- he indicated it's still pro-

ducing from the Jalmat, though?

A. It is producing from the Jalmat and I checked the production records and it produces, you know, from month to month approximately Mcf per day to 50 Mcf per day.

Q. Now what about other gas wells in the Jalmat in this area? Is the Shell well over here in the southeast of the northwest still producing?

A. No, it's not. That's the one that was abandoned in 1973 that, you know, we listed in one of those exhibits.

Q. How about the one up here in the northwest northwest?

A. Okay, that is a good producer but it is now classified as a Jalmat oil well. That's sort of a reef well. It produced -- it's been an excellent well. It produces approximately 450 Mcf of gas per day and I believe about 22 barrels of oil per day. That was, you know, that was last year's average production.

Q. And then there are no other gas wells until you get up here into the north half of the south half of Section 25, which are good half a mile away.

A. Well, as a matter of fact, I own an interest with Burleson and Huff in the southwest of 25, and our well in the southwest southwest of 25 there is a very poor producer also.

Q. I see.

A. And we're presently deepening the well in the northeast of the southeast or of the southwest to a Langlie - Mattix, and one other point I'd like to make.

In the No. 2 Harrison that listed there in the southeast of the southwest, we drilled that well, I guess, in approximately February and completed that in the Langlie - Mattix and we're now flowing about 120 barrels of water per day. We thought that was real strange when we first drilled it and then when I got to checking, this well over here, that Texas Pacific well, I think we realized that could be where part of the push is coming from.

Q. Well now, is the Texas Pacific disposing into the Jalmat or the Langlie - Mattix?

A. They're disposing into both, lower Jalmat and Langlie - Mattix.

Q. Disposing into both, I see.

A. And we're probably at this point just going to have to -- our pay is going to have to be produced, you know, at the interval above where they're disposing of it. I don't believe there's any way we could make a well --

Q. Well now, is that Texas Pacific well an injection well in a waterflood project or is it a disposal well?

A. It's a disposal well.

Q. Into two -- into two reservoirs, Jalmat and Langlie - Mattix.

A. That's correct. That is correct. And that water is coming from the Watkins and Woolworth leases in Sections 26 and 35, and I think they're gathering water from other operators in the area.

Q. When would you know, Mr. Hartman, who's being pooled here, whether it's Shell or whether it's this group of people?

A. We're hoping that they will --

MR. DAVIDSON: We'd like to get an order, if we get one at all, force pooling both groups, Mr. Nutter.

MR. NUTTER: Well, the order, if entered, would be directed to all mineral interest owners, but we would like to know who we're entering an order -- who we're directing that --

MR. DAVIDSON: Well, I think if the order comes out, then Shell is going to tell us something.

We just have not been able to get them to tell us the effect of this hard to read paragraph in that -- in that assignment.

MR. NUTTER: Well now, the other Mr. Kellahin sent us a supplemental letter to this application on June 15th, Mr. Kellahin, and he stated, "Please continue the above referenced forced pooling case so that the following

additional nonconsenting interests can be served with notice." Then he listed Millard Deck, General Petroleum, John Bryant, M. F. Nelson, John Yuronga, R. G. Schuehle, and Warrior, Inc.

Now are those all of the people that have an interest in the case that Shell doesn't have?

MR. DAVIDSON: Yes, and the reason Warrior's in there is because we're not sure in talking to Deck if he included Warrior -- this acreage in his Warrior conveyance that he made. He's not sure and we're not sure. It's not of record.

MR. NUTTER: So we're not sure of whether Deck has an interest or not and if he does have we're not sure how much interest he's got and how much he may have conveyed to Warrior and some other people.

MR. DAVIDSON: All we know is that we've either got Shell 100 percent or this group of people 100 percent. But we don't know the effect between the two groups.

MR. NUTTER: And you don't know the effect within the group.

MR. DAVIDSON: Well, the only difference in the ownership within the group would be that there's a vague, vague possibility that's pretty remote, that Warrior has Deck's interest, but we don't think so. We don't see

a conveyance in Lea County, and he doesn't think so, but we know he conveyed all his property, supposedly to Warrior, but he probably left this one out because he and Warrior thought Shell had it back.

MR. NUTTER: He didn't know for sure he had it so he hasn't conveyed it?

MR. DAVIDSON: Yes, sir. That was the only reason we put Warrior in there.

A. Mr. Nutter, also if you'll notice in Exhibit Number Four, on the second page there we sort of -- we brought this point out about the Warrior - Deck situation in our next to the last paragraph of that letter, and at that time --

MR. NUTTER: Which exhibit is that?

A. This is Exhibit Four. This is to Shell Oil Company of May 22nd.

At that time Shell, you know, could still not -- still haven't told us, but they hadn't told us that they had not asked for it back, but we did bring this point out, you know, about that possibility.

This is where we were sort of asking them to at least let us know who owns it.

MR. NUTTER: Okay, are there any other questions of Mr. Hartman? He may be excused.

Do you have anything further, Mr. Kellahin?

MR. KELLAHIN: That's all we have in this case.

MR. NUTTER: Does anyone have anything they wish to offer in Case Number 6264?

Take the case under advisement.

(Hearing concluded.)

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Court Reporter, DO HEREBY CERTIFY that the attached and forgoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill from my notes taken at the time of the hearing.

Sally Walton Boyd CSR
Sally Walton Boyd, C.S.R.

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6244 heard by me on 7/6, 1978.

....., Examiner
New Mexico Oil Conservation Commission

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

JERRY APODACA
GOVERNOR

NICK FRANKLIN
SECRETARY

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

July 18, 1978

Mr. Jason Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Re: CASE NO. 6264
ORDER NO. R-5767

Applicant:

Doyle Hartman

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCC x
Artesia OCC x
Aztec OCC

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
21 June 1978

EXAMINER HEARING

IN THE MATTER OF:

Application of Dyle Hartman for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico.

CASE 6264

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Lynn Teschendorf, Esq.
Legal Counsel for the Division
State Land Office Building
Santa Fe, New Mexico 87501

MR. STAMETS: Call next Case 6264.

MS. TESCHENDORF: Case 6264. Application of Doyle Hartman for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico.

The applicant has requested that this case be continued until the July 6th Examiner Hearing.

MR. STAMETS: The case will be so continued.

(Hearing concluded.)

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division, was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill from my notes taken at the time of the hearing.

Sidney F. Morrish, CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6264 heard by me on 6-21, 1978.

Richard L. Stamets, Examiner
New Mexico Oil Conservation Commission

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
21 June 1978

EXAMINER HEARING

IN THE MATTER OF:

Application of Dyle Hartman for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico.

CASE 6264

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Lynn Teschendorf, Esq.
Legal Counsel for the Division
State Land Office Building
Santa Fe, New Mexico 87501

MR. STAMETS: Call next Case 6264.

MS. TESCHENDORF: Case 6264. Application of Doyle Hartman for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico.

The applicant has requested that this case be continued until the July 6th Examiner Hearing.

MR. STAMETS: The case will be so continued.

(Hearing concluded.)

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
730 Bishop's Lodge Road • Phone (505) 988-3404
Santa Fe, New Mexico 87501

REPORTER'S CERTIFICATE

I, SIDNEY F. MORRISH, a Court Reporter, DO HEREBY CERTIFY that the foregoing and attached Transcript of Hearing before the Oil Conservation Division, was reported by me; that said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability, knowledge, and skill from my notes taken at the time of the hearing.

Sidney F. Morrish, CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 6267, heard by me on 6-21, 1978.

Richard L. Stamets, Examiner
New Mexico Oil Conservation Commission

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6264
Order No. R-5767

APPLICATION OF DOYLE HARTMAN FOR
COMPULSORY POOLING AND AN UNORTHODOX
GAS WELL LOCATION, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 6, 1978, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 17th day of July, 1978, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Doyle Hartman, seeks an order pooling all mineral interests in the Jalmat Gas Pool underlying the W/2 NE/4 of Section 36, Township 24 South, Range 36 East, NMPM, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at an unorthodox location 330 feet from the North line and 2310 feet from the East line of said Section 36.

(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 $1500.00 per month while drilling and $200.00 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 October 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 Jalmat Gas Pool underlying the W/2 NE/4 of Section 36, Township 24 South, Range 36 East, Lea County, New Mexico, are hereby pooled to form a non-standard 80-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 330 feet from the North line and 2310 feet from the East line of said Section 36.

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

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of October, 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 Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Doyle Hartman 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 Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

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

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

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner 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 $1500.00 per month while drilling and $200.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable

to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working 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 Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 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 Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY,
Director

dr/

JAMES A. DAVIDSON
Oil & Gas Properties
P. O. BOX 494
MIDLAND, TEXAS 79702

(915) 682-6482 – OFFICE
694-5472 – RESIDENCE

EXHIBIT _____

DOCKET NO. _____

March 7, 1978

Re: Farmout Proposal
Lea County, New Mexico

Shell Oil Company
P. O. Box 991
Houston, Texas 77001

Attn: Mr. Joe Teague
Mid-Continent Land Dept.

Gentlemen:

Please consider this letter as my proposal for a farmout of your following lease with the terms set out below:

NE/4 NW/4 Sec. 36, T-24-S, R-36-E, Lea County, New Mexico

1. Operator to commence a 3650' Queen test on NE/4 NW/4 Sec. 36 within 90 days from date.

2. In the event the well is completed as a Langlie Mattix producer, it would earn all rights from surface to 100' below total depth drilled as to the above described 40-acre tract.

   In the event the well is completed as a Jalmat (gas) producer, it would earn rights from surface to 100' below total depth drilled as to the above described 40-acre tract. In this case the lease would be dedicated to an 80-acre Jalmat unit consisting of NE/4 NW/4 and NW/4 NE/4 Sec. 36.

3. Shell to retain a 28% of 8/8 override, absorbing all royalty and other burdens so operator would be assigned a 72% net revenue interest. This override subject to proportionate reduction in the event your lease is dedicated to an 80-acre unit.

Thank you and please let me hear from you.

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
appl EXHIBIT NO. 2
CASE NO. 6264

Very tryly yours,

James A. Davidson

JAD/hw

36-24s-36E

1

JAMES A. DAVIDSON
Oil & Gas Properties
P. O. BOX 494
MIDLAND, TEXAS 79702

(915) 682-6482 – OFFICE
694-5872 – RESIDENCE

EXHIBIT _____

DOCKET NO. _____

March 15, 1978

Re: Farmout Proposal
Lea County, New Mexico

Shell Oil Company
P. O. Box 991
Houston, Texas 77001

Attn: Mr. Norman Hrachovy
Mid-Continent Land Department

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Appl. EXHIBIT NO. 3
CASE NO. 6264

Gentlemen:

Reference is made to my letter of March 7, 1978, addressed to the attention of Mr. Joe Teague and my phone conversation today with Mr. Teague, both concerning a Queen farmout of NE/4 NW/4 Sec. 36, T-24-S, R-36-E.

Please do not consider further the above noted letter and, in lieu thereof, your consideration of the following farmout will be appreciated:

I am in the process of receiving final management approval for a farmout from Phillips of SW/4 NE/4 Sec. 36, T-24-S, R-36-E, and I propose to you as follows:

1. Operator to commence a 3650' Queen test on Shell acreage covering NW/4 NE/4 Sec. 36 within 90 days from date.

2. In the event the well is completed as a Langlie Mattix producer, it would earn all rights from surface to 100' below total depth drilled as to the above described 40-acre tract.

   In the event the well is completed as a Jalmat (gas) producer, it would earn rights from surface to 100' below total depth drilled as to the above described 40-acre tract. In this case the lease would be dedicated to an 80-acre Jalmat unit consisting of NW/4 NE/4 and SW/4 NE/4 Sec. 36.

3. Shell to retain a 28% of 8/8 override, absorbing all royalty and other burdens so operator would be assigned a 72% net revenue interest. This override subject to proportionate reduction in the event your lease is dedicated to an 80-acre unit.

Thank you and please let me hear from you.

Very truly yours,

James A. Davidson

JAD/hw

36-24-36E
NE/4 NW/4

JAMES A. DAVIDSON
Oil & Gas Properties
P. O. BOX 494
MIDLAND, TEXAS 79702

(915) 682-6482 — OFFICE
694-5472 — RESIDENCE

EXHIBIT _____

DOCKET NO. _____

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Appl EXHIBIT NO. 4
CASE NO. 6264

May 22, 1978

Shell Oil Company
P. O. Box 991
Houston, Texas 77001

Re: NW/4 NE/4 Sec. 36,
T-24-S, R-36-E,
Lea County, New Mexico
(Your NM-1206 State)

Attn: Mr. N. J. Hrachovy
Land Department
Mid-Continent Division

Gentlemen:

Reference is made to your letter of May 9, 1978, regarding my previous request for a farmout.

We now have a farmout from Phillips covering the SW/4 NE/4 Section 36, T-24-S, R-36-E, and we respectfully propose the following:

1. Shell to farmout the NW/4 NE/4 Section 36, T-24-S, R-36-E, with Operator to drill a 3400-feet Jalmat test within 90 days from date of agreement. The proposed well will be located on the Shell's 40-acre tract which comprises one-half of an 80-acre communitized gas unit consisting of the W/2 NE/4 Section 36.

   Completion of the well as a commercial producer to earn surface to 100' below total depth, with Shell retaining a 1/8 of 8/8 override (which would be proportionately reduced to Shell's interest in the 80-acre unit), absorbing all burdens so we would be assigned a 75% NRI lease.

   It should be noted that if given a choice, we would prefer to drill a 3600-feet Queen test on the requested 40-acre farmout tract with the added opportunity of earning the Langlie Mattix oil and gas rights as well as the Jalmat rights if the proposed well is completed as a Langlie Mattix producer. The assigned rights in this case would include both oil and gas and would extend from the surface to 100 feet below total depth. For a Langlie Mattix completion, Shell would receive 100% of the retained override.

2. If Shell elects not to make a farmout, I request that Shell participate in the well, with Doyle Hartman, 508 C & K Petroleum Bldg., Midland, Texas 79702 being selected as the operator.

   In this regard, enclosed is AFE. I will forward a model form Operating Agreement as soon as you notify me that you agree to participate.

21-21.2/0

3. In the event neither of the above options are acceptable to Shell I will be required to make application to the NMOCC for Force Pooling. I plan to docket this hearing within 7 days from date. This action would become necessary so that the proposed well could be assigned a sufficient gas allowable to justify the drilling of a well.

   In this regard, it might be noted that your royalty owner is the State of New Mexico.

In closing, it is my understanding that the requested farmout tract as to rights previously assigned to Millard Deck (now Warrior, Inc.) has reverted to Shell. From an earlier telephone conversation, you indicated that the subject tract would revert to Shell upon cessation of production. A review of the New Mexico Oil & Gas Engineering Committee 1977 Production Annual shows the Jalmat well allocated to this tract (Shell State No. 2) last produced prior to June, 1973. Should we be in error in this regard, we will name both Shell and any of its assignees and their successors in the Force Pooling application.

Please let me hear from you within 7 days from the date of this letter. In the absence of a reply, and as above noted, I will docket the Force Pooling hearing.

Very truly yours,

James A. Davidson

James A. Davidson

JAD/hw

cc: Mr. Jason Kellehan
P. O. Box 1769
Santa Fe, New Mexico 87501

[illegible]

WELL S T R		JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	TOTAL	CUMULATIVE
5?? 6?25S36E	GAS	LAST PROD. PRIOR TO												T	85561
5A? 6?25S36E	GAS	369	155	96	1001	966	856	785	801	410		556	582	8465	2467665
	WAT	93	84		65	67	65	67	67	69		68	73	727	
6?11?25S36E	GAS											19677	23163	60?99	60?60
5?? ?25S36E	GAS									1156	13598	11817	11012	37487	37487
STATE A AC 3 COM															
3A10?25S36E	GAS	7088	5650	5959	6936	7650	5597	5375	6017	6931	6689	7228	8077	76955	4075?0?
	WAT	31	28											59	
2110?25S36E	GAS	4823	4739	4823	4506	4539	4631	4559	3322	3968	4029	5082	6000	51370	4559???
	WAT	31	28	31	219	217	210	67	67	60	62	30	31	1034	
VAN ZANDT															
1?5?25S36E	GAS	83	78	92	83	91	83	78	23	66				697	2781575
WINNINGHAM															
1C30?25S37E	GAS	LAST PROD. PRIOR TO 6/73												T	1551866
2?19?25S37E	GAS	612	523	810	566	764	798	968	956	881	1678	1859	1876	11390	1862013
?130?25S37E	GAS	LAST PROD. PRIOR TO 6/73												S	1?36518
?H30?25S37E	GAS	199	216	251	177	212	208	269	199	199	180	110		2220	6985
COMPANY TOTAL	OIL														927356
	GAS	428414	387580	415453	445724	444718	474628	409473	358088	405310	409080	450677	469307	5067047	2?0?12?8?
	WAT	620	572	558	840	899	870	465	465	470	711	609	682	7896	
THOMPSON ANF CONE															
PAN AMERICAN MYERS FEDERAL															
1H22?4S36E	GAS	252?	3135	3332	3067	2639	2693	3009	2663	2523	2662	1997	2952	31066	1760067
	WAT	1?	16	17	15	13	14	15	13	13	14	10	15	156	
UNION TEXAS PETROLEUM CORPORATION															
LANGLIE JAL UNIT															
10E32?4S37E	GAS	RECOMPLETED TO LANGLIE MATTIX 7 RVRS Q GRAYBURG													1270917
25N32?4S37E	GAS	ZONE ABANDONED													3125509
39C 6?5S37E	GAS	RECOMPLETED TO LANGLIE MATTIX 7 RVRS Q GRAYBURG													1993470
	OIL														708
WELLS															
3C 5?5S37E	GAS	RECOMPLETED TO LANGLIE MATTIX 7 RVRS Q GRAYBURG													107992
COMPANY TOTAL	OIL														729
	GAS														6478158
WARRIOR INC.															
SHELL STATE															
2?16?4S36E	GAS	LAST PROD. PRIOR TO 6/73												S	16997
WORLDWIDE ENERGY CORP															
VAUGHN A 3															
1F 2?4S36E	GAS			2166	1898	1985	1772	1750	1367	1515	2976	2144	2116	19589	958181
	OIL														139565
E J WELLS P															
2412?5S36E	GAS	131	149	130	121	154	316	326	272	272	160	316	246	2592	1039065
COMPANY TOTAL	OIL														139565
	GAS	131	149	2296	2019	2039	2089	2076	1639	1787	3136	2460	2362	22181	1997426
JENKINS SIEVA (GAS) (ABANDONED) PA															
ELK OIL COMPANY															
S F ANDERSON															
1F19 ?5S35E	GAS	PLUGGING APPROVED 1974													316560
	OIL														8007
JUSTIS GLORIETA (PRORATED GAS) GL OM TO 59															
AMERADA HESS CORPORATION															
STATE NJ A CCP															
3A 2?5S37E	GAS	9938	10620	9965	7420	7922	12061	10419	8353	7102	11474	8613	8839	111604	1607288
ATLANTIC RICHFIELD COMPANY															
EATON B 1 6A															
1F122?5S37E	GAS	14346	12778	13803	13134	4901			13636	14141	11502	12761	9166	120168	6759807
CITIES SERVICE COMPANY															
HODGES P															
1M 1?5S37E	GAS	PLUGGING APPROVED 1975													2173027
CONTINENTAL OIL COMPANY															
STATE A 2 CCP															
3C 2?5S37E	GAS	LAST PROD. PRIOR TO 6/73												S	1383004
	OIL														5367
EL PASO NATURAL GAS COMPANY															
CARLSON B FEDERAL															
1P2?25S37E	GAS	24162	22106	23557	22266	21610	23269	23100	22763	21886	19653	20706	22497	267575	6190904
	OIL										179			179	13350
JUSTIS															
1F1125S37E	GAS	2709	2664	3437	3479	3186	3575	3197	3219	3014	2991	2779	2747	36997	4120921
COMPANY TOTAL	OIL										179			179	13350
	GAS	26871	24770	26994	25745	24796	26844	26297	25982	24900	22644	23485	25244	304572	10311825
GETTY OIL COMPANY															
A B COATES C															
13K2425S37E	GAS	ZONE ABANDONED													2451576
	OIL														8368
GETTY OIL COMPANY															
A B COATES C															
1F2425S37E	GAS	35532	31061	30821	31931	3331	17637	6685	31966	31231	26427	29986	4007	280615	7395425
	OIL														15769
GULF OIL CORPORATION															
ARNOTT RAMSAY NCT F															
3P36?5S37E	GAS	LAST PROD. DATE 05/75												S	5784156
LEARCY MCBUFFINGTON															
5C1325S37E	GAS	ZONE ABANDONED													3788967
	OIL														7735
7M1325S37E	GAS	21843	20179	19313	15640	6611	20874	30746	23934	17323	15402		22040	212905	1355367
COMPANY TOTAL	OIL														7735
	GAS	21843	20179	19313	15649	6611	20874	30746	23934	17323	15402		22040	212905	9928490
ODESSA NATURAL CORP															
CARLSON FEDERAL															
1F1325S37E	GAS	2732	2508	1506	1071	1951	2528	2685	2520	2077	1815	2904	2475	26166	1073501
CARLSON A FEDERAL															
1P2325S37E	GAS	16				1231	1246	1186	1051	1096	945	1055	1090	9916	4474606
LANGLIE FEDERAL															
1I1425S37E	GAS	4306	4924	3452	4332	5554	3365	4294	4144	2805	3571	4155	3956	48759	2797396
COMPANY TOTAL	GAS	7052	7432	4952	5403	8736	7139	7565	7715	5978	6331	8117	7421	84841	8705501
OIL DEVELOPMENT COMPANY OF TEXAS															
CARLSON A 25															
3J2525S37E	GAS	9999	9681	10747	9532	9100	9028	9599	10049	7625	8189	7066	8637	110051	5724514
	OIL		7	58	1		5							71	20198
TEXACO INCORPORATED (MONUMENT DISTRICT)															
G L ERWIN B FEDERAL NCT 2															
2J3524S37E	GAS	18074	15029	12788		3275	13814	13611	13385	14363	12194	14319	14357	145189	3362736
F C FRISTOE B FEDERAL NCT 2															
9G3524S37E	GAS	5880	5208	5444	5410	5395	4741	5017	4730	-4763	4896	4446	5036-	60986	1950333
13C2624S37E	GAS	RECOMPLETED TO LANGLIE MATTIX 7 RVRS Q GRAYBURG													89686
COMPANY TOTAL	GAS	23954	20237	18232	5410	8670	18555	18628	18115	19126	17090	18765	19393	206175	5402755
TEXAS PACIFIC OIL COMPANY INC															
S B EATON															
1M1225S37E	GAS	RECOMPLETED TO LANGLIE MATTIX 7 RVRS Q GRAYBURG													214802
WIMBERLY															
1M2325S37E	GAS	12098	11047	11215	10065	9341	10202	10795	11360	10672	8819	9965	9348	124913	5275157
	OIL														28860
	WAT	31	28		30	31	30	31	31	30	31	30	31	334	
COMPANY TOTAL	OIL														28860
	GAS	12098	11047	11215	10065	9341	10202	10795	11360	10672	8819	9965	9348	124913	5489959
	WAT	31	28		30	31	30	31	31	30	31	30	31	334	
KEMNITZ MORROW (GAS) PM 128 TO 134															
ELK OIL COMPANY															
DIAMOND STATE															
1J1618S34E	GAS	PLUGGING APPROVED 1975													7519
	OIL														347

AUTHORITY FOR EXPENDITURE

DETAIL WELL ESTIMATE

LEASE NO. _____ APPR. NO. _____

LEASE NAME Custer State WELL NO. 1 W. I. 100%

COUNTY Lea STATE New Mexico FIELD Jalmat Gas Pool

LOCATION: NW/4 NE/4 Sec. 36, T-24-S, R-36-E

DRILLING INTANGIBLES:	PRODUCER	DRY HOLE
1. Drilling Cost 3600 Feet @ 12.25 Per Foot	44,100	44,100
2. Day Work 2 days @ 3200/day	6,400	6,400
3. Coring Service _____ Well Surveys _____	6,000	6,000
4. Testing _____		
5. Fuel _____ Water _____	6,500	5,000
6. Mud 4,500 Mud Logging _____	4,500	4,500
7. Cementing Service _____ Cement _____ Floats _____	12,000	2,800
8. Company Labor _____ Contract Labor _____	600	300
9. Digging Pits _____ Filling Pits 700	700	---
10. Roads & Bridges _____ Dredging & Grading _____	6,000	6,000
11. Acidizing 4,000 Fracturing 25,000 Perforating 1,700	30,700	---
12. Plugging _____	---	2,000
13. Trucking Cost _____	700	300
14. Devolopment Superintendence 20 days @ $ 250 /day	5,000	2,800
15. Rental Equipment _____	2,000	500
16. Swabbing and Testing 6 days @ 700/day	4,200	---
17. Other Costs Abstract, title opinion, etc.	2,500	2,500
pit lining	1,000	1,000
other	4,000	4,000
Total Intangibles	136,900	88,200

WELL EQUIPMENT:		
18. Casing 500 Ft. of 8 5/8 @ 6.25 Per Ft.	15,700	3,100
3,600 Ft. of 4 1/2 @ 3.50 Per Ft.		
Ft. of _____ @ _____ Per Ft.		
19. Tubing 3,550 Ft. of 2 3/8 @ 2.30 Per Ft.	8,200	---
20. Casing Head _____	900	500
21. Xmas Tree or Pumping Connections _____	2,800	300
* 22. Pumping Unit _____	14,000	---
* 23. ~~Engine~~ Motor, Controller, Transformer, Power line	10,000	---
* 24. Sucker Rods _____	6,000	---
* 25. Pump _____	1,000	---
* 26. Tank Battery Water tank and connections	8,000	---
* 27. Separator or Dehydration Equip. _____	2,500	---
28. Metering Equipment _____		
* 29. Flow Lines _____	1,500	---
30. Other _____	1,000	1,000
Total Tangibles	71,600	4,900
TOTAL COST OF WELL	208,500	93,100

REMARKS: The above cost estimate is based on a Jalmat Gas well completion.

Originated by Doyle Hartman Title Operator Date May 22, 1978

Approved _____ Title _____ Date _____

* Necessary if well produces water. Water production has been a problem with other wells in Section 36, T-24-S, R-36-E.

MISC BOOK 282 PAGE 318

EXHIBIT _____

DOCKET NO. _____

3 I-

32300

MA 3114

3 3 30 JOINT WELL

FARMOUT AGREEMENT AND ASSIGNMENT

1. On this the 6th day of May 19 69 in consideration of the covenants and obligations of the ASSIGNEE herein,

Shell Oil Company, a Delaware corporation, herein called "ASSIGNOR", hereby transfers and assigns unto _____

R. G. Schuehle and John Yuronka

herein called "ASSIGNEE", subject to the reservations, covenants, conditions and provisions set out below, and without warranty of title, express or implied, all of ASSIGNOR'S right, title and interest in and to the oil and gas rights in and under all oil and gas leases and oil, gas and mineral leases held by it in so far as they cover the following land in Lea County New Mexico xxxx

down to and including, but not below, a depth of 100 feet below the greatest depth penetrated, not to exceed 3400 feet or base of Seven Rivers formation, whichever is greater, as defined in Shell-State B-2 located in SE 1/4 NW 1/4 of Section 36, Township 24 South, Range 36 East, To-Wit:

The Northeast 1/4 Northwest 1/4, Southeast 1/4 Northwest 1/4 and the Northwest 1/4 Northeast 1/4 of Section 36, Township 24 South, Range 36 East, N.M.P.M.

The land covered by this assignment (as to the depths or formations covered hereby if this assignment covers less than all depths) is called herein "said land."

2. ASSIGNOR hereby reserves unto itself, its successors and assigns an overriding royalty of one eighth (1/8th) of all (8/8) of the oil and gas in and under and which may be produced from said land. If on the effective date hereof the leasehold estate herein assigned covers less than the full interest (or no interest) in the oil and gas rights in all or any part of said land, then ASSIGNOR'S overriding royalty shall be proportionately reduced as to the land in which such leasehold estate covers less than the full interest. Said overriding royalty shall be free of all cost to ASSIGNOR of drilling for, producing, treating and separating the minerals to which it applies. ASSIGNEE shall furnish ASSIGNOR complete statements, at such intervals, and on such forms as ASSIGNOR may request, covering the production from said land, measurement thereof, production stored, used, delivered to pipe lines, and sold.

3. ASSIGNEE agrees timely to commence and diligently to drill the following well to completion, to-wit:

Commencement Date: Well has been completed as a Jalmat gas well.

Well Location: Southeast 1/4 Northwest 1/4 Section 36, Township 24 South, Range 36 East.

Well Depth: To a total depth of 3,430 feet from the surface.

4. Whenever ASSIGNEE is in default with reference to drilling and completing the well specified in Section 3 (and suspension of operations timely begun for as much as twenty (20) days shall be considered as a default) or in complying with the provisions in Section 8, or whenever after the timely completion of the said well there is neither production from said land nor work at a well site in trying to obtain or restore production therefrom either by reworking a well thereon or drilling a new well for as many as twenty (20) consecutive days, ASSIGNEE may terminate this assignment in its entirety as to all of said land by giving written or telegraphic notice to ASSIGNEE thereof and thereupon the leasehold estate covered by this assignment shall, as to the lands described in the termination notice, revert to and be owned by SHELL and as evidence thereof, ASSIGNEE shall execute and deliver a reassignment thereof to ASSIGNOR. Time is of the essence in the performance of ASSIGNEE'S obligations.

5. ASSIGNOR at all times shall have free access to all wells on the above land to all records pertaining thereto and the production therefrom. As to the well specified in Section 3 ASSIGNEE agrees (a) to notify ASSIGNOR of the beginning thereof; (b) to promptly furnish to ASSIGNOR (1) a copy of each report filed by ASSIGNEE with any governmental agency relating thereto; (2) daily drilling and drilling time reports; (3) complete information as to the results of all tests; (4) upon completion, a complete log thereof; (5) logs of electric, radioactive and other surveys thereof, whether similar or dissimilar, and (6) samples satisfactory to ASSIGNOR of drill cuttings taken at 10 foot intervals; (c) to make available to ASSIGNOR at the well samples of all fluids encountered and of all cores taken; (d) to give ASSIGNOR at least 12 hours notice of the time he expects to set or cement the production string casing or make drill stem tests or to drill into any formation expected to produce or to core any formation; (e) to allow ASSIGNOR to use the hole for the running of velocity and other surveys, at ASSIGNOR'S sole risk and expense; (f) immediately to notify ASSIGNOR if any showing of oil or gas is encountered, (g) to make thorough tests of all formations which contain a showing of oil or gas, or in which any survey that shall have been run may indicate a showing of oil or gas sufficient to justify testing; (h) upon completion of drilling and testing of the well, to give immediate notice thereof to ASSIGNOR, which shall have a reasonable time thereafter to satisfy itself that the drilling and testing requirements hereof have been fully performed, and (i) properly and lawfully to plug and abandon same if it is a dry hole.

6. All operations conducted by ASSIGNEE shall be at the sole risk and cost and under the exclusive control of ASSIGNEE, and ASSIGNEE shall indemnify ASSIGNOR against all claims for damages of every kind to persons or property arising out of or in connection with the operations of ASSIGNEE on said land.

7. ASSIGNEE shall comply with, and hereby assumes, all express and implied covenants and obligations contained in any lease affected hereby as to the lands covered by this assignment.

8. All rights of ASSIGNOR hereunder shall apply not only to the leasehold interests that are hereby assigned but also to any renewal or extension thereof and to any new lease that covers all or part of said land to the extent that it covers an interest that is covered by any leasehold hereby assigned and that ASSIGNEE may acquire within one year from the expiration of the prior lease covering such interest.

9. If ASSIGNEE at any time intends to surrender or to abandon or to allow to terminate or to be cancelled for non payment of a shut-in royalty or other payment that could be made by ASSIGNEE any portion of the leasehold estate covered by this assignment, ASSIGNEE shall tender to ASSIGNOR a reassignment thereof at least thirty (30) days before making a surrender or abandonment or before the date by which the act which may result in termination or cancellation must be performed.

If ASSIGNOR accepts a reassignment hereunder, ASSIGNOR shall pay to ASSIGNEE the reasonable salvage value of any materials and equipment that it shall elect to take in any wells affected, but otherwise the transaction shall be without cost to ASSIGNOR. Wells affected by such a reassignment and not elected to be taken by ASSIGNOR in operating condition shall be plugged and abandoned in a lawful manner by ASSIGNEE.

10. Except as provided in the following sentence, all notices and communications to be given under the terms hereof shall be given by registered or certified mail or telegram addressed to the addresses of the parties as set out on the signature page or pages below provided that either party may effect a change of address by advising the other party of such desired change. ASSIGNOR designates its Midland Division, Production Department, in the Shell Building, P. O. Box 1509, Midland, Texas 79701 to receive logs, copies of reports to governmental agencies and notices and reports concerning and during the drilling operations until further notice. The provisions hereof shall constitute covenants running with the land and shall extend to and be binding upon the respective heirs, representatives, successors and assigns of the parties hereto, but no assignment or transfer shall relieve ASSIGNEE of ASSIGNEE'S obligations hereunder.

11. ASSIGNOR shall at all times have preferential right and option to purchase, or to designate a responsible purchaser for, all or any part of the casinghead or gas well gas which ASSIGNEE may produce under the leasehold interests hereby assigned and which ASSIGNEE proposes to sell, on the terms contained in a bona fide offer therefor. ASSIGNEE shall give to ASSIGNOR written, complete and detailed information concerning, and a photostatic copy of, the offer. ASSIGNOR shall have 20 days after receipt thereof in which to exercise its said option by a written notice to ASSIGNEE.

12. In performing all operations and work provided for herein ASSIGNEE agrees to use products manufactured and/or sold by ASSIGNOR, provided such are readily available at competitive prices.

13. SPECIAL PROVISIONS:

A. ASSIGNEE shall run the following surveys after the well has reached total depth:

1. Gamma Ray Sonic from total depth to surface.
2. Laterolog from total depth to base of salt.
3. Microlaterolog from total depth to base of salt.

Other logging company equivalents of the above are also acceptable. If the ASSIGNEE should core any formation covered by this contract, ASSIGNOR shall have call on all portions of the whole core residue after the purposes of the ASSIGNEE have been served.

B. All rentals hereafter becoming due on, or payable in order to prevent termination of the oil and gas leasehold estate on the above described lands shall be paid by ASSIGNOR, and ASSIGNEE, within fifteen (15) days from notice by ASSIGNOR of the making thereof, shall reimburse ASSIGNOR in full therefor; provided that ASSIGNEE may relieve himself of this obligation as to any particular part of said lands by tendering to ASSIGNOR, at least thirty (30) days before the date by which a rental must be paid, an assignment of ASSIGNEE'S rights in said leasehold as to said land. ASSIGNOR agrees to use reasonable diligence in endeavoring to pay such rentals property, but shall have no liability to ASSIGNEE for failure to do so.

C. ASSIGNOR is contemporaneously herewith assigning to ASSIGNEE on the form required by the State of New Mexico with reference to assignments of oil and gas leases from it, the oil and gas leasehold on the land described above without reference therein to the depth limitation herein made or to the reservations, terms and provisions hereof. However, as between the parties hereto, it is understood that the said assignment is subject to all the terms and conditions hereof and that all rights reserved to ASSIGNOR herein shall be applicable thereto.

D. Notwithstanding anything to the contrary, it is expressly agreed and understood that the ASSIGNEE earns gas rights only to 3400 feet or the base of the Seven Rivers formation, as defined in Shell-State B-2 located in Southeast 1/4 Northwest 1/4 of Section 36, Township 24 South, Range 36 East, in the lands described in Paragraph 1 hereof.

BOOK 282 PAGE 320

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the day and year first stated above.

R. G. Schuehle

John Yuronka

John Yuronka
Address:

120-C Central Building
Midland, Texas 79701

SHELL OIL COMPANY

By _____
Attorney in Fact

Address: Petroleum Building
P. O. Box 1509
Midland, Texas

STATE OF _____

COUNTY OF _____

Before me, the undersigned authority, on this the _____ day of _____ 19____ appeared

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

_____ President of _____ that the seal affixed to said instrument is the corporate seal of said corporation, that same was signed and sealed in behalf of said corporation by authority of its Board of Directors, and he acknowledged said instrument to be the free act and deed of said corporation, same having been executed by him for the purposes and consideration therein expressed and in this capacity therein stated.

Witness my hand and official seal the day and year last above written. _____

Notary Public in and for _____

My Commission Expires: _____ County, _____

STATE OF TEXAS

COUNTY OF MIDLAND

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared R. G. Schuehle and John Yuronka known to me to be the person s whose name s are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

GIVEN under my hand and seal of office, this the 7th day of May 1969

My Commission Expires: 6/1/69

Sheral B. Rager
Notary Public in and for

Midland County Texas

STATE OF TEXAS
COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared E. V. Pearson known to me to be the person whose name is subscribed to the foregoing instrument as Attorney-in-Fact for Shell Oil Company and acknowledged to me that he executed the same for the purposes and consideration therein expressed, and as the free act and deed of said Shell Oil Company in the capacity therein stated.

Given under my hand and seal of office this 2nd day of July 19 69

My Commission Expires: 6-1-70

Carolyn Mayes
Notary Public in and for Midland County, Texas

32300

STATE OF NEW MEXICO }
COUNTY OF LEA } ss.

FILED FOR RECORD on the 21 day of August 1969 at 9:20 o'clock A.M. and recorded in Book _____ page _____ of the _____ records of my office.

Effie Halpin
County Clerk

By Velma C. Baker
Deputy.

Pillow Deck
Af 409 - Tenn -

JAMES A. DAVIDSON
Oil & Gas Properties
P. O. BOX 494
MIDLAND, TEXAS 79702

(915) 682-6482 - OFFICE
694-5472 - RESIDENCE

June 16, 1978

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Appl EXHIBIT NO. 6
CASE NO. 6264

To: All Working Interest Owners
(Address list attached)

RE: NW/4 NE/4 Sec. 36,
T-24-S, R-36-E,
Lea County, N. M.

Gentlemen:

It is my understanding that you may own various working interests in the following acreage pursuant to Assignment dated May 6, 1969, from Shell Oil Company to R. G. Schuehle and John Yuronka:

T-24-S, R-36-E
Sec. 36: NW/4 NE/4

I propose a 3400' Jalmat test on an 80-acre unit covering W/2 of NE/4 Section 36 and request that you each either participate in the well or farmout on the basis of retaining a 30% of 8/8 override, absorbing all royalty and other burdens out of the override so operator would receive a 70% net revenue interest.

The status of the title to this lease is rather confused since it is my understanding that your well has not produced since 1973, but I do not know if Shell has requested a reassignment under Par. 4 of its Assignment of May 6, 1969, to R. G. Schuehle and John Yuronka. I have also been attempting to work out a deal with Shell and have found it necessary to docket that company for a Force Pooling Hearing on July 6, 1978. Upon advise of my lawyer, I will probably include each of you in this hearing, but any party who agrees to participate or farmout can be deleted from the Force Pooling hearing. I hope you understand the reason that you may be included in the hearing which arises due to the status of the title between you and Shell.

Your consideration will be very much appreciated and please let me hear from you as soon as possible.

Very truly yours,

J. A. Davidson

EXHIBIT _____

DOCKET NO._____

36-24-36

ADDRESS LIST

R. G. Schuehle and John Yuronka
102 Petroleum Bldg.
Midland, TX 79702

M. F. Nelson
P. O. Box 603
Hobbs, N. M. 88240

General Petroleum, Inc.
P.O. Box 840
Hobbs, N. M. 88240

John Bryant
% Schuehle and Yuronka
102 Petroleum Bldg.
Midland, TX 79702

JAMES A. DAVIDSON
Oil & Gas Properties
P. O. BOX 494
MIDLAND, TEXAS 79702

(915) 682-6482 – OFFICE
694-5472 – RESIDENCE

EXHIBIT _____

DOCKET NO. _____

June 16, 1978

Shell Oil Company
P. O. Box 991
Houston, TX 77001

RE: Shell No. NM-1206
~~Lea County, N. M.~~

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Appl EXHIBIT NO. 7
CASE NO. 6264

Attn: Mr. N. J. Hrachovy
Land Department
Mid-Continent Div.

Gentlemen:

Reference is made to our phone conversation this week while I was in Houston regarding my letter to you of May 22, 1978, concerning the following Shell acreage:

NW/4 NE/4 Sec. 36, T-24-S, R-36-E

I want to apologize for any inconvenience that I may have caused Shell. My only interest in this entire matter is trying to get a Jalmat gas test drilled either on your above lease or the offset Phillips lease.

One other solution has occurred to me rather than my previous suggestions that Shell either farmout, join or place me in the unenviable position of having to force pool Shell in order to get a well drilled. That is--I will offer Shell $50,000.00 for an assignment of your rights from surface to 4000' plus Shell to retain 3/32 of 8/8 override as to the following acreage:

T-24-S, R-36-E
Sec. 36: NW/4 NE/4, E/2 NW/4

My offer is based on title approval which would involve Shell giving Schuehle and Yurouka notice of reassignment under Par. 4 of your Assignment to these parties dated May 6, 1969. Furthermore, I have assumed that after deducting Shell's 3/32 override, I will be left with a 78.125% net revenue interest. Also, I am assuming that the gas under Shell's acreage is either undedicated or dedicated to El Paso or some other interstate system.

Thank you for your patience and please let me hear from you.

Very truly yours,

J. A. Davidson

JAD/mv

36-24-36

DOYLE HARTMAN
Oil Operator
SUITE 508
C & K PETROLEUM BUILDING
MIDLAND, TEXAS 79701

(915) 684-4011

EXHIBIT _____

DOCKET NO. _____

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
Appl EXHIBIT NO. 8
CASE NO. 6204

June 19, 1978

Mr. Millard Deck
and Millard Deck d/b/a Millard Deck Oil Company
P. O. Box 1047
Eunice, N. M. 88231

Re: Farmout Agreement
T-24-S, R-26-E
Lea County, N. M.

Dear Mr. Deck:

This will evidence your agreement to farmout your interest in and to the following described tract located in Lea County, New Mexico:

T-24-S, R-36-E, N.M.P.M.
Section 36: NW/4 of NE/4

It is understood and agreed that on or before 90 days from date, I will commence the actual drilling of a test well located on an 80-acre unit composed of the following tract located in Lea County, New Mexico:

T-24-S, R-36-E, N.M.P.M.
Section 36: W/2 NE/4

and thereafter drill said well with due diligence to a depth sufficient to adequately test the Jalmat interval at an approximate depth of 3400' below the surface.

In the event said test well is timely commenced but conditions are encountered therein rendering further drilling impractical and I have theretofore complied with the terms of this agreement, I may continue my rights hereunder by commencing actual drilling of a substitute well within 30 days from abandonment of such well. Said substitute well shall thereafter be drilled under all conditions set out herein regarding said test well.

It is understood and agreed that in drilling any well hereunder I will comply with the terms of said Oil and Gas Lease (s) and with all applicable laws, rules and regulations. Nothing contained herein shall be deemed to create a partnership or joint venture between the parties hereto and any well drilled hereunder shall be drilled and completed as a commercial producer, or plugged and abandoned as a dry hole at no risk, liability or expense to you. I further agree to indemnify and save you harmless from any liability that

Sec 36- T-24-S, R-36-E

might arise in connection with any operations hereunder.

I agree to keep an accurate log of the well, to drill the same in a good faith effort to discover Oil or Gas, and to test adequately all Oil or Gas shows encountered.

I will furnish a daily drilling report and copies of all logs and all other data to Millard Deck at the address shown on this letter (Phone No. (505) 394-2249). Mr. Deck shall have free access to the rig at all times at his sole risk.

Upon being furnished with copies of New Mexico Oil Conservation Commission forms showing completion of the above noted well as one capable of producing in paying quantities, you will promptly furnish me an assignment of your interest in and to the oil and gas lease covering the tract first described on Page 1 hereof. Such assignment will be limited from surface to 100' below total depth drilled in said test well. Such assignment will reserve to you an overriding royalty of 30% or 8/8, absorbing out of said override all royalty and other burdens on production to the end that I will be assigned a 70% net revenue interest. Said 30% override shall be free and clear of all cost and expenses incurred by production except appropriate taxes and shall be proportionately reduced to your interest in and to said 80-acre unit.

If the foregoing correctly reflects your understanding of our agreement, please evidence your acceptance by signing and returning two copies of this agreement to me.

This agreement shall be binding upon the parties hereto and their heirs and assigns.

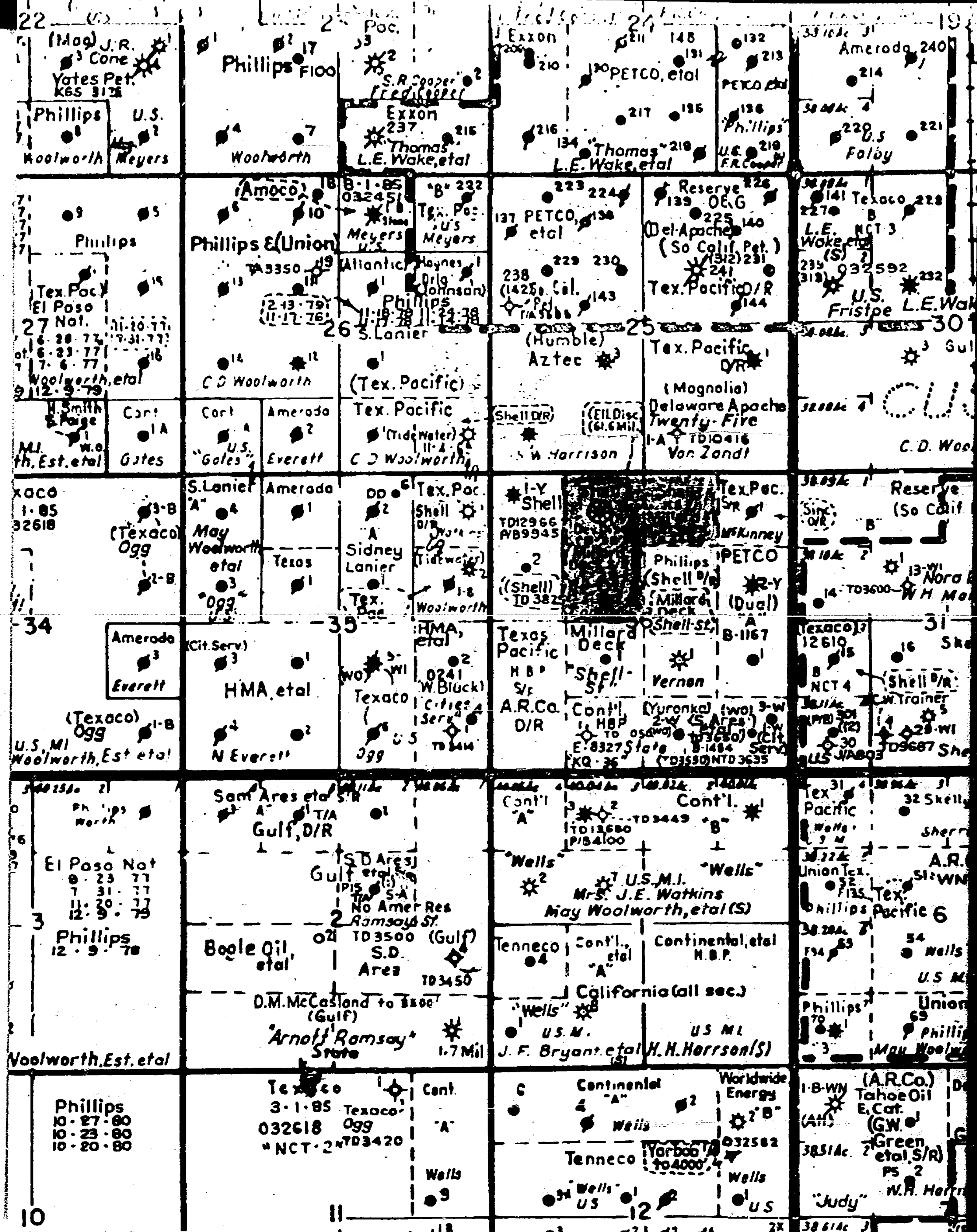
Very truly yours,

Doyle Hartman

Agreed to and
accepted this
_____ day of June, 1978.

_____
Millard Deck and Millard Deck d/b/a/
Millard Deck Oil Company

cc: Phillip R. Bishop, Attorney-at-Law
1500 First National Bank Bldg.
Fort Worth, TX 76102



22
J.R. Cone
Yates Pet.
Phillips
F100
S.R. Cooper
Exxon
PETCO, etal
Amerada
Phillips
U.S.
Meyers
Woolworth
Exxon
Thomas
L.E. Wake, etal
Thomas
L.E. Wake, etal
U.S.
Foley
Amoco
Phillips & Union
PETCO, etal
Reserve
Del-Apache
So Calif. Pet.
Texaco
L.E. Wake etal
Phillips
Atlantic
Tex. Pac.
El Paso Nat.
27
26
25
30
S. Lanier
Humble
Aztec
Tex. Pacific
Tex. Pacific
U.S.
Fristpe
L.E. Wak
C.D. Woolworth
Woolworth, etal
Magnolia
Delaware Apache
Twenty-Five
Van Zandt
C.D. Woo
Gates
U.S. Gates
Amerada
Everett
Tex. Pacific
C.D. Woolworth
W. Harrison
Texaco
Ogg
S. Lanier
May Woolworth etal
Amerada
Texas
Sidney Lanier
Tex. Pac.
Shell
Woolworth
Shell
Tex. Pac.
McKinney
PETCO
Phillips
Millard Deck
Dual
Reserve
So Calif
Nora
34
35
31
Amerada
Everett
Cit. Serv.
HMA, etal
HMA, etal
Texaco
W. Black
Cities Serv.
Texas Pacific
A.R.Co. D/R
Millard Deck
Shell-St.
Vernon
Cont'l
Yuronka
State
Texaco
Shell
C.W. Trainer
Texaco Ogg
U.S. MI
Woolworth, Est etal
N Everett
Ogg
U.S.
Sam Ares etal
Gulf, D/R
S.D. Ares
Gulf etal
No Amer Res
Ramsay St.
Cont'l
Cont'l.
Wells
U.S.M.I.
Mrs. J.E. Watkins
May Woolworth, etal (S)
Tex Pacific
Shell
A.R.
Union Tex.
Phillips
Tex. Pacific
6
El Paso Nat
3
2
Phillips
Boole Oil etal
S.D. Area
Gulf
Tenneco
Cont'l etal
Continental, etal
California (all sec.)
Wells
U.S. M.
J.F. Bryant etal
U.S. M.I.
H.H. Harrson (S)
Phillips
Union
D.M. McCasland to 3500
Gulf
Arnott Ramsay State
1.7 Mil
Woolworth, Est. etal
May Woolworth
Phillips
10-27-80
10-23-80
10-20-80
Texaco
3-1-85
032618
NCT-2
Texaco Ogg
Cont.
"A"
Wells
Continental "A"
Wells
Worldwide Energy
Tenneco
Yarbo
to 4000
Wells
U.S.
A.R.Co.
Tahoe Oil
E. Cat.
G.W.
Green etal, S/R
W.H. Harr
Judy
10
11
12

Lost prod. from Shell Stpt #2
prior to 6-73.

JAMES A. DAVIDSON
Oil & Gas Properties
P. O. BOX 494
MIDLAND, TEXAS 79702

(915) 682-6482 – OFFICE
694-5472 – RESIDENCE

June 30, 1978

To: All Working Interest Owners

Re: W/2 NE/4 Sec. 36,
T-24-S, R-36-E,
Lea County, N. M.

Gentlemen:

Reference is made to our prior correspondence concerning the above described acreage.

I have previously requested that you farmout your interest and now enclose an AFE in the event that you wish to participate. I will immediately forward an Operating Agreement to those parties returning one signed copy of the AFE.

In lieu of either of the above, this acreage is docketed for a Force Pooling Hearing at the New Mexico Oil Conservation Commission on July 6, 1978.

Please advise should I be able to furnish anything further.

Very truly yours,

James A. Davidson

JAD/mv

Enclosure as above

EXHIBIT _____

DOCKET NO. _____

AUTHORITY FOR EXPENDITURE EXHIBIT _____

DETAIL WELL ESTIMATE

DOCKET NO. _____

LEASE NO. _____ APPR. NO. _____

LEASE NAME Custer State WELL NO. 1 W. I. 100%

COUNTY Lea STATE New Mexico FIELD Jalmat Gas Pool

LOCATION: NW/4 NE/4 Sec. 36, T-24-S, R-36-E

DRILLING INTANGIBLES:	PRODUCER	DRY HOLE
1. Drilling Cost 3600 Feet @ 12.25 Per Foot	44,100	44,100
2. Day Work 2 days @ 3200/day	6,400	6,400
3. Coring Service _____ Well Surveys _____	6,000	6,000
4. Testing _____		
5. Fuel _____ Water _____	6,500	5,000
6. Mud 4,500 Mud Logging _____	4,500	4,500
7. Cementing Service _____ Cement _____ Floats _____	12,000	2,800
8. Company Labor _____ Contract Labor _____	600	300
9. Digging Pits _____ Filling Pits 700	700	---
10. Roads & Bridges _____ Dredging & Grading _____	6,000	6,000
11. Acidizing 4,000 Fracturing 25,000 Perforating 1,700	30,700	---
12. Plugging _____	---	2,000
13. Trucking Cost _____	700	300
14. Development Superintendence 20 days @ $ 250 /day	5,000	2,800
15. Rental Equipment _____	2,000	500
16. Swabbing and Testing 6 days @ 700/day	4,200	---
17. Other Costs Abstract, title opinion, etc.	2,500	2,500
pit lining	1,000	1,000
other	4,000	4,000
Total Intangibles	136,900	88,200

WELL EQUIPMENT:								
18. Casing	500	Ft. of	8 5/8	@	6.25	Per Ft.		
	3,600	Ft. of	4 1/2	@	3.50	Per Ft.		
	_____	Ft. of	_____	@	_____	Per Ft.	15,700	3,100
19. Tubing	3,550	Ft. of	2 3/8	@	2.30	Per Ft.	8,200	---
20. Casing Head _____							900	500
21. Xmas Tree or Pumping Connections _____							2,800	300
* 22. Pumping Unit _____							14,000	---
* 23. ~~Engine~~ Motor, Controller, Transformer, Power line							10,000	---
* 24. Sucker Rods _____							6,000	---
* 25. Pump _____							1,000	---
* 26. Tank Battery Water tank and connections							8,000	---
* 27. Separator or Dehydration Equip. _____							2,500	---
28. Metering Equipment _____								
* 29. Flow Lines _____							1,500	---
30. Other _____							1,000	1,000
Total Tangibles							71,600	4,900
TOTAL COST OF WELL							208,500	93,100

REMARKS: The above cost estimate is based on a Jalmat Gas well completion.

Originated by Doyle Hartman Title Operator Date May 22, 1978

Approved _____ Title _____ Date _____

* Necessary if well produces water. Water production has been a problem with other wells in Section 36, T-24-S, R-36-E.

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956

Non-Federal Lands

OPERATING AGREEMENT

DATED

June 30, , 1978,

FOR UNIT AREA W/2 NE/4 Sec. 36, T-24-S, R-36-E, NMPM,

Lea COUNTY, STATE OF New Mexico.

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

TABLE OF CONTENTS

A.A.P.L. FORM 610

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 30th day of June, 1978, between DOYLE HARTMAN,

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:

There shall be no examination of title to leases, or to oil and gas interests, except that title to the lease covering the land upon which the exploratory well is to be drilled in accordance with Section 7, shall be examined on a complete abstract record by Operator's attorney, and the title to both the oil and gas lease and to the fee title of the lessors must be approved by the examining attorney, and accepted by all parties. A copy of the examining attorney's opinion shall be sent upon request to each party immediately after the opinion is written, and, also, each party shall be given, as they are written, a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy the examining attorney's requirements shall be made by the party owning the lease covering the drillsite.

If title to the proposed drillsite is not approved by the examining attorney or the lease is not acceptable for a material reason, and all the parties do not accept the title, the parties shall select a new drillsite for the first exploratory well; provided, if the parties are unable to agree upon another drillsite, this agreement shall, in that case, come to an end and all parties shall then forfeit their rights and be relieved of obligations hereunder. If a new drillsite is selected, title to the oil and gas lease covering it and to the fee title of the lessor shall be examined, and title shall be approved or accepted or rejected in like manner as provided above concerning the drillsite first selected. If title to the oil and gas lease covering the second choice drillsite is not approved or accepted, other drillsites shall be successively selected and title examined, until a drillsite is chosen

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

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

B. Failure of Title:

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

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

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

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

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

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

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

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

3. UNLEASED OIL AND GAS INTERESTS

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

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If the interest of any party in any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eigthh (⅛) royalty, such party shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

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

6. EMPLOYEES

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

7. TEST WELL

On or before the 31st day of August, 19 78, Operator shall commence the drilling of a well for oil and gas in the following location:

NW/4 NE/4 Sec. 36
T-24-S, R-36-E, NMPM
Lea County, N.M.

and shall thereafter continue the drilling of the well with due diligence to a depth of 3450 feet or to a depth that is sufficient to test the productive internal of the Jalmat Pool, whichever is lessor.

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 thoroughly log, but not core or DST, ~~make reasonable tests of~~ all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to evaluate. ~~test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply~~.

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

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ~~six percent (6%)~~ twelve percent (12%) 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 working interest of each party covered by this contract, and in each party's working 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 claimed by the operator to be 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 until the well hereinabove provided for in Section 7 is completed and only as long thereafter as there is (a) production from the area and depths covered by this agreement, or (b) there is a well capable of production from such area and depths, or (c) drilling or workover operations are being conducted on such area and depth after the well provided for in Section 7 has been drilled with no cessation of operations; 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 such area and depths, then at the end of ninety (90) days after the 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 until such well or wells shall have been drilled and completed. If production results therefrom, this agreement shall continue in force 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 Fifteen Thousand and No/100 Dollars ($15,000.00) 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 $15,000.00

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) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

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

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

(A) ~~100%~~ 300% 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%~~ 300% 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) ~~200%~~ 300% 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 ~~200%~~ 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

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

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

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

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

13. RIGHT TO TAKE PRODUCTION IN KIND

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

Each party shall execute 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.

14. ACCESS TO UNIT AREA

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

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

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

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the 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 to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

26. PROVISION CONCERNING TAXATION

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

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

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

27. INSURANCE

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

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

28. CLAIMS AND LAWSUITS

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

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

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

29. FORCE MAJEURE

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

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

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

30. NOTICES

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

31-A If any party hereto hereafter shall create any overriding Royalty, Production payment, or other burden against its working interest production and if any party or parties shall conduct non-consent operations pursuant to any provision of this agreement and, as a result, become entitled to receive the working interest production otherwise belonging to the nonparticipating party, the party or parties entitled to receive the working interest production of the non-participating party shall receive such production free and clear of burdens against such production which may have been created by subsequent to this agreement. In this regard, any such interest which may have been created subsequent to this agreement shall ipso facto terminate and vest in the consenting parties.

31-B 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.

31-C A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

31-D In connection with any and all of its operations under or by virtue of this agreement, Operator shall fully comply with paragraphs (1) through (7) in Section 202 of Executive Order 11246, issued September 24, 1965, and Rules, Regulations and relevant orders of the Secretary of Labor thereunder, which are hereby made a part of this agreement as fully as though copied herein.

31-E 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.

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

OPERATOR

DOYLE HARTMAN

By_____

NON-OPERATORS

ATTEST:

SHELL OIL COMPANY

By_____

By_____

J. A. DAVIDSON

By_____

JACK FLETCHER

By_____

MILLARD DECK, INDIVIDUALLY AND d/b/a/
MILLARD DECK OIL COMPANY

By_____

ATTEST:

GENERAL PETROLEUM, INC.

By_____

By_____

M. F. NELSON

By_____

JOHN BRYANT

By_____

ATTEST:

WARRIOR, INC.

By_____

By_____

EXHIBIT "A"

Attached to and made a part of Operating Agreement dated June 30, 1978 covering W/2 of NE/4 Section 36, T-24-S, R-36-E, between DOYLE HARTMAN as Operator and SHELL OIL COMPANY et al as Non-Operators:

I. (a) Lands Subject to Agreement:

T-24-S, R-36-E, Lea County, N. M.

Section 36: W/2 of NE/4

(b) Depth Limitations:

Surface to base of Jalmat formation.

II. Percentages of Interests and Addresses of Parties:

DOYLE HARTMAN — 39.0625%
508 C & K Petroleum Bldg.
Midland, Texas 79701

*SHELL OIL COMPANY — 50.0000%
P.O. Box 991
Houston, Texas 77001

J. A. DAVIDSON — 9.3750%
P.O. Box 494
Midland, Texas 79701

JACK FLETCHER — 1.5625%
Route 1, Box 133-C
Midland, Texas 79701

*In the event Shell Oil Company has not, or does not, exercise its right of reassignment pursuant to Paragraph 4 of Farmout Agreement and Assignment dated May 6, 1969, from Shell to R. G. Schuehle and John Yuronka, this 50% interest is owned as follows:

**MILLARD DECK, INDIVIDUALLY AND d/b/a/ MILLARD DECK OIL COMPANY — 42.1875%
P. O. Box 1047
Eunice, New Mexico 88240

GENERAL PETROLEUM, INC. — 3.1250%
P. O. Box 840
Hobbs, New Mexico 88240

M. F. NELSON — 3.1250%
P. O. Box 603
Hobbs, New Mexico 88240

JOHN BRYANT — 1.5625%
c/o Millard Deck
P. O. Box 1047
Eunice, New Mexico 88240

**This interest may be owned by virtue of an unrecorded conveyance by:

WARRIOR, INC. — 42.1875%
206 N. Main
Midland, Texas 79702

Exhibit "B"

There is no Exhibit "B".

Kraftbilt 601, TULSA 74101

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

EXHIBIT " C "

Attached to and made a part of The Operating Agreement dated June 30, 1978 and covering the W/2 NE/4 Section 36, T-24-S, R-36-E, NMPM, Lea County, New Mexico between DOYLE HARTMAN, as Operator and J. A. DAVIDSON, JACK FLETCHER, et al, as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

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

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

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

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty 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 $ 1500.00
Producing Well Rate $ 200.00

(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 $_____:~~

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

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

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

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of that Operating Agreement dated June 30, 1978, and covering the W/2 NE/4 Sec. 36, T-24-S, R-36-E, NMPM, Lea County, New Mexico between DOYLE HARTMAN, as Operator, and J. A. DAVIDSON, JACK FLETCHER, et al, as Non-Operators.

Operator, at all times while operations are conducted hereunder, shall carry, and require its contractors to carry insurance to indemnify, protect and hold the parties hereto harmless as follows;

1. Insurance which shall comply with the Workmen's Compensation, Employers Liability and Occupational Disease laws of the State in which operations hereunder are conducted;

2. Comprehensive general liability insurance with limits of not less than:

   A. Bodily Injury:

      $100,000 per person and $300,000 for each occurrence and,

   B. Property Damage:

      $100,000 for each occurrence and $300,000 in the aggregate.

3. Automible liability insurance with limits of not less than:

   A. $100,000 per person and $300,000 per accident pertaining to bodily injury to, or death of persons; and,

   B. $100,000 per accident pertaining to loss of, or damage to, property.

Upon successful completion of first well, all premiums paid on such insurance shall be charged to the joint account. Except by mutual consent of the parties, no other insurance shall be maintained for the joint account, and all losses not covered by such insurance shall be charged to the joint account.

Operator shall not be liable to Non-Operator (s) for loss suffered on account of the insufficiency of insurance carried, or of the insuror with whom carried, nor shall Operator be liable to Non-Operator (s) for any loss accruing by reason of Operator's inability to provide or maintain the insurance above mentioned; provided, however, that if at any time during the life of this agreement Operator is unable to obtain or maintain such insurance, Operator shall promptly notify Non-Operator (s) in writing of such fact.

COMPANY Texas Pacific Oil Co.
(R. Olsen)

WELL McKinney No. 1

FIELD Jalmat

LOCATION 660 FNL & 660 FEL (A)
Sec. 36, T-24-S, R-36-E

COUNTY Lea

STATE New Mexico

ELEVATIONS: KB

DF 3269

GL

COMPLETION RECORD

SPUD DATE 3-7-49 COMP. DATE 3-31-49

TD 3500 PBTD 3500

CASING RECORD 10 3/4 @ 278 w/175
7 @ 3148 w/500

PERFORATING RECORD OH: 3148 - 3500
(Seven Rivers - Queen)

STIMULATION Natural

IP IPF= 9 BOPD + 2000 MCFPD

GOR GR

TP CP

CHOKE 15/64 TUBING @

DST RECORD 3148 - 3500 Tested 9 BOPD +
6000 MCFPD.

Well converted to water disposal

REMARKS
May 1978 Inj= 4000 BWPD
Inj Press= 715 psi
Dec. 1977 Cum Inj= 6167 MBW

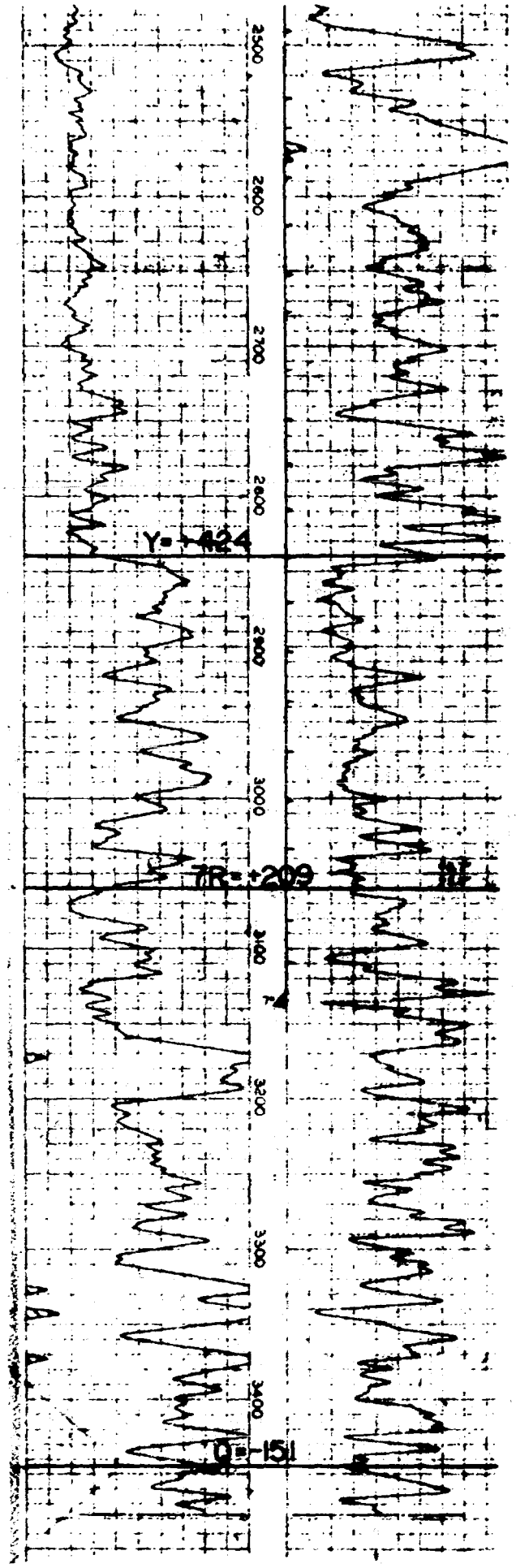


Exhibit _____

Docket No. _____

CASE 6263: (Continued from June 21, 1978, Examiner Hearing)

Application of Adobe 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 Mississippian formation underlying the NE/4 of Section 17, Township 14 South, Range 36 East, Austin Field, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. 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 6264: (Continued from June 21, 1978, Examiner Hearing)

Application of Doyle Hartman for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Jalmat Gas Pool underlying the W/2 NE/4 of Section 36, Township 24 South, Range 36 East, Lea County, New Mexico, to form a non-standard gas proration unit to be dedicated to a well to be drilled at an unorthodox location 330 feet from the North line and 2310 feet from the East line of said Section 36. 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 6271: Application of Doyle Hartman for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Queen formation underlying the S/2 SW/4 of Section 20 as a non-standard gas proration unit for a Jalmat gas well, or in the alternative, the SE/4 SW/4 of Section 20 for a Langlie Mattix oil well, all in Township 24 South, Range 37 East, Lea County, New Mexico, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. 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 6272: Application of Doyle Hartman for an exception to Rule 15 of Order No. R-1670, as amended, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Rule 15 of Order No. R-1670, as amended, which will allow him to produce his overproduced Etz Well No. 1, located in Unit D of Section 7, Township 25 South, Range 37 East, NMPM, Jalmat Gas Pool, Lea County, New Mexico, at 60% of its allowable until such time as the overproduction has been made up.

CASE 6273: Application of Gulf Oil Corporation for creation of a new gas pool and special rules, including gas prorationing, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Morrow gas pool in Eddy County comprising all, or portions of, Sections 24 and 25, Township 18 South, Range 24 East, and Sections 18 thru 20, 28 thru 30, and 32 and 33, Township 18 South, Range 25 East; applicant further seeks the promulgation of special rules for said pool, including the prorationing of gas production on a straight acreage basis and the prohibition of more than one well to each 320-acre proration unit.

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JASON W. KELLAHIN
ROBERT E. FOX
W. THOMAS KELLAHIN

KELLAHIN and FOX
ATTORNEYS AT LAW
500 DON GASPAR AVENUE
P. O. BOX 1769
SANTA FE, NEW MEXICO 87501

TELEPHONE 982-4315
AREA CODE 505

June 15, 1978

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

Re: Doyle Hartman
NMOCC Case No. 6264

Dear Mr. Ramey:

Please continue the above referenced forced pooling case to July 6, 1978 so that the following additional non-consenting interest can be served with notice:

	NW/4NE/4 Sec. 36
Millard Deck Oil Company and Millard Deck Box 1047 Eunice, New Mexico 88231	27/32nd
General Petroleum, Inc., Box 840, Hobbs, New Mexico 88240	1/16th
John Bryant c/o John Yuronka 120 Petroleum Building Midland, Texas 79701	1/16th
M. F. Nelson Box 603, Hobbs, New Mexico 88240	1/32nd
John Yuronka 120 Petroleum Building Midland, Texas 79701	unknown
R. G. Schuehle 102 Petroleum Building Midland, Texas 79701	unknown
Warrior Inc. 206 North Main Midland, Texas 79701	unknown

Very truly yours,

W. Thomas Kellahin

CC: Mr. Doyle Hartman

WTK:kfm

CASE 6264: Application of Doyle Hartman for compulsory pooling and an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Jalmat Gas Pool underlying the W/2 NE/4 of Section 36, Township 24 South, Range 36 East, Lea County, New Mexico, to form a non-standard gas proration unit to be dedicated to a well to be drilled at an unorthodox location 330 feet from the North line and 2310 feet from the East line of said Section 36. 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.

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500 DON GASPAR AVENUE
P. O. BOX 1769
SANTA FE, NEW MEXICO 87501

TELEPHONE 982-4315
AREA CODE 505

June 5, 1978

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

Re: Doyle Hartman

Dear Mr. Ramey:

Please set the enclosed forced pooling application for hearing on June 21, 1978.

Very truly yours,

W. Thomas Kellahin

CC: Mr. James A. Davidson
Mr. Doyle Hartman

WTK:kfm

Enclosure

BEFORE THE

OIL CONSERVATION DIVISION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF DOYLE HARTMAN FOR COMPULSORY POOLING AND FOR UNORTHODOX GAS WELL LOCATION, LEA COUNTY, NEW MEXICO

A P P L I C A T I O N

COMES NOW Doyle Hartman, and as provided by Section 65-3-14, New Mexico Statutes Annotated, 1953 Comp., as amended, applies to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interest in and under the W/2NE/4 of Section 36, Township 24 South, Range 36 East, NMPM, Lea County, New Mexico and for an unorthodox gas well location 330 feet from the North line and 2310 feet from the East line of said Section 36 and in support thereof would show the Division:

1. Applicant is the operator of the SW/4NE/4 of said section.

2. Applicant has obtained voluntary agreement for pooling from all but the following:

Name	Interest
Shell Oil Company P. O. Box 991 Houston, Texas 77001	NW/4NE/4 Sec. 36

3. Applicant proposes to dedicate the W/2NE/4 of said Section 36 and to drill a 3400 foot Jalmat test, at an unorthodox well location 330 feet from the North line and 2310 feet from the East line of said section.

4. Applicant has been unable to obtain voluntary agree-

ment for the pooling of the unpooled interests indicated in paragraph 2 above, and in order to avoid the drilling of unnecessary wells, to protect correlative rights, and to prevent waste, the Division should pool all interests in the spacing or proration unit as a unit.

WHEREFORE, Applicant respectfully requests that the Division set this matter for hearing before the Division duly appointed examiner, and that after notice and hearing as required by law the Division enter its order pooling all interest underlying the W/2NE/4 of Section 36, Township 24 South, Range 36 East, N.M.P.M., Lea County, New Mexico, and designating applicant operator of the pooled unit, together with provision for applicant to recover its costs out of production including a risk factor to be determined by the Commission and with provisions for the payment of operating costs and costs of supervision out of production to be allocated among the owners as their interest may appear and further for approval of the unorthodox well location as described above, and for such further orders as may be proper in the premises.

Respectfully submitted,

DOYLE HARTMAN

By W. T. Kellahin

Kellahin & Fox
P. O. Box 1769
Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

Doyle Hartman Case 6264

Compulsory Pooling

W/2 NE/4

36-T24S-R36E

Lea County

Unorthodox Gas Well Location

330'/N + 2310/E

Jalmat Gas Well

Called in by Tom Kellahin

5/31/78

DRAFT

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6264

Order No. R- 5767

APPLICATION OF DOYLE HARTMAN FOR COMPULSORY POOLING AND AN UNORTHODOX GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 6, 1978, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of July, 1978, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Doyle Hartman, seeks an order pooling all mineral interests in the Jalmat Gas Pool underlying the W/2 NE/4 of Section 36, Township 24 South, Range 36 East NMPM, _____, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at an unorthodox location 330 feet from the North line and 2310 feet from the East line of said Section 36.

(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.

while drilling and $200.00 per month while producing

(11) That $1500.00 per month should be fixed as a 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 October 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 Jalmat Gas Pool ~~formation~~ underlying the W/2 NE/4 of Section 36, Township 24 South, Range 36 East, NMPM, ~~[illegible]~~, Lea County, New Mexico, are hereby pooled to form a non-standard 80- acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 330 feet from the North line and 2310 feet from the East line of said Section 36.

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

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of October, 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 Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Doyle Hartman 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 Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

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

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

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner 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 $ 1500.00 per month while drilling and $200.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working 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 Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 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 Division may deem necessary.

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