

CASE NO.

6364

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,
ETC.

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

EXAMINER HEARING

IN THE MATTER OF:)
)
)
Application of Adobe Oil Company)
for compulsory pooling,) CASE
Lea County, New Mexico.) 6364
)

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
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For the Applicant: W. Thomas Kellahin, Esq.
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ROBERT BYRON

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1 MR. NUTTER: Call next Case 6364, which is
2 the application of Adobe Oil Company for compulsory pooling,
3 Lea County, New Mexico.

4 MR. KELLAHIN: Tom Kellahin of Kellahin and
5 Fox, Santa Fe, New Mexico, appearing on behalf of the appli-
6 cant, and I have two witnesses to be sworn.

7 (Witnesses sworn.)

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

12
13 DIRECT EXAMINATION

14 BY MR. KELLAHIN:

15 Q Would you please state your name, by whom
16 you are employed, and in what capacity?

17 A Robert Byron. I'm an independent petroleum
18 land man, employed by Adobe Oil.

19 MR. NUTTER: How do you spell your last name?

20 A B-Y-R-O-N.

21 MR. NUTTER: Thank you.

22 Q Mr. Byron, have you previously testified be-
23 fore the Oil Conservation Division in your capacity as a
24 landman?

25 A No, sir.

1 Q Would you describe briefly for the Examiner
2 what your educational background and work experience has
3 been in the field of petroleum land management?

4 A I've had thirteen years with Mobil Oil Cor-
5 poration as a landman; one year for Texas International
6 Petroleum as a landman; and eight years as an independent.

7 Q Mr. Byron, have you made a study of and are
8 you familiar with the land title situation with regards to
9 the acreage involved in this particular application?

10 A Yes, sir.

11 MR. KELLAHIN: If the Examiner please, we
12 tender Mr. Byron as an expert in the field of petroleum
13 land topics.

14 MR. NUTTER: Mr. Byron is qualified.

15 Q (Mr. Kellahin continuing.) Please refer to
16 what I have marked as Adobe Exhibit Number One, and identify
17 that tabulation.

18 A These are the mineral interest owners that
19 have not leased in this particular tract at this time.
20 However, there are a few that have, I understand, gone ahead
21 and leased their interests.

22 Q All right, let me ask you some questions
23 about that tabulation, Mr. Byron.

24 What is represented by the first column of
25 figures?

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1 A. Well, this is the unleased interest and of
2 course would be the working interest in -- in the well,
3 provided that they were and remained unleased.

4 Q The first column indicates working interest
5 in the northwest quarter of the southeast quarter.

6 A Yes.

7 Q What does that represent?

8 A Well, that would be oil, in the event that
9 the production of oil was established.

10 Q All right, and the second column, then, in
11 the right margin is the working interest on the southeast
12 quarter, and what does that represent?

13 A In the event that there were -- that this
14 well is a gas well, then that would represent their parti-
15 cipation in the gas well.

16 Q Let's go down the column of names of indivi-
17 duals and companies and have you indicate for us the current
18 status of any negotiation with any of those parties.

19 A All right. Koch Industries, I understand,
20 have physically and actually leased at this time, so we
21 would probably be able to eliminate them from this.

22 Texas Pacific Oil has leased.

23 Union Texas Petroleum Corporation has ad-
24 vised that they would lease but we physically do not have
25 a lease in hand at this particular time.

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1 Anderson ~~and~~ Carter ^{has} have not leased at this
2 time.

3 David Kite has not leased at this time;
4 however, we are in the process of negotiating a lease with
5 them.

6 The Bank of California Trustee for Betty
7 Kite Dressen, we are in the process of negotiating a lease
8 with them.

9 George R. Borden has agreed to lease and has
10 a lease in hand; however has not signed it and returned it
11 at this time. His brother, Lyle, has leased and we physi-
12 cally have a lease from him.

13 Q Let me stop you at that point. All the names
14 above Morris Antweil's name, those are the interest owners
15 in the north half of the southeast quarter, is that correct?
16

17 A That is correct.

18 Q All right. For the south half of the south-
19 east quarter there is a different ownership, is there not?

20 A That is a Federal lease, I believe.

21 Q All right. Who holds that Federal lease?

22 A Morris Antweil one-half and Western Reserves
23 Oil Company, one-half.

24 Q That accounts for the fact that zero percentage
25 is indicated in the first column and a 25 percent interest
in the second column, correct?

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A. Correct.

Q. What, if any, contact have you had with Morris R. Antweil and Western Reserves Oil Company?

A. I personally have not had any, but Adobe did I believe talk to them and they weren't interested in participating.

Q. To the best of your knowledge neither one of those parties have joined in drilling the well?

A. No, sir.

Q. Okay.

MR. KELLAHIN: If the Examiner please, the second exhibit is a tabulation of certified mail return receipts for all of the interest parties mailed by my office on October 3rd and again on October 13th, to indicate that copies of the amended application for forced pooling have been sent and received by all the parties on this Exhibit Number One.

I believe that concludes my examination of Mr. Byron.

CROSS EXAMINATION

BY MR. NUTTER:

Q. Mr. Byron, now in the north half of the southeast quarter all of these people that you mentioned have an undivided interest in the entire north half of

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1 southeast quarter --

2 A. Yes, sir.

3 Q. -- as royalty owners, as owners in --

4 A. As mineral owners, yes.

5 Q. As mineral owners.

6 A. Yes, sir.

7 Q. And the ones that you said have leased have
8 given Adobe an oil lease there.

9 A. Yes, sir.

10 Q. Under that 80-acre tract?

11 A. Yes, sir.

12 Q. And then in the south half of the southwest
13 the mineral owner is the United States Government.

14 A. Yes, sir.

15 Q. And Antweil and Western Reserves have the
16 Federal lease there.

17 A. Yes, sir.

18 Q. And then what's this interest of Adobe Oil
19 and Gas Corporation in the northwest quarter of the south-
20 east quarter, this 47 percent? Where did that come from?

21 A. This is the leased interest that they had
22 at the time of the preparation of this exhibit.

23 Q. In other words, we're looking again at the
24 north half and there are some other owners in here that had
25 previously executed leases with Adobe.

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- 1 A. Yes, sir.
- 2 Q. And that's where Adobe gets its 47 percent?
- 3 A. Yes, sir.
- 4 Q. And now, of course, this figure is more than
- 5 47 percent because you now can say that a number of these
- 6 have leased or are in the process of leasing.
- 7 A. Yes, sir.
- 8 Q. Have any of these people who own minerals in
- 9 the north half of the southeast quarter actually refused to
- 10 lease?
- 11 A. Well, no, sir, they haven't actually refused
- 12 to lease. Some of them have quoted terms, you know, above
- 13 and beyond what we feel is economical in this thing.
- 14 Q. So without further negotiation the thing
- 15 appears to be deadlocked and you wouldn't be able to lease
- 16 it.
- 17 A. Well, specifically, sir, we -- we offered
- 18 \$100 an acre and a quarter royalty, and the price -- and the
- 19 royalty quoted to us as they came back was considerably in
- 20 excess of a quarter.
- 21 At that point we've only given a quarter
- 22 royalty for some of the people in this particular thing and
- 23 we did not feel, based on the production there, that we
- 24 could, you know, give any more.
- 25 Q. Now what's your status of negotiations with

1 Antweil and Western Reserves? In the south half of the
2 southeast?

3 A Well, they did not want to participate in
4 the drilling of any well and for -- I could not say, sir,
5 on that, because Adobe has kind of more or less taken that.
6 The Adobe landman per se is more or less taking that nego-
7 tiation on himself.

8 MR. NUTTER: Is your other landman going to
9 testify as to negotiations with Antweil and Western Reserves
10 or what's he going to testify to?

11 MR. KELLAHIN: The other witness is the en-
12 gineer on the well, engineering.

13 MR. NUTTER: Do you know what the status of
14 the negotiations with Antweil and Western Reserves are, Mr.
15 Kellahin?

16 MR. KELLAHIN: Yes, sir, I have personal
17 knowledge that both Antweil and Western Reserves believe
18 this is going to be an oil well based upon 40-acre spacing
19 and therefore the south half of the southeast quarter would
20 not be involved and they apparently are willing to under-
21 take the risk that if it is a gas well they will nonconsent.

22 MR. NUTTER: I see.

23 Q (Mr. Nutter continuing.) Mr. Byron, on these
24 other parties who have not leased, have you offered them
25 the opportunity to join in in the drilling of the well as

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1 working interest owners and royalty owners?

2 A. Yes, sir. Yes, sir, verbally.

3 Q. And what has been their reaction to that?

4 A. In some cases they said no and -- positively,
5 and in the cases where -- well, in most cases they were
6 willing to lease but it's not a usual lease and it's more
7 or less a matter of working out the particulars, and so
8 we'll proceed with them, but at the time of the application
9 we felt like because of the process involved, it would take
10 quite some time to go in and get them signed up, so we just
11 included everybody in there. None of these -- most every-
12 body on there, as far as I know, does not want to partici-
13 pate in the well.

14 MR. NUTTER: Are there any further questions
15 of Mr. Byron? He may be excused.

16
17 DALE LUBINSKI
18 being called as a witness and having been duly sworn upon
19 his oath, testified as follows, to-wit:

20
21 DIRECT EXAMINATION

22 BY MR. KELLAHIN:

23 Q. Would you please state your name, by whom
24 you're employed and in what capacity?

25 A. My name is Dale Lubinski and I'm employed as

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1 a geologist for Adobe Oil.

2 Q Mr. Lubinski, would you spell your last name?

3 A L-U-B-I-N-S-K-I.

4 Q Mr. Lubinski, have you previously testified
5 as an expert geologist before the Oil Conservation Division
6 of New Mexico?

7 A No, I haven't.

8 Q Would you explain briefly what has been your
9 educational background?

10 A I've a Bachelor's of Science in geology from
11 Marietta College in Marietta, Ohio.

12 Q When did you obtain that degree?

13 A 1972, and I've attended graduate school at
14 Bowling Green State University and I've completed all my
15 work towards a Master's degree except completing my thesis.

16 Q Subsequent to graduation and obtaining your
17 Bachelor of Science degree, where have you worked and in
18 what capacity have you been employed?

19 A I've worked for Ensearch Exploration in
20 Ohio as a geologist and I've worked in Dallas in Ensearch's
21 main office as a geologist, and then I was transferred to
22 Midland and worked for Ensearch there for approximately two
23 years before coming over to Adobe.

24 Q How long have you worked for Adobe?

25 A I've worked for Adobe for about a year, a

1 year and a half.

2 Q In what capacity?

3 A As a geologist.

4 Q As a geologist for Adobe Oil Company have
5 you made a study of and are you familiar with the facts
6 surrounding this particular application?

7 A Yes, sir.

8 MR. KELLAHIN: We tender Mr. Lubinski as an
9 expert witness.

10 MR. NUTTER: Mr. Lubinski is qualified.

11 Q (Mr. Kellahin continuing.) Would you please
12 refer to what I have marked as Exhibit Number Three, which
13 is a copy of a proposed estimated well cost for the subject
14 well, Mr. Lubinski. Would you take a look at a copy of
15 that?

16 Have you had an opportunity to review that
17 tabulation and determine whether it's true and accurate?

18 A Yes, it is accurate for a 7200 foot well
19 drilled to the top of the Abo in the -- in this area in
20 Lea County.

21 Q In your opinion, Mr. Lubinski, does that
22 estimated well cost reflect the type of costs being charged
23 for drilling of a well for a depth of 7200 feet in this
24 particular area?

25 A Yes, sir.

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1 Q They are consistent with other costs of other
2 operators in the area for this type of well?

3 A Yes, sir.

4 Q I note your application for forced pooling
5 indicates that you desire to force pool from the surface to
6 the base of the Ellenburger formation, is that not true?

7 A Yes, sir.

8 Q And that this AFE is somewhat short of that
9 total depth?

10 A Yes, sir, we plan on when drilling the well,
11 seeing if it is running high and with the possibility of
12 maybe taking it to the Ellenburger.

13 MR. NUTTER: Where would this 7200 feet take
14 it?

15 A It would take it to approximately the top of
16 the Abo formation.

17 Q In drilling a well to the depth of 7200 feet,
18 what do you anticipate to be your primary producing formations
19 for a well in this particular area?

20 A The primary zones we would be looking at
21 would be the Blinbry and the Tubb.

22 Q Let's go through the prepared material here
23 and summarize for the Examiner the additional information
24 contained on the left side of that folder, commencing next
25 with this survey on a C-102. What is that, Mr. Lubinski?

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1 A. Okay, it's a plat, a location plat, with wells
2 that Adobe has already drilled and the No. 1 well, which
3 Adobe has re-entered, with the proposed location for the
4 No. 1 Kornegay.

5 Q. This information is reproduced again on one
6 of your subsequent geological exhibits, is it not?

7 A. Yes.

8 Q. All right. What is the proposed location for
9 this well?

10 A. The proposed location is 1980 from the south
11 line and 1980 from the east line of Section 23, Township 20
12 South, Range 38 East, Lea County.

13 Q. And what acreage would you dedicate to the
14 well in the event its an oil well?

15 A. It would be 40 acres.

16 Q. That would be the northwest quarter of the
17 southeast quarter?

18 A. Yes.

19 Q. And in the event you obtain gas production,
20 it will be the entire southeast quarter, correct?

21 A. Correct.

22 Q. All right, sir. Would you turn to the next
23 exhibit, which I believe we've marked as Exhibit Number Four,
24 and identify that?

25 A. This is the operating agreement.

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1 Q Okay. Would you turn to the overhead charges
2 attached as an exhibit to the operating agreement and look
3 at page three?

4 And indicate to the Examiner what the over-
5 head charges to be assessed are for drilling and after
6 drilling for this well?

7 A The rate would be \$1500 and the producing
8 well rate, \$200.

9 Q Now that drilling and producing well rates
10 is based upon a well taken only to the top of the Abo, is
11 that correct?

12 A Yes, sir.

13 Q In your opinion are those charges fair and
14 reasonable charges to be assessed against the nonconsenting
15 parties?

16 A Yes, sir.

17 Q Will you continue through the summary of in-
18 formation on the left side of the folder and indicate the
19 next enclosure; I believe it's a title opinion letter.

20 A This is the title opinion for the north
21 half of the southeast quarter of Section 23 in this town-
22 ship.

23 Q And continuing, then, through the folder,
24 what is found under the agreements listing?

25 A This is a copy of the agreement of Adobe here

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1 to Union, Texas Petroleum.

2 Q Those enclosures represent copies of the
3 agreement that have been executed on behalf of some of the
4 parties with Adobe?

5 A Yes, sir.

6 Q All right, sir. Let's proceed with the
7 specifically marked exhibits and would you commence your
8 discussion with what I have marked as Exhibit Number Five,
9 identify this, and explain to the Examiner what information
10 it contains?

11 A This is a copy of the working interest parti-
12 cipation of Adobe in Section 23 and the surrounding area.

13 Q What is indicated by the darker shaded areas?

14 A The darker shaded areas are the areas where
15 Adobe does have leases.

16 Q What's indicated by the red circle?

17 A The red circle is the proposed location.

18 Q What wells have been indicated on this ex-
19 hibit?

20 A The wells that are indicated on this map are
21 all the wells to my knowledge that have been drilled in this
22 area, shallow and deep.

23 Q To all depths?

24 A Yes.

25 MR. NUTTER: Mr. Lubinski, while we're here,

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1 what are all these open circles in Section 26?

2 A. Section 26 are Continental locations at the
3 present time, wells that have not been drilled.

4 MR. NUTTER: Well, what are the majority of
5 the wells that have been drilled completed in?

6 A. To the -- in Section 27 there most of the
7 wells are duals in the Blinebry and the Tubb. They are
8 Blinebry-Tubb wells.

9 MR. NUTTER: What about Continental's loca-
10 tions in the north half of 26?

11 A. They plan to drill and make completions from
12 the Blinebry and the Tubb.

13 MR. NUTTER: Okay, now we're on the Adobe
14 lease in 23. What are these wells?

15 A. In 23 we have the No. 1 Well is one that
16 Adobe has re-entered and it was originally drilled by Antweil
17 in 19 -- and plugged in 1974. Adobe re-entered it in 1977
18 and after that Adobe has drilled the No. 2 Well.

19 MR. NUTTER: Just a minute, now, where is the
20 completion in No. 1?

21 A. We completed it from the Tubb and Blinebry.

22 MR. NUTTER: It's a Blinebry-Tubb, okay, No.
23 2?

24 A. The No. 2 Well, if you turn to map number
25 five where it has all the completions and the totals on it.

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1 MR. KELLAHIN: We've marked map number five
2 as our Exhibit Number Nine, Mr. Nutter.

3 Perhaps you'd like to take that exhibit next
4 and we'll talk about the production information contained
5 on it.

6 MR. NUTTER: Well, let him go ahead with his
7 testimony he was giving. I kind of got off on it.

8 A. Well, the other wells that Adobe has in
9 Section 23, the No. 2 is a Blinebry completion; the No. 3
10 Well is a Blinebry completion; the No. 4 Well is a Blinebry
11 completion; and the No. 5 Well is so far a Tubb completion,
12 and the potential is on map number five there.

13 And the Llano No. 1-Y in the southwest corner
14 is also a Blinebry completion.

15 MR. NUTTER: Okay.

16 Q (Mr. Kellahin continuing.) Please refer to
17 what I've marked as Exhibit Number Six and identify it.

18 A. Exhibit Number Six is a map, a structure map,
19 of the area in Lea County and is done on the top of the
20 San Andres. It is a more shallow marker in the area and
21 most of the wells drilled in the area penetrate it.

22 Q Please refer to Exhibit Number Seven and
23 identify it.

24 A. Number Seven is a structure map of the same
25 area on the Blinebry marker, one of the producing formations

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1 in Section 23.

2 Q Okay, will you refer to Exhibit Number Eight
3 and identify it.

4 A Number Eight is a structure map on the
5 Siluro-Devonian formation and indicates very few wells pene-
6 trate the deep and indicates structure on it.

7 The indicated yellow dots and the lines
8 indicate cross sections which I have constructed, showing
9 the structural position of the proposed location.

10 Q Would you identify what I've marked as Ex-
11 hibit Number Nine?

12 A Exhibit Number Nine is the production of the
13 Adobe wells in Section 23.

14 Q The direct west offset to the proposed
15 location is Well No. 1, is it not?

16 A Yes, sir.

17 Q Would you summarize the information again
18 on Well No. 1 with regards to the Tubb and Blinbry production?

19 A The No. 1 Well has produced since 11-77 and
20 the figures are through 9-78. Daily the Tubb is pumping
21 40 barrels of oil and making 300 Mcf of casinghead gas.

22 Q What has been the history of that well?

23 A The well was originally drilled by Antweil,
24 1974, and re-entered -- well, it was plugged by Antweil
25 and re-entered by Adobe in 1977.

1 Q Your cumulative production figures indicate
2 production, I assume, from the original production, '74.

3 A There was no production in '74. It's from
4 the re-entry by Adobe, 1977, through 9-78.

5 Q The gas produced from the Blinebry and Tubb,
6 is that casinghead gas?

7 A Yes.

8 Q How is that well completed? That's a dual
9 completion?

10 A Yes, sir.

11 Q Does Adobe operate any other dually com-
12 pleted wells, Tubb-Blinebry wells in the area?

13 A Not at the present time.

14 Q How does the immediate area in which Adobe
15 operates compare to the Continental operated area to the
16 southwest?

17 A Adobe originally went in and, as I said,
18 has re-entered the No. 1 Well there based on the logs and
19 originally the No. 1 completion was comparable to the pro-
20 duction that Continental is getting in Section 26 and 27.
21 Dual completions originally come in flowing and with a good
22 amount of gas with it.

23 One well was recently completed by Conti-
24 nental and flowed 152 barrels of oil per day from the Bline-
25 bry and pumped 80 barrels of oil a day from the Tubb. The --

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Q How would you characterize your general production in the Adobe operated area to the Continental operated area to the southwest?

A Overall the Adobe production is not as good as production encountered by Continental.

Q What, if any, Blinebry and Tubb wells exist to the east of the proposed location?

A Within the mapping area there are no Blinebry or Tubb completions directly to the east.

Q How does the porosity of the Adobe operated area compare to the Continental operated area?

A Well, reservoir conditions in general are not as good as encountered by Continental to the southwest. As an example, many of the Continental wells will encounter porosities in the 5 to 8 percent range and Adobe has encountered porosities in the 3 to 5 percent range.

Q Based upon your testimony and your study of this particular area, do you have a recommendation to the Examiner as to a risk factor to be assessed against the nonconsenting parties?

A In my opinion it should be about 200 percent.

Q Would you pull out that cross section so we can put it on the wall?

All right, sir, would you go to what I've marked as Exhibit Number Ten and identify it and explain

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1 what information it contains?

2 A. This is a cross section in the area of Town-
3 ship 20 South and 38 East, and it is indicated on the map
4 number five there, the deep structure map, that these are
5 wells that have penetrated the Ellenburger formation, and
6 in the area of our proposed location here, as you can see
7 by the structure map, that there is a thinning of the Abo
8 with the possibility of maybe having a structure as on the
9 Siluro-Devonian map, there's a possibility it may be a deep
10 Ellenburger well.

11 MR. NUTTER: Would you identify one side as
12 "A" and the other as "A-prime".

13 A. All right.

14 MR. NUTTER: And we'll mark them the same.

15 A. The Arkin well on Section 14 would be on the
16 left here as "A". To the southwest there would be "A-prime".

17 MR. NUTTER: Thank you.

18 A. And the Adobe No. 1 here is indicated with
19 the production from the Blinebry and the Tubb, which we
20 hope to encounter in our proposed location.

21 Q. What's your timing on drilling this well?

22 A. We originally hoped to drill it before the
23 end of 1978.

24 MR. KELLAHIN: That concludes my examination
25 of Mr. Lubinski.

1 We tender Adobe Exhibits One through Ten in
2 evidence.

3 MR. NUTTER: Adobe Exhibits One through Ten
4 will be admitted in evidence.

5
6 CROSS EXAMINATION

7 BY MR. NUTTER:

8 Q Mr. Lubinski, the application here is for
9 the pooling of the northwest quarter of the southeast quarter
10 of Section 23 if it's an oil well and the pooling of the
11 southeast quarter of Section 23 in the event the drilling
12 results in a gas well.

13 It's also for an order pooling all interests
14 in the surface to the base of the Ellenburger formation,
15 yet we've got an AFE here that only goes to the top of the
16 Abo and it looks like you've got another two or three
17 thousand feet possibly to get down to the Ellenburger.

18 What are the prospects here for going to the
19 Ellenburger? Are we talking about a Blinebry-Tubb well
20 here or are we talking about an Ellenburger well?

21 A There's always the possibility of when we
22 do drill the well running high and encountering good shows
23 shallow and eventually taking it to the Ellenburger to
24 evaluate the reservoir there.

25 We originally planned for -- we hoped to get

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1 a Blinebry-Abo -- a Blinebry-Tubb well out of it, and we
2 will, when -- within 30 days of drilling commencement, notify
3 the leasehold owners and submit both a deep and a shallow
4 AFE.

5 Q What if they go along with the shallow AFE
6 but don't accept the deep AFE?

7 What do you do then?

8 MR. KELLAHIN: I assume they get force pooled
9 to the deeper depth.

10 MR. NUTTER: How much does it cost them to
11 go from the Abo to the Ellenburger, then?

12 MR. KELLAHIN: We neglected to bring that
13 AFE, obviously, Mr. Nutter, and we would like to tender it
14 to the Commission or to the Examiner subsequent to hearing.
15 I realize that the Commission order requires us prior to
16 drilling the well and within thirty days of commencement to
17 again submit to all the nonconsenting parties an AFE. At
18 that time we will take the opportunity to indicate to them
19 that realistically this is probably a Tubb-Blinebry, perhaps
20 some Abo -- well, no, it's to the top of the Abo -- some
21 Blinebry and Tubb, but that during drilling if the operator
22 believes it prudent to do so, they may drill to a deeper
23 depth, and we will also tender them an AFE for the additional
24 footage.

25 MR. NUTTER: So for the record, Mr. Lubinski,

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3910 Plaza Blanca (602) 471-2462
Santa Fe, New Mexico 87501

1 to test the Blinebry and the Tubb would require drilling to
2 what depth?

3 A. To just the Blinebry and Tubb would require
4 to drill about 7000 feet.

5 That would be approximately the top of the
6 Drinkard.

7 Q. All right. Now, if conditions were running
8 right and you decided to go to the Ellenburger and test it,
9 what would your depth be?

10 A. It would be approximately 10,000 feet.

11 Q. Is there any Ellenburger production in this
12 area? Are any of these wells on your cross section which
13 are deep tests?

14 A. No, sir, there's no immediate Ellenburger
15 production in the area, but as mapped, possibly favorable
16 structural conditions could be found.

17 Q. And you would want a 200 percent risk factor
18 for that portion of the drilling, also?

19 A. Yes.

20 MR. NUTTER: Are there any further questions
21 of Mr. Lubinski?

22 MS. TESCHENDORF: Mr. Lubinski, we no longer
23 have a bond for Adobe Oil Company, just Adobe Oil and Gas
24 Corporation, and I notice on your C-102, location plat, it
25 says Adobe Oil and Gas Corporation. Would you like to amend

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Santa Fe, New Mexico 87501

1 your application to read Adobe Oil and Gas Corporation?

2 A Yes.

3 MR. NUTTER: So this is the application of
4 Adobe Oil and Gas Corporation, then, rather than Adobe Oil
5 Company.

6 MR. KELLAHIN: Same thing.

7 MR. NUTTER: Are there any further questions
8 of Mr. Lubinski? He may be excused.

9 Do you have anything further, Mr. Kellahin?

10 MR. KELLAHIN: No, sir.

11 MR. NUTTER: Does anyone have anything they
12 wish to offer in this case?

13 MR. CARTER: If it's permissible, Mr. Nutter,
14 as a mineral owner I'd like to make a statement.

15 MR. NUTTER: Yes, sir, Mr. Carter.

16 Give your name for the record, please, Mr.
17 Carter.

18 MR. CARTER: Anderson Carter. I'm speaking
19 for myself and my brother Powhatan Carter, Junior.

20 I have no objection at all to the pooling
21 order as such, Mr. Examiner. I would like to take exception,
22 however, to the request for a 200 percent risk factor.

23 It seems to me that they're asking for a
24 risk factor for a development well which would be more
25 fitting in a wildcat well. It seems to me that with all the

1 drilling done in that area, much of it done by Adobe Oil
2 themselves on direct offset acreage to this, they have a
3 pretty good indication as to what they're going to find in
4 the northeast quarter -- or correction, the southeast
5 quarter of that section.

6 Having drilled a few dry holes myself, I
7 acknowledge that there is some risk any time you put a hole
8 down, considerable, but I would like to request that the
9 risk factor be limited to 50 percent.

10 I would also like to state for the record
11 that I'm one of those people that asked what Mr. Byron re-
12 ferred to as an unreasonable price. All I ask -- what they
13 offered was \$100 an acre and a quarter royalty, and I con-
14 sider that to be a very adequate price for wildcat acreage
15 leases in Lea County, and that is the price that many of us
16 in Lea County have been getting for leases on wildcat
17 acreage. In fact, two days before Mr. Byron contacted me,
18 I leased a tract eight miles from production for that price
19 and I felt that a lease on a minerals directly offsetting
20 production should be worth a higher price than strictly
21 wildcat, and so I quoted him a price of no cash and a 3/8ths
22 royalty. They did not see fit to do it, so I just chose to
23 go the nonconsenting if he saw fit to force pool me.

24 And all I'd like to request is that the risk
25 factor be limited to 50 percent and also, that if they don't

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2000 Plaza Blanca (988) 411-3462
Santa Fe, New Mexico 87501

1 take the well to the Ellenburger, the forced pooling order
2 be limited to the depth drilled rather than an extra 3000
3 feet they didn't see fit to test.

4 That's all, Mr. Examiner.

5 MR. NUTTER: Thank you, Mr. Carter. So that
6 we can send you a copy of the order that's entered, is the
7 address that's shown on their Exhibit Number One, being 209
8 South Fifth, Lovington, your correct address?

9 MR. CARTER: That's my residence address.
10 My mailing address is Post Office Box 725.

11 My brother's mailing address is Ft. Sumner,
12 New Mexico.

13 MR. NUTTER: That's 725, Lovington?

14 MR. CARTER: Yes, sir. Zip 88260.

15 MR. NUTTER: Thank you.

16 Does anyone else have anything they wish to
17 offer in Case Number 6364?

18 We'll take the case under advisement.

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

REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, 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.

Sally W. Boyd C.S.R.
Sally W. Boyd, C.S.R.

I do hereby certify that the foregoing is a complete and correct transcript of the proceedings in the hearing of Case No. 6364 heard by me on 11/21 1978.
[Signature], Examiner
Oil Conservation Division

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
308 C Plaza Blanca (P.O.) 471-2463
Santa Fe, N.M. 87501

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Adobe Oil Company) CASE
for compulsory pooling,) 6364
Lea County, New Mexico.)

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 Bldg.
Santa Fe, New Mexico 87501

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3020 Plaza Blanca (SOS) 471-4442
Santa Fe, New Mexico 87501

1 MR. NUTTER: Call Case 6364.

2 MS. TESCHENDORF: Case 6364. Application of
3 Adobe Oil Company for compulsory pooling, Lea County, New
4 Mexico.

5 The applicant in this case has requested that
6 it be continued to the November 21st Examiner Hearing.

7 MR. NUTTER: Case Number 6364 will be con-
8 tinued to the Examiner Hearing scheduled to be held at
9 this same place at 9:00 o'clock a. m. November 21, 1978.

10 (Hearing concluded.)
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25

SALLY WALTON BOYD
CERTIFIED SHORTHAND REPORTER
3030 Plaza Blanca (SOS) 471-2462
Santa Fe, New Mexico 87501

REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, 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.

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

I do hereby certify that the foregoing is
 a correct and true transcript of the proceedings in
 the Oil Conservation Division of Case No. 6364
 heard by me on 10/25 1978.
[Signature] Examiner
 Oil Conservation Division

SALLY WALTON BOYD
 CERTIFIED SHORTHAND REPORTER
 2010 Plaza Blanca (908) 471-2462
 Santa Fe, New Mexico 87501

ADOBE OIL & GAS CORPORATION

1100 WESTERN UNITED LIFE BLDG.
MIDLAND, TEXAS 79701
915 683-4701

SUBSIDIARIES
ADOBE COAL COMPANY
ADOBE HOLLAND INC
ADOBE INTERNATIONAL INC
ADOBE MARKETING CORPORATION
ADOBE MINING COMPANY
ADOBE ROYALTY INC
TELEX 743413

April 4, 1979

letter

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

Attn: Mr. Joe D. Ramey
Director

File

Re: Adobe Oil & Gas Corporation
Kornegay Creek Prospect - AB 210
Order No. R-5910, Case No. 6364
Lea County, New Mexico

Dear Mr. Ramey:

Enclosed herewith is a copy of Adobe Oil & Gas Corporation's letter and attachments to the Forced Pooled Interests in the above referenced prospect.

Yours very truly,

ADOBE OIL & GAS CORPORATION

Cindy Reynolds

Cindy Reynolds
Land Secretary to Richard J. Ganem

:cr
Enclosures 3



bcc: Mr. Joe D. Ramey

ADOBE OIL & GAS CORPORATION

1100 WESTERN UNITED LIFE BLDG.
MIDLAND, TEXAS 79701
915 683-4701

SUBSIDIARIES
ADOBE COAL COMPANY
ADOBE HOLLAND INC
ADOBE INTERNATIONAL INC
ADOBE MARKETING CORPORATION
ADOBE MINING COMPANY
ADOBE ROYALTY INC
TELEX 743413

April 3, 1979

nutlin

Forced Pooled Interests
Order No. R-5910
Case No. 6364

Re: Kornegay Creek Prospect AD-210
Lea County, New Mexico

Gentlemen:

As set forth by the State of New Mexico, Energy and Minerals Department, Oil Conservation Division, Case No. 6364, Order No. R-5910, dated January 23, 1979, Adobe Oil & Gas Corporation, as Operator of said Order, hereby forwards its AFE's Nos. 547 and 547-A for the drilling of a well to adequately test the Tubb and Blinebry Formations and the Ellenburger Formation respectively.

Should you elect to participate in the drilling of this well under an Operating Agreement which names Adobe Oil & Gas Corporation, Operator, and provides for a Drilling Well Rate of \$1500.00 per month and a Producing Well Rate of \$200.00 per month, execute and return a copy of each of the two AFE's forwarded herewith along with your check for the amount indicated on AFE No. 547.

Failure to respond, as set forth by the State of New Mexico, within thirty (30) days of receipt shall be deemed an election to not willingly participate in the drilling of this well.

Yours very truly,

ADOBE OIL & GAS CORPORATION

Original Signed:
RICHARD J. GANEM
Richard J. Ganem
Landman

RJG:cr
Enclosures 4

FORCED POOLED INTERESTS

Union Texas Petroleum Corporation
1300 Wilco Building
Midland, Texas 79701

Powhatan Carter, Jr.
c/o 209 S. 5th
Lovington, New Mexico 88260

Anderson Carter
c/o 209 S. 5th
Lovington, New Mexico 88260

David Bond Kyle
802 Alameda Padre Serra
Santa Barbara, California 98103

The Bank of California N.A.
Trustee for Betty Kyte Dreessen
Trust Nos. 2-2010/13
P. O. Box 45000
San Francisco, California 94145

DATE: March 30, 1979

AFE 547

ADOBE OIL & GAS CORPORATION

REVISION

1100 WESTERN UNITED LIFE BLDG.
MIDLAND, TEXAS 79701
915 683-4701

AUTHORIZATION FOR EXPENDITURE

Location: Kornegay #1 - 1980' FEL & FSL of Sec. 23, T-20-S, R-38-E, Lea County, New Mexico

	Completed Well	To Casing Point	Actual
Location and Roads	\$ 10,000.00	\$ 10,000.00	
Damages	1,500.00	1,500.00	
Footage Contract _____ ft @ Mobilization	10,000.00	10,000.00	
Day Work <u>18</u> days @ \$4200.00 /Day	75,600.00	75,600.00	
Cement and Cementing	22,000.00	17,000.00	
Float Equipment, etc.	1,700.00	800.00	
Mud and Chemicals	8,000.00	8,000.00	
Log and Testing	8,000.00	8,000.00	
Core and Core Analysis			
Water	4,000.00	4,000.00	
Trucking	2,000.00	2,000.00	
Perforating	3,000.00		
Treating	50,000.00		
Completion Unit	10,000.00		
Labor	5,000.00	2,000.00	
Bits & Rental Equipment	33,600.00	33,600.00	
Overhead and Supervision	6,000.00	4,000.00	
Contingencies	14,000.00	8,000.00	
Total Intangibles	\$264,400.00	\$184,500.00	
Surface Casing 1600 _____ ft @ \$7.79	\$ 12,470.00	\$ 12,470.00	
Intermediate Casing			
2nd Intermediate Casing			
Well Head	8,000.00	4,000.00	
Oil String _____ ft @	35,420.00		
Tubing _____ ft @	29,820.00		
Rods	13,000.00		
Pumping Unit and Base	46,000.00		
Prime Mover	9,500.00		
Misc. Connections	4,000.00	2,000.00	
Total Well Tangibles	\$158,210.00	\$ 18,470.00	
Tanks	\$ 10,000.00		
Treater-Separator	8,500.00		
Connections, Line Pipe, etc.	3,000.00		
Total Tank Battery	\$ 21,500.00		
Total Cost	\$444,110.00	\$202,970.00	

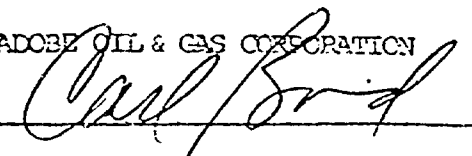
Your _____ working interest share of the above estimate is \$ _____
 Please accept and approve in the space provided below and return one executed copy to this office.

WORKING INTEREST OWNER

By _____

 APPROVED AND ACCEPTED this _____
 Day of _____, 19____

ADOBE OIL & GAS CORPORATION



DATE: March 30, 1979

AFE 547-A

ADOBE OIL & GAS CORPORATION

1100 WESTERN UNITED LIFE BLDG.
MIDLAND, TEXAS 79701
915 683-4701

AUTHORIZATION FOR EXPENDITURE

Location: Kornegay #1 - ELLENBURGER TEST - 1980' FEL & FSL of Sec. 23, T-20-S, R-38-E, Lea
County, New Mexico

	Completed Well	To Casing Point	Actual
Location and Roads	\$ 10,000.00	\$ 10,000.00	
Damages	1,500.00	1,500.00	
Footage Contract _____ ft @ Mobilization	10,000.00	10,000.00	
Day Work 30 days @ \$4200.00 /Day	126,000.00	126,000.00	
Cement and Cementing	55,000.00	17,000.00	
Float Equipment, etc.	3,500.00	1,000.00	
Mud and Chemicals	14,000.00	14,000.00	
Log and Testing	12,000.00	12,000.00	
Cure and Core Analysis			
Water	8,000.00	8,000.00	
Trucking	4,000.00	3,000.00	
Perforating	5,000.00		
Treating	65,000.00		
Completion Unit	10,000.00		
Labor	7,500.00	3,500.00	
Bits & Rental Equipment	58,600.00	58,600.00	
Overhead and Supervision	12,500.00	10,500.00	
Contingencies 10%	40,260.00	27,510.00	
Total Intangibles	\$442,860.00	\$302,610.00	
Surface Casing 1600 ft @ \$7.79	\$ 12,470.00	\$ 12,470.00	
Intermediate Casing			
2nd Intermediate Casing			
Well Head	8,000.00	4,000.00	
Oil String 9500 ft @ \$7.00	66,500.00		
Tubing _____ ft @	42,923.00		
Rods			
Pumping Unit and Base			
Prime Mover			
Misc. Connections	4,000.00		
Total Well Tangibles	\$133,893.00	\$ 16,470.00	
Tanks	\$ 10,000.00		
Treater-Separator	8,500.00		
Connections, Line Pipe, etc.	3,000.00		
Total Tank Battery	\$ 21,500.00		
Total Cost	\$598,253.00	\$319,080.00	

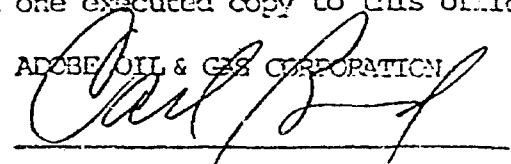
Your _____ working interest share of the above estimate is \$ _____
 Please accept and approve in the space provided below and return one executed copy to this office.

WORKING INTEREST OWNER

By _____

 APPROVED AND ACCEPTED this _____
 Day of _____, 19____

ADOBE OIL & GAS CORPORATION



OIL CONSERVATION DIVISION
P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

April 6, 1979

C
O
P
Y

Adobe Oil & Gas Corporation
1100 Western United Life Building
Midland, Texas 79701

Attention: Mr. Richard J. Ganem

Gentlemen:

This is with reference to your letter of April 3, 1979, wherein you request the commencement of drilling under Order No. R-5910 be delayed until May 15, 1979.

The Division has no problem with your request and will delay the date for commencement of drilling until May 15, 1979. However, the requirements of Order No. 3 of said Order No. R-5910 will also apply to the extended drilling date.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

JERRY APODACA
GOVERNOR

NICK FRANKLIN
SECRETARY

January 24, 1979

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

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

Re: CASE NO. 6364
ORDER NO. R-5910

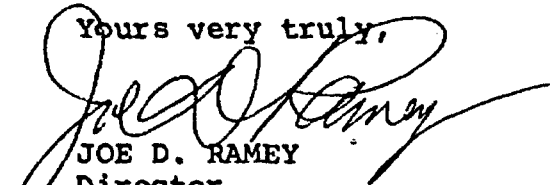
Applicant:

Adobe Oil Company

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 Anderson Carter, William F. Carr

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. 6364
Order No. R-5910

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

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on November 21, 1978, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 23rd day of January, 1979, 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 application in this case was amended at the hearing to be that of Adobe Oil and Gas Corporation rather than that of Adobe Oil Company.

(3) That the applicant, Adobe Oil and Gas Corporation, seeks an order pooling all mineral interests from the surface to the base of the Ellenburger formation underlying the NW/4 SE/4 of Section 23, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico, or in the alternative the SE/4 of said Section 23 in the event said drilling results in a gas well.

(4) That the applicant has the right to drill and proposes to drill a well for oil or gas at a standard location on said lands.

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

(6) 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.

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

(8) 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.

(9) 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 100 percent thereof as a reasonable charge for the risk involved in the drilling of the well, provided however, that a reasonable charge for the risk involved in drilling said well below the base of the Tubb formation should be fixed at 200 percent.

(10) 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.

(11) 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.

(12) 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.

-3-

Case No. 6364

Order No. R-5910

(13) 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.

(14) 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 April 15, 1979, 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, from the surface to the base of the Ellenburger formation underlying the NW/4 SE/4 of Section 23, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40 acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon, provided however, that should said well be completed as a gas well, the entire SE/4 of said Section 23 shall be considered pooled and dedicated to said well.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 15th day of April, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Blinberry and Tubb formations, but may, at its option, continue drilling said well to a depth sufficient to test the Ellenburger formation.

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of April, 1979, 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 Adobe Oil and Gas Corporation is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 30 days prior to commencing said well, the operator shall furnish the 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, 100 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 for drilling and completion operations to the base of the Tubb formation and 200 percent of the pro rata share of reasonable additional well costs for drilling and completion operations below the base of the Tubb formation.

-5-

Case No. 6364
Order No. R-5910

(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.

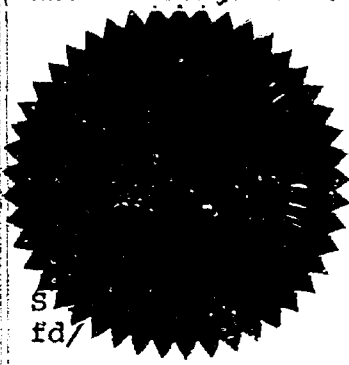
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(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 immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

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



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY
Director

S
fd/

ADOBE OIL & GAS CORPORATION

1100 WESTERN UNITED LIFE BLDG.
MIDLAND, TEXAS 79701
915 685-4701

April 3, 1979

SUBSIDIARIES
ADOBE COAL COMPANY
ADOBE HOLLAND INC
ADOBE INTERNATIONAL INC
ADOBE MARKETING CORPORATION
ADOBE MINING COMPANY
ADOBE ROYALTY INC
TELEX 743413

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

Attn: Mr. Joe D. Ramey,
Director

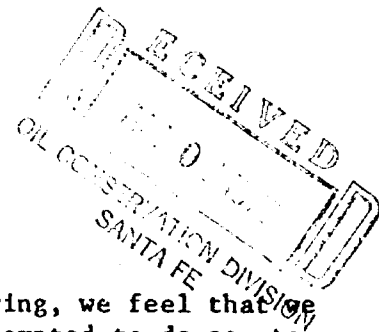
Re: Adobe Oil & Gas Corporation
Kornegay Creek Prospect AD-210
Case No. 6364
Order No. R-5910
Lea County, New Mexico

Gentlemen:

Reference is made to the undersigned's telephone conversation with your Mr. R. L. Stamets, this date, and to the above referenced Case number and Order number.

The purpose of this letter is to formally request a thirty-day extension for the commencement of the drilling of the Adobe Oil & Gas Corporation No. 1 Kornegay at a location in the NW/4 SE/4 of Section 23, T-20-S, R-38-E, NMPM, Lea County, New Mexico, from the 15th day of April, 1979, to the 15th day of May, 1979. This request for an extension is predicated upon the following facts:

1. Due to the increased drilling activity in the immediate vicinity, we have experienced a short delay in obtaining an adequate drilling contract and contractor for the drilling of our well. We do, however, feel that we will be able to finalize a drilling contract and commence operations prior to May 15, 1979.
2. Our current Permit to drill said well has expired, and a new request has been filed accordingly. We expect to receive the new Drilling Permit on or before April 15, 1979.
3. Even though Order No. R-5910 has given us the authority to commence operations without a lease or joinder from those



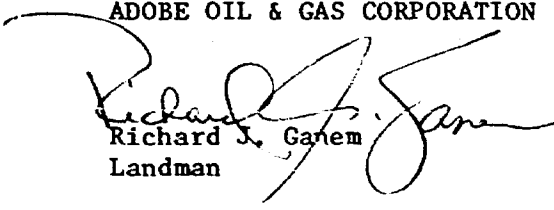
parties who were set forth at the hearing, we feel that we should make every effort, and have attempted to do so, to give those parties a last chance to participate on mutually agreeable terms. We are currently in the final stages of negotiating with some of those parties who are regularly engaged in the oil and gas business and feel that we would be in a better position in normal day-to-day operations by attempting to lease or have those parties join in the drilling of the well, as opposed to being force pooled. We feel that the outstanding negotiations will be completed in the near future.

4. The Title Opinion prepared by the firm of Hinkle, Cox, Eaton, Coffield and Hensley of Roswell, New Mexico is very lengthy, detailed; and sets out numerous curative requirements. We anticipate satisfaction of said requirements and subsequent approval of Title for the purpose of drilling in the next couple of weeks.

We respectfully request that you consider Adobe's request for a thirty-day extension in this matter and advise accordingly.

Yours very truly,

ADOBE OIL & GAS CORPORATION


Richard J. Ganem
Landman

RJG:cr

WORKING INTEREST PARTICIPATION OF SECTION 23

7000' to top of Dr. would go to about 10000 if 2000' is tested.

Parties	W.I. NW/4 SE/4	W.I. SE/4
Koch Industries, Inc. Box 2256 Wichita, Kansas 67201	<i>have leased</i> .08039	.04019
Texas Pacific Oil Company, Inc. P. O. Box 4067 Midland, Texas 79701	<i>have leased</i> .05896	.02948
Union Texas Petroleum Corporation 1300 Wilco Building Midland, Texas 79701	<i>say they will lease</i> .06510	.03255
Powhatan Carter, Jr. c/o 209 S. 5th Lovington, New Mexico 88260	<i>have not</i> .06250	.03125
Anderson Carter c/o 209 S. 5th Lovington, New Mexico 88260	<i>P.O. Box 725 Lovington have not</i> .06250	.03125
David Bond Kyte 802 Alameda Padre Serra Santa Barbara, California 98103	<i>has not negotiating w/ them</i> .15625	.07813
The Bank of California N.A. Trustee for Betty Kyte Dreesen Trust Nos. 2-2010/13 P. O. Box 45000 San Francisco, California 94145	<i>negotiating w/ them</i> .03125	.01563
George R. Bourdon 1026 19th Street N.E. Rochester, Minnesota 55901	<i>has agreed but had not signed for</i> .00278	.00139
Lyle Bourdon 2617 E. 4th Street Deluth, Minnesota 55812	<i>has leased</i> .00278	.00139
Morris R. Antweil P. O. Box 2010 Hobbs, New Mexico 88240	<i>Feb lease</i> .00000	.25000
Western Reserves Oil Company Box 993 Midland, Texas 79701 (Federal Lease NM 21173)	.00000	.25000
Adobe Oil & Gas Corporation 1100 Western United Life Bldg. Midland, Texas 79701	<i>all in NW/4 SE/4</i> .47749	.23874
	1.00000	1.00000

all in NW/4 SE/4

no objection to pooling - objects to 200% unit factor. Should be no more than 50%.

3/2 SE/4

1500/mo only
200/mo prod
200 percent

BEFORE EXAMINER TRUTTER
OIL CONSERVATION DIVISION
Adobe EXHIBIT NO. 1
CASE NO. 6364

October 13, 1975

Dear:

Our firm on behalf of Adobe Oil Company has filed an Amended Application to force pool your interest in SE/4 of Section 23, T20S, R38E, Lea County, New Mexico as follows:

If the subject well is an oil well then the NE/4SE/4 will be dedicated to the well and your interest in that 40 acre tract will be pooled.

If the subject well is a gas well then the SE/4 of Section 23 will be dedicated to the well and your interest in that 160 acre tract will be pooled.

Very truly yours,

W. Thomas Kellishin

WTK:lfm

BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
<u>Adobe</u>	EXHIBIT NO. <u>2</u>
CASE NO.	<u>6364</u>

October 3, 1978

Dear

Our firm on behalf of Adobe Oil Company has filed an application with the New Mexico Oil Conservation Division, Santa Fe, New Mexico to be heard on October 25, 1978 seeking to force pool your interest in the oil and gas under the N/2 SE/4 of Section 23, T20S, R38E, N.M.P.M., Lea County, N.M.

Very truly yours,

W. Thomas Kellanin

WTK:Kfm

Enclosure

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

1. The following service is requested (check one).
☐ Show to whom and date delivered 25¢
☐ Show to whom, date, & address of delivery 45¢
☐ RESTRICTED DELIVERY.
Show to whom and date delivered 85¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery ... \$1.05
(Fees shown are in addition to postage charges and other fees).

2. ARTICLE ADDRESSED TO:
Koch Industries Inc.

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
971070

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
Francis Hamel

4. DATE OF DELIVERY POSTMARK
10/3/78

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1975-O-203-438

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

1. The following service is requested (check one).
☐ Show to whom and date delivered 25¢
☐ Show to whom, date, & address of delivery 45¢
☐ RESTRICTED DELIVERY.
Show to whom and date delivered 85¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery ... \$1.05
(Fees shown are in addition to postage charges and other fees).

2. ARTICLE ADDRESSED TO:
Texas Pacific Oil Co. Inc

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
971071

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent
Gene R. Long

4. DATE OF DELIVERY POSTMARK
10/3/78

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1975-O-203-456

REGISTERED CERTIFIED MAIL 30¢ (plus postage)

Koch Industries Inc.
Box 2256
Wichita, Kansas 67201

POSTMARK OR DATE
10/3/78

INSURANCE COVERAGE PROVIDED (See other side)
NOT FOR INTERNATIONAL MAIL

REGISTERED CERTIFIED MAIL 30¢ (plus postage)

Texas Pacific Oil Co. Inc
PO Box 4067
Midland, Texas 79701

POSTMARK OR DATE
10/3/78

INSURANCE COVERAGE PROVIDED (See other side)
NOT FOR INTERNATIONAL MAIL

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

1. The following service is requested (check one).
☐ Show to whom and date delivered25¢
☐ Show to whom, date, & address of delivery45¢
☐ RESTRICTED DELIVERY.
Show to whom and date delivered85¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery ...\$1.05
(Fees shown are in addition to postage charges and other fees).

2. ARTICLE ADDRESSED TO:
Union Texas Petroleum Corp.

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
971072

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1976-O-203-458

RECEIPT FOR CERTIFIED MAIL—30¢ (plus postage)

Union Texas Petroleum Corp.
1300 Wiley Building
Midland, Texas 79701

POSTMARK OR DATE
10/3/78

ADDITIONAL FEES
1. Shows to whom and date delivered15¢
2. Shows to whom, date, and where delivered35¢
3. Shows to whom, date, and address of delivery85¢
4. Shows to whom, date, and address of delivery50¢

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL

See other side

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

1. The following service is requested (check one).
☐ Show to whom and date delivered25¢
☐ Show to whom, date, & address of delivery45¢
☐ RESTRICTED DELIVERY.
Show to whom and date delivered85¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery ...\$1.05
(Fees shown are in addition to postage charges and other fees).

2. ARTICLE ADDRESSED TO:
Powhatan Carter, Jr.

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
971073

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1976-O-203-458

No. 971073

RECEIPT FOR CERTIFIED MAIL—30¢ (plus postage)

SENT TO
Powhatan Carter, Jr.
STREET AND NO.
c/o 209 S. 5th
P.O. STATE AND ZIP CODE
Longton, TX 78260

POSTMARK OR DATE
10/3/78

ADDITIONAL SERVICES FOR ADDITIONAL FEES
1. Shows to whom and date delivered15¢
2. Shows to whom, date, and where delivered35¢
3. Shows to whom, date, and address of delivery85¢
4. Shows to whom, date, and address of delivery50¢

RETURN RECEIPT SERVICES
DELIVER TO ADDRESSEE ONLY
SPECIAL DELIVERY (extra fee required)

PS Form 3900
Apr. 1971

NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL

(See other side)

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

1. The following service is requested (check one).
☐ Show to whom and date delivered 25¢
☐ Show to whom, date, & address of delivery 45¢
☐ RESTRICTED DELIVERY.
 Show to whom and date delivered 85¢
☒ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery ... \$1.05
 (Fees shown are in addition to postage charges and other fees)

2. ARTICLE ADDRESSED TO:
 Anderson Carter

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 971074

(Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent
Anderson Carter
 DATE OF DELIVERY 10/3/78 POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1978-O-203-458

REGISTERED MAIL—30 (plus postage)

Anderson Carter
 5019 S. 5th
 Longton N.M. 88360 10/3/78

POSTMARK OR DATE

OPTIONAL SERVICES FOR ADDITIONAL FEES
 RETURN 1. Shows to whom and date delivered 15¢
 RECEIPT 2. Shows to whom, date and where delivered 55¢
 SERVICES 3. Shows to whom, date and where delivered 35¢
 DELIVERY 4. Shows to whom, date and where delivered 55¢
 (Fees shown are in addition to postage charges and other fees)

PS Form 3800, Apr. 1961 NO INSURANCE COVERAGE PROVIDED—NOT FOR INTERNATIONAL MAIL (See other side)

No. 971074

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

1. The following service is requested (check one).
☐ Show to whom and date delivered 25¢
☐ Show to whom, date, & address of delivery 45¢
☐ RESTRICTED DELIVERY.
 Show to whom and date delivered 85¢
☐ RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery ... \$1.05
 (Fees shown are in addition to postage charges and other fees)

2. ARTICLE ADDRESSED TO:
 David Bond Kyte

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 971075

(Always obtain signature of addressee or agent)
 I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent
D. Bond Kyte
 DATE OF DELIVERY OCT 13 1978 POSTMARK
 5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1978-O-203-458

REGISTERED MAIL—30 (plus postage)

David Bond Kyte
 800 Alameda Padre Serra
 Santa Barbara Calif. 93103 10/3/78

POSTMARK OR DATE

OPTIONAL SERVICES FOR ADDITIONAL FEES
 RETURN 1. Shows to whom and date delivered 15¢
 RECEIPT 2. Shows to whom, date and where delivered 55¢
 SERVICES 3. Shows to whom, date and where delivered 35¢
 DELIVERY 4. Shows to whom, date and where delivered 55¢
 (Fees shown are in addition to postage charges and other fees)

PS Form 3800, Apr. 1961 NO INSURANCE COVERAGE PROVIDED—NOT FOR INTERNATIONAL MAIL (See other side)

No. 971075

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

1. The following service is requested (check one).
☐ Show to whom and date delivered25¢
☐ Show to whom, date, & address of delivery45¢
☒ **RESTRICTED DELIVERY.**
☐ Show to whom and date delivered85¢
☒ **RESTRICTED DELIVERY.**
☐ Show to whom, date, and address of delivery ...\$1.05
 (Fees shown are in addition to postage charges and other fees.)

2. ARTICLE ADDRESSED TO:

Bank of California N.A.

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 971076

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent
 OCT 19 1978

4. DATE OF DELIVERY POSTMARK
 10 10 78

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1976-O-203-456

RECEIPT FOR CERTIFIED MAIL—30. (plus postage)

Bank of Calif. N.A.
 P.O. Box 45000
 San Francisco, Calif. 94145 10/3/78

POSTMARK OR DATE

FEES FOR ADDITIONAL SERVICES
 RETURN TO SENDER15¢
 RETURN TO ADDRESSEE15¢
 RETURN TO ADDRESSEE15¢
 DELIVER TO ADDRESSEE ONLY50¢
 SPECIAL DELIVERY (extra fee required)

PS Form 3800, MAY 1973 EDITION INSURANCE COVERAGE PROVIDED—(See other side)
 NOT FOR INTERNATIONAL MAIL

No. 971076

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

1. The following service is requested (check one).
☐ Show to whom and date delivered25¢
☐ Show to whom, date, & address of delivery45¢
☒ **RESTRICTED DELIVERY.**
☐ Show to whom and date delivered85¢
☒ **RESTRICTED DELIVERY.**
☐ Show to whom, date, and address of delivery ...\$1.05
 (Fees shown are in addition to postage charges and other fees.)

2. ARTICLE ADDRESSED TO:

George R. Bourdon

3. ARTICLE DESCRIPTION:
 REGISTERED NO. CERTIFIED NO. INSURED NO.
 971077

(Always obtain signature of addressee or agent)

I have received the article described above.
 SIGNATURE ☐ Addressee ☐ Authorized agent
 George R. Bourdon

4. DATE OF DELIVERY POSTMARK
 10-12-78

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1976-O-203-456

RECEIPT FOR CERTIFIED MAIL—30. (plus postage)

George R. Bourdon
 1026 19th Street NE
 Rochester, Minn. 55901 10/3/78

POSTMARK OR DATE

FEES FOR ADDITIONAL SERVICES
 RETURN TO SENDER15¢
 RETURN TO ADDRESSEE15¢
 RETURN TO ADDRESSEE15¢
 DELIVER TO ADDRESSEE ONLY50¢
 SPECIAL DELIVERY (extra fee required)

PS Form 3800, MAY 1973 EDITION INSURANCE COVERAGE PROVIDED—(See other side)
 NOT FOR INTERNATIONAL MAIL

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

1. The following service is requested (check one).
☐ Show to whom and date delivered25¢
☐ Show to whom, date, & address of delivery45¢
☐ RESTRICTED DELIVERY.
Show to whom and date delivered85¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery ...\$1.05
(Fees shown are in addition to postage charges and other fees).

2. ARTICLE ADDRESSED TO:

Lyle Bourdon

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
971078

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1976-O-203-456

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

1. The following service is requested (check one).
☐ Show to whom and date delivered25¢
☐ Show to whom, date, & address of delivery45¢
☐ RESTRICTED DELIVERY.
Show to whom and date delivered85¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery ...\$1.05
(Fees shown are in addition to postage charges and other fees).

2. ARTICLE ADDRESSED TO:

Morris R. Antweil

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
768643

(Always obtain signature of addressee or agent)

I have received the article described above.
SIGNATURE ☐ Addressee ☐ Authorized agent

4. DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1976-O-203-456

RECEIVED FOR CERTIFIED MAIL -30¢ (plus postage)

Lyle Bourdon
2617 E. 4th Street
Duluth, Minn. 55812
10/3/78

POSTMARK OR DATE

INSURANCE SERVICES FOR ADDITIONAL FEES
1. Shows to whom and date delivered 15¢
2. Shows to whom, date, & address of delivery 45¢
3. Shows to whom, date and where delivered 35¢
4. Shows to whom, date, and address of delivery 85¢
5. Shows to whom, date, and address of delivery 50¢

NO INSURANCE COVERAGE PROVIDED -
FOR INTERNATIONAL MAIL (See other side)

RECEIVED FOR CERTIFIED MAIL

Morris R. Antweil
P.O. Box 2010
Holt, MN 56124
10-13-78

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

1. The following service is requested (check one).
☐ Show to whom and date delivered 25¢
☐ Show to whom, date, & address of delivery 45¢
☐ RESTRICTED DELIVERY.
Show to whom and date delivered 85¢
☐ RESTRICTED DELIVERY.
Show to whom, date, and address of delivery .. \$1.05
(Fees shown are in addition to postage charges and other fees).

2. ARTICLE ADDRESSED TO:
Western Reserves Oil Co.

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
768644

(Always obtain signature of addressee or agent)

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

4. DATE OF DELIVERY POSTMARK

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

☆ GPO: 1976-O-203-458

POSTAGE AND FEES

CONSULT POSTMASTER FOR FEES

OPTIONAL SERVICES

RETURN RECEIPT SERVICE

SENT TO: *Western Reserves Oil Co.*
Box 993
Midland Texas 79701

10-13-76

RECEIPT FOR CERTIFIED MAIL
NO INSURANCE COVERAGE PROVIDED—
NOT FOR INTERNATIONAL MAIL
(See Reverse)

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

1. The following service is requested (check one).
☐ Show to whom and date delivered C
☐ Show to whom, date, and address of delivery C
☐ RESTRICTED DELIVERY
Show to whom and date delivered C
☐ RESTRICTED DELIVERY
Show to whom, date, and address of delivery .. \$
(CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
antwell
Box 2010

3. ARTICLE DESCRIPTION:
REGISTERED NO. CERTIFIED NO. INSURED NO.
768643

(Always obtain signature of addressee or agent)

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

4. DATE OF DELIVERY POSTMARK
1976

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE: CLERK'S INITIALS

BEFORE THE
OIL CONSERVATION DIVISION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF ADOBE OIL COMPANY FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO

AMENDED APPLICATION

COMES NOW Adobe Oil Company and as provided by Section 65-3-14, New Mexico Statutes 1953, as amended, applies to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interests from surface to base of Ellenberger in the NW/4SE/4 for an oil well and SE/4 for a gas well of Section 23, Township 20 South, Range 38 East, N.M.P.M., Lea County, New Mexico and in support thereof would show the Division:

1. Applicant is the owner of the right to drill and develop the following described acreage: SE/4 of Section 23, Township 20 South, Range 38 East, N.M.P.M.

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

	Interest Percentage in N/2 SE/4
Koch Industries, Inc. Box 2256 Wichita, Kansas 67201	1029/1280
Texas Pacific Oil Company, Inc. P. O. Box 4067 Midland, Texas 79701	147/3200 + 1/6/10/128
Union Texas Petroleum Corp. 1300 Wilco Building Midland, Texas 79701	5/6/10/128
Powhatan Carter, Jr. c/o 209 S. 5th Lovington, New Mexico 88260	1/16

Anderson Carter 1/16
c/o 209 S. 5th
Lovington, New Mexico 88260

David Bond Kyte 5/32
802 Alameda Padre Serra
Santa Barbara, California 98103

The Bank of California N.A. 1/32
Trustee for Betty Kyte Dreessen
Trust Nos. 2-2010/13
P. O. Box 45000
San Francisco, California 94145

George R. Bourdon 1/360
1026 19th Street N.E.
Rochester, Minnesota 55901

Lyle Bourdon 1/360
2617 E. 4th Street
Deluth, Minnesota 55812

S/2 SE/4

Morris R. Antweil 50%
P. O. Box 2010
Hobbs, New Mexico 88240

Western Reserves Oil Company 50%
Box 993
Midland, Texas 79701
(Federal Lease NM 21173)

3. As required by the provisions of Division Rule 104, applicant proposes to dedicate the NW/4 SE/4 of Section 23, Township 20 South, Range 33 East, N.M.P.M., Lea County, New Mexico to the well in the event it is an oil well and the SE/4 of Section 23, T20S, R38E if the subject well is a gas well.

4. Applicant requests that it be designated operator of the pooled unit requested above.

5. Applicant proposes to drill a well at a standard location in NW/4 SE/4 of Sec. 23 to test various formations from the Yates to the Ellenberger.

6. Applicant has been unable to obtain voluntary agreement 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's duly appointed examiner, and that after notice and hearing as required by law the Division enter its order pooling all interest underlying the SE/4 for a gas well and the NW/4SE/4 for an oil well in Section 23, Township 20 South, Range 38 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 Division 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 for such further orders as may be proper in the premises.

Respectfully submitted,
ADOBE OIL COMPANY

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

ATTORNEYS FOR APPLICANT

DATE: July 3, 1978

AFE 547

ADOBE OIL & GAS CORPORATION

1100 WESTERN UNITED LIFE BLDG.
MIDLAND, TEXAS 79701
915 683-4701

AUTHORIZATION FOR EXPENDITURE

Location: Kornegay #1 - 1980 FEL & FSL of Sec. 23, T-20-S, R38E - Lea Co., New Mexico

	Completed Well	To Casing Point	Actual
Location and Roads	10,000.00	10,000.00	
Damages	1,500.00	1,500.00	
Mobilization	6,000.00	6,000.00	
Day Work 18 days @ 4200.00 /Day	75,600.00	75,600.00	
Cement and Cementing	22,000.00	17,000.00	
Float Equipment, etc.	1,700.00	800.00	
Mud and Chemicals	8,000.00	8,000.00	
Log and Testing	8,000.00	8,000.00	
Core and Core Analysis			
Water	4,000.00	4,000.00	
Trucking	2,000.00	2,000.00	
Perforating	3,000.00		
Treating	50,000.00		
Completion Unit	10,000.00		
Labor	5,000.00	2,000.00	
Bits & Rental Equipment	33,600.00	33,600.00	
Overhead and Supervision	6,000.00	4,000.00	
Contingencies	14,000.00	8,000.00	
Total Intangibles	260,400.00	180,500.00	
Surface Casing 1600 ft @ \$7.79	12,470.00	12,470.00	
Intermediate Casing			
2nd Intermediate Casing			
Well Head	8,000.00	4,000.00	
Oil String ft @	35,420.00		
Tubing 7100 ft @	29,820.00		
Rods	13,000.00		
Pumping Unit and Base	46,000.00		
Prime Mover	9,500.00		
Misc. Connections	4,000.00	2,000.00	
Total Well Tangibles	158,210.00	18,470.00	
Tanks	10,000.00		
Treater-Separator	8,500.00		
Connections, Line Pipe, etc.	3,000.00		
Total Tank Battery	21,500.00		
Total Cost	\$440,110.00	\$198,970.00	

7200'
this AFE
gave to top
of Abo.Your _____ working interest share of the above estimate is \$ _____
Please accept and approve in the space provided below and return one executed copy to this office

WORKING INTEREST OWNER	BEFORE EXAMINER NOTED	ADOBE OIL & GAS CORPORATION
By _____	OIL CONSERVATION DIVISION	<i>[Signature]</i>
APPROVED AND ACCEPTED this _____	Adobe EXHIBIT NO. <u>3</u>	
Day of _____, 19 _____	CASE NO. <u>6364</u>	

NEW MEXICO OIL CONSERVATION COMMISSION
WELL LOCATION AND ACREAGE DEDICATION PLAT

Form C-102
Supersedes C-128
Effective 1-1-85

All distances must be from the outer boundaries of the Section.

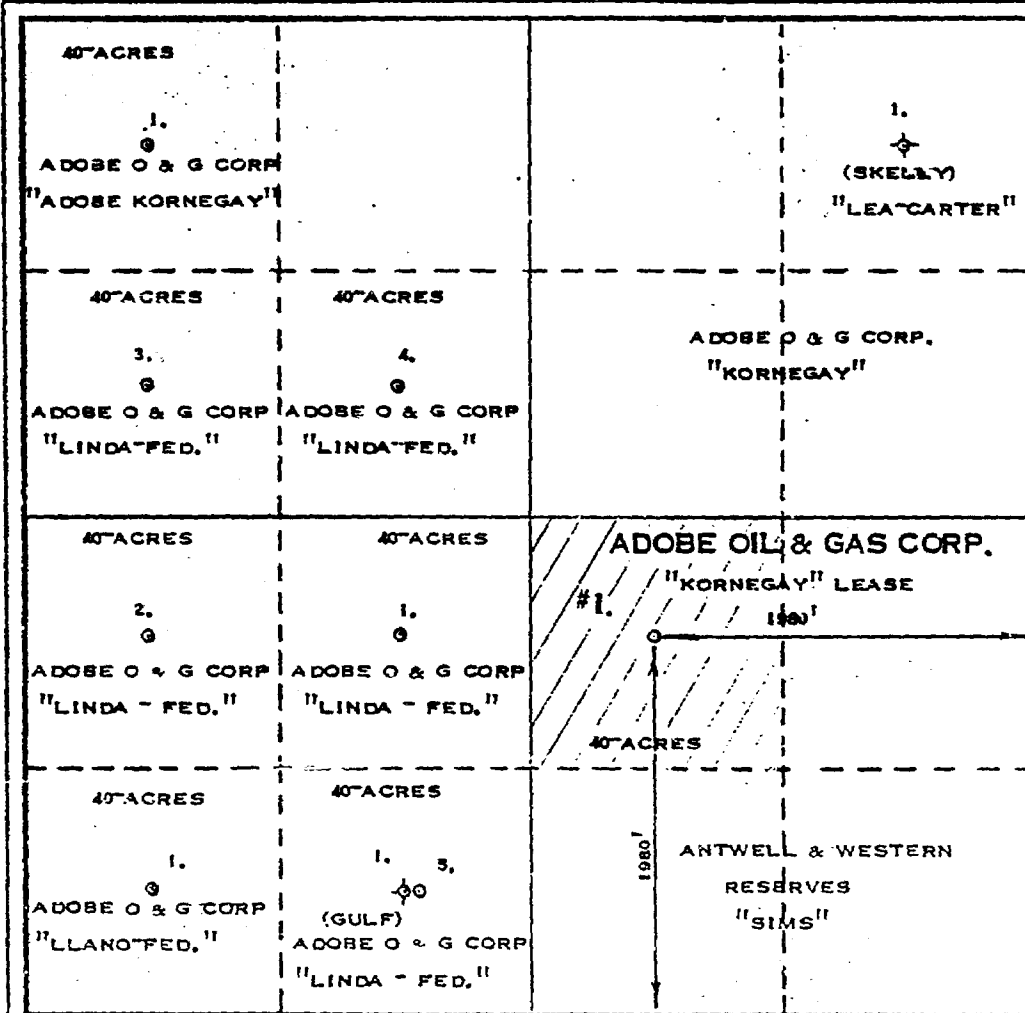
Operator ADOBE OIL & GAS CORP.			Lease KORNEGAY		Well No. 1
Unit Letter "J"	Section -23	Township -20-S	Range -38-E	County LEA	
Actual Footage Location of Well: 1980 feet from the SOUTH line and 1980 feet from the EAST line					
Ground Level Elev. 3567	Producing Formation DUAL		Pool BLINEBRY - TUBB		Dedicated Acreage: 40 Acres

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☐ No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Name _____

Position _____

Company _____

Date _____

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed _____

JUNE 30, 1978

Registered Professional Engineer and/or Land Surveyor

MAX A. SCHUMANN JR.

Certificate No. _____

1510

OPERATING AGREEMENT

KORNEGAY CREEK PROSPECT

LEA COUNTY, NEW MEXICO

ADOBE OIL COMPANY, OPERATOR

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

Adobe EXHIBIT NO. 4

CASE NO. 6364

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OPERATING AGREEMENT

THIS AGREEMENT, entered into this 23rd day of September, 1977, between
ADOBE OIL COMPANY

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:

Operator shall obtain for the joint account such title examinations as it deems necessary on the joint property, including but not limited to Title Opinions, Drilling Opinions, Division Order Title Opinions, and Supplemental Opinions thereto. If all titles are approved by the examining attorneys or are accepted by Operator, all subsequent provisions of this agreement shall become operative immediately and the parties shall proceed to their performance as they are hereinafter stated. The cost of such title examination, including but not limited to, abstracts, opinions, attorney's fees, curative and brokers fees shall be charged to the joint account.

~~obligations and of excess royalty, oil payments, and other special burdens. A copy of each title opinion, and of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and each lease, and the amount of interest covered thereby shall be binding and conclusive on the parties, but the acceptability of leases as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.~~

~~All title examinations shall be made, and title reports submitted, within a period of _____ days after the submission of abstracts and title papers. Each party shall, in good faith, try to satisfy the requirements of the examining attorneys concerning its leases and interests, and each shall have a period of _____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the leases or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their senders. If all titles are approved by the examining attorneys, or are accepted by all parties, and if all leases are accepted as to primary terms, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative immediately, and the parties shall proceed to their performance as they are hereinafter stated.~~

B. Failure of Title:

After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties in the remaining portion of the Unit Area.

C. Loss of Leases For 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, 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 remaining portion of the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

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

4. INTERESTS OF PARTIES

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

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

5. OPERATOR OF UNIT

ADOBE OIL COMPANY 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 _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas in the following location:

and shall thereafter continue the drilling of the well with due diligence to

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

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

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

8. COSTS AND EXPENSES

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of ^{twelve} ~~one~~ percent ^(12%) ~~(6%)~~ per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

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

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

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

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that it may be terminated at an earlier date by written agreement by all parties hereto. 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 not include consent to any expenditures for 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 TEN THOUSAND Dollars (\$ 10,000.00) 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 \$ 10,000.00.

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 ~~twenty-four (24)~~ ^{twenty-eight (28)} hours exclusive of Saturday or Sunday) ^{and legal holidays} after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

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

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

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) 300% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and 300% 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.
(subject to the non-consenting parties gas contracts or other obligations concerning disposition of production)

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

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

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

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

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

13. RIGHT TO TAKE PRODUCTION IN KIND

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

Each party shall execute ^{such} division orders and contracts ^{as may be required for the sale of} ~~relating to its interest in production~~ from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale 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

Operator or its designee shall pay all delay rentals and shut-in well payments which may be required under the terms of the lease or leases. The amount shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Operator shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the loss of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Section 23 of this agreement.

18. PREFERENTIAL RIGHT TO PURCHASE

No sale or assignment shall be binding upon Operator until Operator shall have been furnished with a certified copy of recorded instrument evidencing same, and no sale or assignment shall be effective until all moneys due and accounts payable accruing or arising out of the development and operation of the leases subject hereto shall have been paid in full by the party assigning its interest hereunder.

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.

The provisions of this Section 19 shall not be applicable where any party wishes to mortgage its interests or disposes 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 of a parent company or to any company in which any one party owns a majority of the stock or to a limited or general partnership in which it is a partner.

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 ^{lawfully} assessed thereon ~~before they become due and payable~~. 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 ^{by a third party} 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 ^{such} 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 ~~thirty-five hundred (\$3,500.00)~~ ^{thirty-five hundred (\$3,500.00)} dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

29. FORCE MAJEURE

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

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

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

30. NOTICES

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

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

31. OTHER CONDITIONS, IF ANY, ARE:

A. All provisions of this agreement are hereby expressly made subject to all applicable Federal or State laws, orders, rules and regulations. In the event this agreement or any provision hereof is found to be inconsistent with or contrary to any such law, order, rule or regulation, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

B. Election of Casing Point - Notwithstanding anything to the contrary contained herein, consent to the drilling of a well shall not be deemed as consent to the setting of casing and completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator, or the party conducting such drilling operations, shall give immediate notice to the Non-Operators participating in said operations. The parties receiving such notice shall have 24 hours (exclusive of Saturdays, Sundays and legal holidays) in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties elect to plug and abandon the well, Operator, or the party conducting the drilling operations, shall plug and abandon same at the expense of all of the parties who participated in such operations. If one or more, but less than all of the parties elect to set pipe and to attempt a completion, the provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties. In the event of any conflict between the parties as to an election to complete said well or to deepen same the party electing to complete shall have the paramount right.

C. Later Created Lease Burdens - If any party hereto hereafter creates any overriding royalty, production payment or other burden against its working interest production, and if any other party conducts operations hereunder in which the party so creating said burden against its working interest production elects not to participate under any provision of this agreement, and, as a result, any party conducting such operations becomes entitled to receive the working interest production otherwise belonging to such other party any party conducting such operations shall receive such production free and clear of any burden so created by the other party, and the latter shall save the party conducting such operations completely harmless with respect to the receipt of such working interest production.

D. Reworking Operations - Notwithstanding any language set out in Section 12 to the contrary, each Non-Consenting Party to a reworking operations on a well conducted pursuant to Section 12 shall, upon commencement of such operations, 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, only insofar as the interval or intervals of the formation or formations which are being reworked and to which such Non-Consenting Party does not desire to join in the reworking thereof, 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, only insofar as the production secured from the interval or intervals of the formation or formations which are subject to said reworking operations accrue with respect to such interest until it reverts) shall equal the total of those certain costs as further described in Subparagraph (A) and (B) of the third grammatical paragraph under Section 12 hereof. Notwithstanding any language set out in this paragraph or paragraph 12 to the contrary, no signatory party hereto shall propose the reworking, deepening or plugging back of any well jointly owned by the parties that is presently producing in commercial quantities, unless mutually agreed otherwise.

E. This Agreement is subject to all the terms and conditions of that certain Agreement dated September 23, 1977 between Adobe Oil & Gas Corporation and F. Palmer Weber and James C. Ray, and should any conflict arise between these Agreements, then the Letter Agreement shall prevail.

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

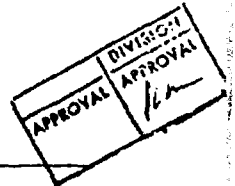
O P E R A T O R

ATTEST:

P. M. [Signature]
Secretary

ADOBE OIL COMPANY

By: *[Signature]*
Vice President



N O N - O P E R A T O R S

ATTEST:

P. M. [Signature]
Secretary

ADOBE OIL & GAS CORPORATION

By: *[Signature]*
Vice President

ADOBE EXPLORATION '77, LTD.

BY: ADOBE OIL & GAS CORPORATION,
MANAGING PARTNER

By: *[Signature]*
Vice President

ATTEST:

P. M. [Signature]
Secretary

ADOBE EXECUTIVE PARTNERSHIP 1977
BY: ADOBE OIL & GAS CORPORATION,
MANAGING PARTNER

By: *[Signature]*
Vice President

ATTEST:

P. M. [Signature]
Secretary

F. PALMER WEBER

By: *F. Palmer Weber*

JAMES C. RAY

By: _____

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

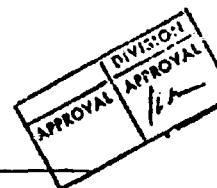
O P E R A T O R

ATTEST:

P. M. Webb
Secretary

ADOBE OIL COMPANY

By: H. H. Hallock
Vice President



N O N - O P E R A T O R S

ATTEST:

P. M. Webb
Secretary

ADOBE OIL & GAS CORPORATION

By: H. H. Hallock
Vice President

ADOBE EXPLORATION '77, LTD.

BY: ADOBE OIL & GAS CORPORATION,
MANAGING PARTNER

By: H. H. Hallock
Vice President

ATTEST:

P. M. Webb
Secretary

ATTEST:

P. M. Webb
Secretary

ADOBE EXECUTIVE PARTNERSHIP 1977

BY: ADOBE OIL & GAS CORPORATION,
MANAGING PARTNER

By: H. H. Hallock
Vice President

F. PALMER WEBER

By: _____

JAMES C. RAY

By: James C. Ray

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

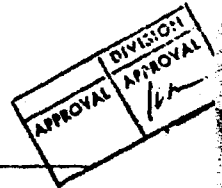
OPERATOR

ATTEST:

P. M. [Signature]
Secretary

ADOBE OIL COMPANY

By: [Signature]
Vice President



NON-OPERATORS

ATTEST:

P. M. [Signature]
Secretary

ADOBE OIL & GAS CORPORATION

By: [Signature]
Vice President

ADOBE EXPLORATION '77, LTD.

BY: ADOBE OIL & GAS CORPORATION,
MANAGING PARTNER

By: [Signature]
Vice President

ATTEST:

P. M. [Signature]
Secretary

ADOBE EXECUTIVE PARTNERSHIP 1977

BY: ADOBE OIL & GAS CORPORATION,
MANAGING PARTNER

By: [Signature]
Vice President

ATTEST:

P. M. [Signature]
Secretary

F. PALMER WEBER

By: _____

JAMES C. RAY

By: _____

EXHIBIT "A"
TO
OPERATING AGREEMENT
DATED SEPTEMBER 23, 1977

I. UNIT AREA

See Exhibit "A-1" attached.

II. INTEREST OF PARTIES

ADOBE OIL & GAS CORPORATION	51.50%
ADOBE EXPLORATION '77, LTD.	31.25%
ADOBE EXECUTIVE PARTNERSHIP 1977	6.25%
JAMES C. RAY	10.00%
F. PALMER WEBER	1.00%
TOTAL	100.00%

III. ADDRESSES OF PARTIES

Adobe Oil & Gas Corporation
Adobe Exploration '77, Ltd.
Adobe Executive Partnership 1977
1100 Western United Life Building
Midland, Texas 79701

Mr. James C. Ray
4350 East Camelback Road
Phoenix, Arizona 85018

Dr. F. Palmer Weber
P. O. Box 33
Ivy, Virginia 22945

EXHIBIT "A-1"

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION	RECORDED BOOK PAGE
1188-01	Jones Robinson Company	Robert P. Byron	8-25-75	T-20-S, R-38-E Section 14: S/2 SE/4	294 174
1188-02	Liberty National Bank, Executor Trustee	Robert P. Byron	10-8-75	Same as above	295 213
1188-03	William G. Bates	Robert P. Byron	10-3-75	Same as above	295 179
1188-04	Henry C. Bourdon et al	Robert P. Byron	1-28-76	Same as above	296 172
1188-05	Marlee Kyte	Robert P. Byron	2-11-76	Same as above	296 549
1188-06	Richard G. Roeder et ux	Robert P. Byron	3-8-76	Same as above	296 986
1188-07	David Bond Kyte	Robert P. Byron	2-11-76	Same as above	297 235
1188-08	The Bank of California N.A. Trustee	Robert P. Byron	8-2-76	T-20-S, R-38-E Section 14: N/2 NW/4, NW/4 NE/4, S/2 SE/4	298 800
1188-09	John M. Bates and Traders National Bank, Co.	Robert P. Byron	2-2-76	T-20-S, R-38-E Section 14: S/2 SE/4	300 46
1189-01	Jones Robinson Company	Robert P. Byron	8-25-75	T-20-S, R-38-E Section 23: N/2 SE/4	294 176
1189-02	Liberty National Bank, Trustee	Robert P. Byron	2-1-77	T-20-S, R-38-E Section 23: NE/4, N/2 SE/4	301 574
1189-03	Harvey A. Heller, Jr. et ux	Robert P. Byron	2-1-77	Same as above	301 870
1189-04	William G. Bates	Robert P. Byron	2-12-77	Same as above	302 225
1189-05	Richard G. Roeder et ux	Robert P. Byron	3-31-77	Same as above	303 46
1189-06	Henry C. Bourdon et al	Robert P. Byron	3-30-77	Same as above	303 44
1189-07	Barbara Bourdon Callahan	Robert P. Byron	3-31-77	T-20-S, R-38-E Section 14: S/2 SE/4 Section 23: NE/4, N/2 SE/4	303 40

LEASE SCHEDULE

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION	RECORDED BOOK PAGE
89-08	Margaret P. Bourdon	Robert P. Byron	3-31-77	T-20-S, R-38-E Section 14: S/2 SE/4 Section 23: NE/4, N/2 SE/4	303 4/2
89-09	William R. Bourdon, Jr.	Robert P. Byron	3-31-77	Same as above	303 48
90-01	Jones Robinson Company	Robert P. Byron	8-25-75	T-20-S, R-38-E Section 23: NE/4	294 178
90-02	Mary Ruth McCrory	Robert P. Byron	5-11-77	Same as above	303 496
93-01	Opal Barton et al	Robert P. Byron	3-19-76	T-20-S, R-38-E Section 14: N/2 NW/4, NW/4 NE/4	296 984
93-02	H. Dillard Schenck et ux	Robert P. Byron	3-24-76	Same as above	296 988
93-03	William G. Bates	Robert P. Byron	3-22-76	Same as above	297 47
93-04	Harvey A. Heller, Jr. et ux	Robert P. Byron	3-22-76	Same as above	297 45
93-05	Lawrence C. Harris et ux	Robert P. Byron	4-5-76	Same as above	297 49
93-06	C. M. Woodbury et ux	Robert P. Byron	4-12-76	Same as above	297 233
94-01	Earl Kornegay et ux	Roy G. Barton, Jr.	7-16-76	T-20-S, R-38-E Section 15: S/2 SW/4, SW/4 SE/4 Section 22: N/2 NW/4, NW/4 NE/4	298 182
94-01	Gussie Mae Wise	Roy G. Barton, Jr.	6-25-76	T-20-S, R-38-E Section 14: W/2 SW/4 Section 15: E/2 SE/4 Section 22: NE/4 NE/4 Section 23: NW/4 NW/4	298 208
94-02	Harvey A. Heller, Jr. et ux	Robert P. Byron	7-27-76	T-20-S, R-38-E Section 14: W/2 SW/4, S/2 SE/4 Section 15: E/2 SE/4 Section 22: NE/4 NE/4 Section 23: NW/4 NW/4	298 457

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION	RECORDED BOOK	PAGE
1642-03	William E. Howse, Indiv. & as Executor of Estate	Robert P. Byron	7-21-76	T-20-S, R-38-E Section 14: W/2 SW/4 Section 15: E/2 SE/4 Section 22: NE/4 NE/4 Section 23: NW/4 NW/4	298	459
1642-04	Ronald J. Byers	Robert P. Byron	11-8-77	T-20-S, R-38-E Section 23: NW/4 NW/4	306	607
1642-05	Alton Howse, Indiv. & as Personal Representative	Robert P. Byron	11-29-77	T-20-S, R-38-E Section 14: W/2 SW/4 Section 15: E/2 SE/4 Section 22: NE/4 NE/4 Section 23: NW/4 NW/4	307	78
2507-01	Royalty Holding Company	Robert P. Byron	8-16-76	T-20-S, R-38-E Section 14: E/2 SW/4, SE/4 NW/4	298	567
2507-02	Martha Lyon et vir	Roy G. Barton, Jr.	9-17-76	T-20-S, R-38-E Section 14: E/2 SW/4, SE/4 NW/4 Section 23: NE/4 NW/4	298	802
2507-03	Elmer H. Wahl, Inc.	Robert P. Byron	8-16-76	T-20-S, R-38-E Section 14: E/2 SW/4, SE/4 NW/4	298	621
2507-04	Elmer H. Wahl, Inc.	Robert P. Byron	8-16-76	T-20-S, R-38-E Section 23: NE/4 NW/4	298	623
2507-05	Georgia Lee Clarke	Robert P. Byron	2-12-77	T-20-S, R-38-E Section 14: E/2 SW/4, SE/4 NW/4 Section 23: NE/4 NW/4	302	223
2507-06	G. T. Blankenship, Execu- tor	Robert P. Byron	3-30-77	Same as above	303	619
2508-01	Royalty Holding Company	Robert P. Byron	8-16-76	T-20-S, R-38-E Section 23: NE/4 NW/4	298	585
3438-01	Ronald J. Byers	Robert P. Byron	11-8-77	T-20-S, R-38-E Section 15: E/2 SE/4	306	605

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION	RECORDED BOOK	PAGE
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8433-01	Ronald J. Byers	Robert P. Byron	11-8-77	T-20-S, R-38-E Section 14: S/2, SE/4	306	601
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8440-01	Ronald J. Byers	Robert P. Byron	11-8-77	T-20-S, R-38-E Section 14: W/2, SW/4	306	603
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THERE IS NO EXHIBIT "B" TO THIS OPERATING AGREEMENT

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated September 23, 1977 between ADOBE OIL COMPANY, as Operator, and ADOBE OIL & GAS CORPORATION 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 \$ 1,500

Producing Well Rate \$ 200

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000 :

- A. 4 % of total costs if such costs are more than \$ 25,000 but less than \$ 100,000 ; plus
- B. 3 % of total costs in excess of \$ 100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

B. Good Used Material (Condition B)

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

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

CORPS

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

E X H I B I T "D"

Attached to and made a part of Operating Agreement dated September 23, 1977 between ADOBE OIL COMPANY, as Operator, and ADOBE OIL & GAS CORPORATION ET AL, as Non-Operators.

INSURANCE

Operator shall, at all times while operations are conducted on the jointly owned property, carry insurance to indemnify, protect and save the parties hereto harmless as follows:

- (A) Workmen's compensation insurance in accordance with the laws of the State of New Mexico; and employers' liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00), if and when necessitated by the permanent employment of a New Mexico resident.
- (B) Comprehensive general liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) as to any one person and Three Hundred Thousand Dollars (\$300,000.00) as to any one accident, and property damage liability insurance with a limit of not less than One Hundred Thousand Dollars (\$100,000.00) for each accident.
- (C) Automobile public liability insurance with limits of not less than One Hundred Thousand Dollars (\$100,000.00) as to any one person and Three Hundred Thousand Dollars (\$300,000.00) as to any one accident, and automobile property damage insurance with a limit of not less than Ten Thousand Dollars (\$10,000.00) to cover all automotive equipment.
- (D) Excess Indemnity (Umbrella Liability Insurance) insurance in the amount of \$10,000,000.00.

EXHIBIT E

Attached to and made a part of Operating Agreement dated September 23, 1977 between ADOBE OIL COMPANY, as Operator, and ADOBE OIL & GAS CORPORATION, ET AL as Non-Operators.

GAS STORAGE AND BALANCING AGREEMENT

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

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

During the period or periods when any party hereto is not marketing and selling its share of gas produced from the Unit Area, or its purchaser is unable to take its share of gas produced from the Unit Area, the other parties shall be entitled to produce each month 100% of the allowable gas production assigned to such unit by the New Mexico Oil Conservation Commission and shall be entitled to take and deliver to its or their purchaser all of such gas production; however, no party owning less than a 33-1/3% working interest in the well shall be entitled to take or deliver to a purchaser, gas production in excess of three hundred percent (300%) of its current share of either the monthly volumes capable of being delivered or the monthly allowable gas production if assigned thereto by the New Mexico Oil Conservation Commission unless that party, being the party owning less than 33-1/3% working interest in the well and taking the gas as referred to above, has gas in storage. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this gas storage agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost.

Each party taking gas shall furnish the Operator a monthly statement of gas taken. The statement shall show the volume and value of gas utilized (other than for unit operations), the volume of gas sold and the proceeds therefrom and the production taxes due on such gas. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas taken and/or sold by each party and the monthly and accumulative over and under delivered of each party.

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

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Unit Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to twenty-five percent (25%) of the overproduced party or parties' share of gas produced from the Unit Area. If two or more parties are entitled to twenty-five percent (25%) of the overproduced party or parties' share of gas produced, they shall divide such twenty-five percent (25%) in accordance with their percentage of participation in the Unit.

Should production of gas be discontinued while the gas account is out of balance, a monetary settlement will be made between the underproduced and overproduced parties. In making such settlement, each overproduced party shall remit to the Operator an amount of money that such party received for its overproduction, less taxes and basic royalty theretofore paid, and for a volume of gas equal to its overproduction. As to gas sold in interstate commerce, the price bases shall be the rate collected from time to time regardless of whether such sum is subject to possible refund subject to Federal Power Commission order. It is agreed in the event a refund must be subsequently made, the non-taking or underproduced parties shall either reimburse the taking party to the extent of the refund due and the taking party shall make refund to the purchaser or the non-taking or underproduced party shall save and protect the taking party and hold it harmless from any claim for such refund and it shall make payment of the amount due to be refunded directly to the gas purchaser. The parties receiving such payment shall indemnify the paying parties for any possible liability with respect to such amounts as may be subject to possible refund as provided by the Federal Power Commission, pursuant to final order or settlement applicable to the gas sold. The Operator shall distribute the total of such amounts among the underproduced parties in the proportion that the underproduction of each bears to the underproduction of all parties.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser the full well stream for a period not to exceed seventy-two (72) hours to meet the deliverability test required by its purchaser. Each party shall, at all times, use its best efforts to regulate its takes and deliveries from said Unit so that said Unit will not be shut in for overproducing the allowable or for cancellation of allowable because of underproducing the allowable assigned thereto by the state regulatory body.

The provisions of this agreement shall be applied to each well and/or formation completion as if each well or formation completion were a separate well and covered by a separate but identical gas storage and balancing agreement and shall be in force and effect for a term concurrent with the term of the Unit Operating Agreement between the parties.

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

SUPPLEMENT

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator (meaning and referring separately to each party hereto) agrees as follows:

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided setting forth the provisions of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
- (3) The Operator will send to each labor union or representative of workers with which Operator has a collective bargaining agreement or other contract or understanding, a notice to be provided, advising the said labor union or workers' representatives of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant hereto, and will permit access to Operator's books, records, and accounts by the administering agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of the said rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts or federally assisted construction contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.
- (7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the administering agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the administering agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that Operator may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with the appropriate agency within 30 days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that Operator may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply each other party hereto with a copy of such program if so requested.

CERTIFICATION OF NONSEGREGATED FACILITIES

By entering into this contract, the Operator certifies that Operator does not and will not maintain or provide for Operator's employees any segregated facilities at any of Operator's establishments, and that Operator does not and will not permit Operator's employees to perform their services at any location, under Operator's control, where segregated facilities are maintained. The Operator agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom, or otherwise. Operator further agrees that (except where Operator has obtained identical certifications from proposed contractors and subcontractors for specific time periods) Operator will obtain identical certifications from proposed contractors and subcontractors prior to the award of contracts or subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity clause; that Operator will retain such certifications in Operator's files and that Operator will forward the following notice to such proposed contractors and subcontractors (except where the proposed contractors or subcontractors have submitted identical certifications for specific time periods): Notice to prospective contractors and subcontractors of requirement for certifications of nonsegregated facilities. A Certificate of Nonsegregated Facilities must be submitted prior to the award of a contract or subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each contract and subcontract or for all contracts and subcontracts during a period (i.e., quarterly, semiannually, or annually).

Dockets Nos. 39-78 and 40-78 are tentatively set for hearing on December 7 and 20, 1978. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - TUESDAY - NOVEMBER 14, 1978

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

The following cases are continued from the November 7, 1978, Commission Hearing.

CASE 6146: (DE NOVO) (Continued and Readvertised)

Application of Jerome P. McHugh for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Tapacito-Gallup and Basin-Dakota production within the wellbore of his Jicerilla Well No. 5 located in Unit D of Section 29, Township 26 North, Range 4 West, Rio Arriba County, New Mexico.

Upon application of Jerome P. McHugh this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 6266: (DE NOVO)

Application of Harvey E. Yates Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of an Upper Pennsylvanian test well to be located 660 feet from the North and East lines or, in the alternative, 990 feet from the North and East lines of Section 23, Township 22 South, Range 23 East, Indian Basin-Upper Pennsylvanian Gas Pool, Eddy County, New Mexico, all of said Section 23 to be dedicated to the well.

Upon application of Harvey E. Yates Company this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 6377: Application of Durham, Inc., for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying Section 8, Township 21 South, Range 24 East, Indian Basin-Morrow Gas Pool, Eddy County, New Mexico, to be dedicated to a well to be drilled 1650 feet from the North and East lines of said Section 8. 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 6378: In the matter of the hearing called by the Oil Conservation Division on the motion of Shell Oil Company to permit Corinne Grace and all other interested parties to appear and show cause why Division Order No. R-3713, which pooled all of Section 8, Township 21 South, Range 24 East, Eddy County, New Mexico, should not be declared null and void, if said pooling order has not already automatically expired due to non-production.

CASE 6379: Application of Shell Oil Company for pool contraction and pool extension, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the Indian Basin-Morrow Gas Pool by the deletion therefrom of the N/2 of Section 8, Township 21 South, Range 24 East, Eddy County, New Mexico, or in the alternative, all of said Section 8, and the extension of the Cemetery-Morrow Gas Pool to include the aforesaid N/2 or all of said Section 8.

DOCKET: EXAMINER HEARING - TUESDAY - NOVEMBER 21, 1978

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

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

- ALLOWABLE:
- (1) Consideration of the allowable production of gas for December, 1978, from fifteen prorated pools in Lea, Eddy, and Chaves Counties, New Mexico.
 - (2) Consideration of the allowable production of gas for December, 1978, from four prorated pools in San Juan, Rio Arriba, and Sandoval Counties, New Mexico.

- CASE 6380: Application of Harvey E. Yates Company, Inc., for a dual completion, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of its Travis Deep Well No. 3 located in Unit B of Section 13, Township 18 South, Range 28 East, to produce oil from the Travis-Upper Pennsylvanian Pool and gas from the Morrow formation, Eddy County, New Mexico, through parallel strings of tubing.
- CASE 6381: Application of Yates Petroleum Corporation for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of East Cottonwood Creek-Wolfcamp and Atoka production within the wellbore of its Lizzie Howard "HK" Well No. 1 located in Unit K of Section 13, Township 16 South, Range 25 East, Eddy County, New Mexico.
- CASE 6382: Application of Yates Petroleum Corporation for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Permo-Penn and Little Box Canyon-Atoka production within the wellbore of its Federal "HQ" Well No. 1 located in Unit K of Section 5, Township 21 South, Range 22 East, Eddy County, New Mexico.
- CASE 6383: Application of Yates Petroleum Corporation for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Eagle Creek Permo-Penn and the West Atoka-Morrow production within the wellbore of its Powell "DG" Com. Well No. 1 located in Unit O of Section 35, Township 17 South, Range 25 East, Eddy County, New Mexico.
- CASE 6384: Application of Yates Petroleum Corporation for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Permo-Penn and Atoka production within the wellbore of its Federal "AB" Com. Well No. 5 located in Unit L of Section 21, Township 18 South, Range 25 East, Eddy County, New Mexico.
- CASE 6385: Application of Yates Petroleum Corporation for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Box Canyon Permo-Penn and Box Canyon-Strawn production within the wellbore of its Huber I-A Federal Well No. 2 located in Unit P of Section 15, Township 21 South, Range 21 East, Eddy County, New Mexico.
- CASE 6386: Application of Atlantic Richfield Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Ellenburger, Devonian, and McKee formations underlying the N/2 of Section 21, Township 22 South, Range 36 East, Lea County, New Mexico, to be dedicated to its Langley Greer Com Well No. 1 located 1650 feet from the North line and 1980 feet from the West line of said Section 21. 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 6387: Application of R B Petroleum Company for pool reclassification, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks the reclassification of the North Tooto Dome-Pennsylvanian Pool as an associated pool and the promulgation of special pool rules therefor. In the alternative, applicant seeks the abolishment of the North Tooto Dome-Pennsylvanian Pool and the inclusion of the abolished lands in the Tooto Dome Pennsylvanian "D" Associated Pool.
- CASE 6388: Application of Amoco Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the E/2 of Section 20, Township 23 South, Range 29 East, Eddy 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 6389: Application of Durham, Inc., for pool contraction and extension, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the Indian Basin-Morrow Gas Pool by the deletion therefrom of the N/2 of Section 8, Township 21 South, Range 24 East, Eddy County, New Mexico, or in the alternative, all of said Section 8, and the extension of the Cemetery-Morrow Gas Pool to include the aforesaid N/2 or all of said Section 8.
- CASE 6390: Application of C & E Operators for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests down thru the Pictured Cliffs formation underlying the SW/4 of Section 10, Township 30 North, Range 11 West, San Juan 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 6391: Application of Acoma Oil Corporation for downhole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Blinebry, Wantz-Abo, and Drinkard production within the wellbore of its Sarkeys Well No. 1 located in Unit A of Section 26, Township 21 South, Range 37 East, Lea County, New Mexico.

CASE 6364: (Continued from October 25, 1978, Examiner Hearing)

Application of Adobe Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Ellenburger formation underlying the NW/4 SE/4 of Section 23, Township 20 South, Range 38 East, Lea County, New Mexico, to be dedicated to a proposed oil well to be drilled at a standard location thereon. Applicant seeks the pooling of the SE/4 of said Section 23 in the event said drilling results in a gas well. 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 6361: Application of Continental Oil Company for special pool rules, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the promulgation of special pool rules for the Buffalo-Pennsylvanian Gas Pool, Lea County, New Mexico, to provide for 320-acre spacing rather than 160 acres. In the absence of objection, this pool will be placed on the standard 320-acre spacing for Wolfcamp and Pennsylvanian gas pools rather than the present 160-acre spacing.

CASE 6362: Application of Continental Oil Company for an unorthodox gas well location and a non-standard proration unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 294.9-acre non-standard gas proration unit comprising the S/2 of partial Section 19, Township 17 South, Range 29 East, Eddy County, New Mexico, to be dedicated to a well to be drilled 660 feet from the South line and 3300 feet from the East line of said Section 19 to test the Morrow formation.

CASE 6363: Application of Phoenix Resources Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a well to be drilled 660 feet from the North and West lines of Section 16, Township 19 South, Range 21 East, Eddy County, New Mexico, to be drilled to the Mississippian formation, the W/2 of said Section 16 to be dedicated to the well.

CASE 6364: Application of Adobe Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Ellenburger formation underlying the NW/4 SE/4 of Section 23, Township 20 South, Range 38 East, Lea County, New Mexico, to be dedicated to a proposed oil well to be drilled at a standard location thereon. Applicant seeks the pooling of the SE/4 of said Section 23 in the event said drilling results in a gas well. 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 6365: Application of Michael P. Grace II for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 25, Township 21 South, Range 26 East, Burton Flat Field, Eddy 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 6366: Application of Phillips Petroleum Company for statutory unitization, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of a pressure maintenance project, all mineral interests in the East Vacuum Grayburg-San Andres Unit encompassing 7,025 acres, more or less, underlying all or portions of the following lands in Lea County, New Mexico: Section 24, Township 17 South, Range 34 East; Sections 18 thru 29 and 31 thru 35, Township 17 South, Range 35 East; and Sections 4 and 5, Township 18 South, Range 35 East.

The unitized interval would be the Grayburg-San Andres Formation between the depths of 4,050 feet and 5,050 feet in Exxon's NM State "K" Well No. 19, located in Unit P of Section 28, Township 17 South, Range 35 East.

Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the determination of the horizontal and vertical limits of the unit area; the determination of a fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations, including, but not necessarily limited to, unit voting procedures, selection, removal, or substitution of unit operator, and time of commencement and termination of unit operations.

CASE 6367: Application of Phillips Petroleum Corporation for a pressure maintenance project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a pressure maintenance project on its East Vacuum Grayburg-San Andres Unit, Lea County, New Mexico, by the injection of water into the Grayburg-San Andres formation; and the establishment of an administrative procedure for approval of injection and producing wells at unorthodox locations.

Dockets Nos. 35-78 and 36-78 are tentatively set for hearing on November 8 and 21, 1978. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - OCTOBER 25, 1978

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

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

CASE 6290: (Continued from September 13, 1978, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit R. A. Crane, Jr., Great American Insurance Co., and all other interested parties to appear and show cause why the Donella Well No. 1 located in Unit P of Section 3, Township 29 North, Range 15 West, San Juan County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.

CASE 6339: (Continued from October 11, 1978, Examiner Hearing)

Application of Amoco Production Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 22, Township 23 South, Range 28 East, Eddy 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 6355: Application of Amoco Production Company for two unorthodox well locations, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the unorthodox locations of its South Mattix Unit Well No. 32 located 1535 feet from the North line and 330 feet from the East line and its South Mattix Unit Well No. 34 located 1650 feet from the North line and 2310 feet from the West line, both in Section 22, Township 24 South, Range 37 East, Fowler-Upper Yesso Pool, Lea County, New Mexico, the S/2 NE/4 and the E/2 NW/4 of Section 22 to be dedicated, respectively, to the wells.

CASE 6356: Application of Amoco Production Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Abo formation through the perforated interval from 8391 feet to 9100 feet in its State "E" Tract 18 Well No. 21 located in Unit B of Section 2, Township 17 South, Range 36 East, Lovington-Abo Pool, Lea County, New Mexico.

CASE 6357: Application of Enserch Exploration, Inc., for pool creation and special pool rules, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks an order creating a new oil pool in the Pennsylvanian formation for its Lambirth Well No. 4 located in Unit O of Section 31, Township 5 South, Range 33 East, Roosevelt County, New Mexico, and for promulgation of special pool rules, including provision for 80-acre spacing and special well location requirements.

CASE 6358: Application of Jake L. Hamon for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Devonian formation through the perforated interval from 12,997 feet to 13,036 feet in his State K-33 Well No. 2 located in Unit N of Section 30, Township 16 South, Range 36 East, East Shoe Bar-Devonian Pool, Lea County, New Mexico.

CASE 6359: Application of Getty Oil Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Gallup and Dakota production in the wellbore of its Jicarilla "C" Well No. 27 located in Unit E of Section 33, Township 25 North, Range 5 West. Applicant further seeks provision for administrative approval for downhole commingling of the Gallup and Dakota formations in others of its wells on its Jicarilla "B" and Jicarilla "C" leases in Sections 5 and 6, Township 24 North, Range 5 West, and Sections 21, 22, 27, 28 and 31 thru 34, Township 25 North, Range 5 West, all in Rio Arriba County, New Mexico.

CASE 6368: Application of Getty Oil Company for the amendment of Order No. R-5388, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of Order No. R-5388 to provide an administrative procedure to permit the downhole commingling of Pictured Cliffs and Chacra production in wells on its Jicarilla "B" and "C" Leases in Sections 21, 22, 27, 28, and 31 thru 34, Township 25 North, Range 5 West, and Sections 5 and 6, Township 24 North, Range 5 West, all in Rio Arriba County, New Mexico.

CASE 6360: Application of Continental Oil Company for a non-standard gas proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of a 228-acre non-standard gas proration unit comprising the SW/4 and S/2 SE/4 of Section 18, Township 21 South, Range 36 East, Eumont Gas Pool, Lea County, New Mexico, to be simultaneously dedicated to applicant's Lockhart A-18 Wells Nos. 3 and 4, located in Units K and M, respectively, of said Section 18.

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

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

TELEPHONE 982-4285
AREA CODE 505

October 19, 1978

OCT 20 1978

U. S. CONSERVATION COMMISSION
Santa Fe

File

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

Re: Adobe Oil Company
Case No. 6364

Dear Joe:

On behalf of Adobe Oil Company please continue the
above referenced case to November 21, 1978.

Very truly yours,

W. Thomas Kellahin
W. Thomas Kellahin

CC: Mr. Rick Gannum

WTK:kfm

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

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

TELEPHONE 982-4285
AREA CODE 505

October 13, 1978

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

Re: Adobe Oil Company

Dear Joe:

Please find enclosed an amended application for Adobe
that has been amended pursuant to a telephone call from Lynn.

This case is set for hearing on October 25th.

Very truly yours,


W. Thomas Kellahin

CC: Mr. Rick Gannum

WTK:kfm

Enclosure

BEFORE THE
OIL CONSERVATION DIVISION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF ADOBE OIL COMPANY FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO

Case 6364

AMENDED APPLICATION

COMES NOW Adobe Oil Company and as provided by Section 65-3-14, New Mexico Statutes 1953, as amended, applies to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interests from surface to base of Ellenberger in the NW/4SE/4 for an oil well and SE/4 for a gas well of Section 23, Township 20 South, Range 38 East, N.M.P.M., Lea County, New Mexico and in support thereof would show the Division:

1. Applicant is the owner of the right to drill and develop the following described acreage: SE/4 of Section 23, Township 20 South, Range 38 East, N.M.P.M.
2. Applicant has obtained voluntary agreement for pooling from all but the following:

	Interest Percentage in N/2 SE/4
Koch Industries, Inc. Box 2256 Wichita, Kansas 67201	1029/1280 .80390626
Texas Pacific Oil Company, Inc. P. O. Box 4067 Midland, Texas 79701	147/3200 .04593750 + 1/6/10/128 .01302083
Union Texas Petroleum Corp. 1300 Wilco Building Midland, Texas 79701	5/6/10/128 .06510415
Powhatan Carter, Jr. c/o 209 S. 5th Lovington, New Mexico 88260	1/16 .06250000

Anderson Carter
c/o 209 S. 5th
Lovington, New Mexico 88260

1/16 .06250000

David Bond Kyte
802 Alameda Padre Serra
Santa Barbara, California 98103

5/32 .15625000

The Bank of California N.A.
Trustee for Betty Kyte Dreessen
Trust Nos. 2-2010/13
P. O. Box 45000
San Francisco, California 94145

1/32 .03125000

George R. Bourdon
1026 19th Street N.E.
Rochester, Minnesota 55901

1/360 .00277778

Lyle Bourdon
2617 E. 4th Street
Deluth, Minnesota 55812

1/360 .00277778

S/2 SE/4

Morris R. Antweil
P. O. Box 2010
Hobbs, New Mexico 88240

50%

Western Reserves Oil Company
Box 993
Midland, Texas 79701
(Federal Lease NM 21173)

50%

3. As required by the provisions of Division Rule 104, applicant proposes to dedicate the NW/4 SE/4 of Section 23, Township 20 South, Range 38 East, N.M.P.M., Lea County, New Mexico to the well in the event it is an oil well and the SE/4 of Section 23, T20S, R38E if the subject well is a gas well.

4. Applicant requests that it be designated operator of the pooled unit requested above.

5. Applicant proposes to drill a well at a standard location in NW/4 SE/4 of Sec. 23 to test various formations from the Yates to the Ellenberger.

6. Applicant has been unable to obtain voluntary agreement for the pooling of the unpooled interests indicated in paragraph 2 above, and in order to avoid the drilling of

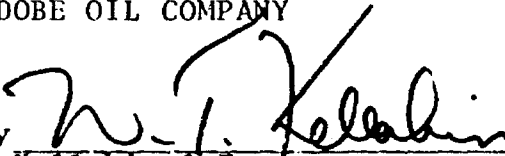
unnecessary wells, to protect correlative rights, and to prevent waste, the Division should pool all interests in the spacing or proration unit as a unit.

WEHREFORE, Applicant respectfully requests that the Division set this matter for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law the Division enter its order pooling all interest underlying the SE/4 for a gas well and the NW/4SE/4 for an oil well in Section 23, Twonship 20 South, Range 38 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 Division 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 for such further orders as may be proper in the premises.

Respectfully submitted,

ADOBE OIL COMPANY

By



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

ATTORNEYS FOR APPLICANT

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

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

TELEPHONE 982-4255
AREA CODE 505

October 3, 1978

RECEIVED
OCT 3 1978
Oil Conservation Commission

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

Re: Adobe Oil Company

Dear Joe:

Please set the enclosed application for hearing
before your examiner on October 25, 1978.

Very truly yours,


W. Thomas Kellahin

CC: Mr. Rick Gannum

WTK:kfm

Enclosure

BEFORE THE
OIL CONSERVATION DIVISION OF NEW MEXICO

DEC 1 - 3 1978

Santa Fe

IN THE MATTER OF THE APPLICATION
OF ADOBE OIL COMPANY FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO

Case 6364

A P P L I C A T I O N

COMES NOW Adobe Oil Company and as provided by Section 65-3-14, New Mexico Statutes 1953, as amended, applies to the Oil Conservation Commission of New Mexico for an order pooling all the mineral interests from surface to base of Ellenberger in the N/2 SE/4 of Section 23, Township 20 South, Range 38 East, N.M.P.M., Lea County, New Mexico and in support thereof would show the Division:

1. Applicant is the owner of the right to drill and develop the following described acreage: N/2 SE/4 of Section 23, Township 20 South, Range 38 East, N.M.P.M.

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

	Interest Percentage
Koch Industries, Inc. Box 2256 Wichita, Kansas 67201	1029/1280
Texas Pacific Oil Company, Inc. P. O. Box 4067 Midland, Texas 79701	147/3200 : 1/6/10/128
Union Texas Petroleum Corp. 1300 Wilco Building Midland, Texas 79701	5/6/10/128
Powhatan Carter, Jr. c/o 209 S. 5th Lovington, New Mexico 88260	1/16
Anderson Carter c/o 209 S. 5th Lovington, New Mexico 88260	1/16

David Bond Kyte
802 Alameda Padre Serra
Santa Barbara, California 93103

5/32

The Bank of California N.A.
Trustte for Betty Kyte Dreessen
Trust Nos. 2-2010/13
P. O. Box 45000
San Francisco, California 94145

1/32

George R. Bourdon
1026 19th Street N.E.
Rochester, Minnesota 55901

1/360

Lyle Bourdon
2617 E. 4th Street
Deluth, Minnesota 55812

1/360

3. As required by the provisions of Division Rule 104, applicant proposes to dedicate the N/2 SE/4 of Section 23, Township 20 South, Range 38 East, N.M.P.M., Lea County, New Mexico to the well.

4. Applicant requests that it be designated operator of the pooled unit requested above.

5. Applicant proposes to drill a well to test various formations from the Yates to the Ellenberger.

6. Applicant has been unable to obtain voluntary agreement 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 pro-ration unit as a unit.

WHEREFORE, Applicant respectfully requests that the Division set this matter for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law the Division enter its order pooling all interest underlying the N/2 SE/4 of Section 23, Township 20 South, Range 38 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 Division 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 for such further orders as may be proper in the premises.

Respectfully submitted,

ADOBE OIL COMPANY

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

ATTORNEYS FOR APPLICANT

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. 6364

Order No. R- 5910

APPLICATION OF ~~ADOBE OIL COMPANY~~
FOR COMPULSORY POOLING, LEA
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on November 21
19 78, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this January day of 1979, 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, Adobe Oil ~~Company~~ ^{and Gas} Corporation.
seeks an order pooling all mineral interests from the surface to the
base of the Ellenburger / ^{formation} underlying the NW/4 SE/4
of Section 23, Township 20 South, Range 38 East
NMPM, Lea County, New
Mexico, or in the alternative the SE/4 of said Section 23 in the
event said drilling results in a gas well.

(2) That the application in this case was amended
at the hearing to be that of Adobe Oil Corporation
rather than that of Adobe Oil Company ^{and Gas}.

(4) That the applicant has the right to drill and proposes to drill ~~a~~ ^{for oil or gas} well ^{at} a standard location ~~thereon~~ ^{on said lands}.

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

(6) 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.

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

(8) 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.

(9) 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 100 percent thereof as a reasonable charge for the risk involved in the drilling of the well, *provided however, that*

(10) 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.

(11) 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.

Reasonable
a charge for ^{the} risk involved in drilling said well below the base of the Turin formation should be fixed at 200 percent.

*while drilling and \$200.00
per month while producing*

(12) That \$1500.00 per month should be fixed as a reasonable charge 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.

(13) 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.

(14) 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 April 15, 1979, 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, from the surface to the base ~~XXXXXX~~ of the Ellenburger formation underlying the NW/4 SE/4 of Section 23, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40 acre ^{oil} spacing

and proration unit to be dedicated to a well to be drilled

at a standard location thereon, *provided however, that should*

said well be completed as a gas well, the entire SE/4 of said Section 23 shall be considered pooled and dedicated to said well.

PROVIDED HOWEVER, that the operator of said unit shall

commence the drilling of said well on or before the 15th day of April, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the

Blindery and Tule formations, *but may, at its option, continue drilling said well to a depth sufficient to test the Ellenburger*

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 15th day of April, 1979, 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 Adobe Oil ^{and Gas} Corporation ~~Company~~ 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

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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, 100 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 *for drilling and completion operations to the base of the*

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs. *while drilling and \$200.00 per month while producing are*

(9) That \$1500.00 per month ~~is~~ hereby fixed as a reasonable charge 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.

Table formation, and 200 percent of the pro rata share of ^{reasonable} additional well costs for drilling and completion operations below the base of the Table formation.

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Order No.

(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 immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

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