

CASE 6412: RALPH NIX FOR COMPULSORY  
POOLING AND AN UNORTHODOX LOCATION OR  
AMENDMENT TO POOL RULES, EDDY COUNTY

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CASE NO.

6412

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APPLICATION,  
TRANSCRIPTS,  
SMALL EXHIBITS,  
ETC.

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

EXAMINER HEARING

IN THE MATTER OF:

Application of Ralph Nix for compulsory pooling and an unorthodox location, or in the alternative, an amendment to pool rules, Eddy County, New Mexico. CASE 6412

BEFORE:

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: Chad Dickerson, Esq.  
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## I N D E X

WILLIAM J. McCaw

BUDD HEBERT

BILL FORD

Direct Examination by Mr. Dickerson

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1 MR. NUTTER: Call Case No. 6412.

2 MS. TESCHENDORF: Case 6412: Application of  
3 Ralph Nix for compulsory pooling and an unorthodox location,  
4 or in the alternative, an amendment to pool rules, Eddy  
5 County, New Mexico.

6 MR. DICKERSON: My name is Chad Dickerson,  
7 Losee, Carson and Dickerson, P.A., Artesia, New Mexico, here  
8 on behalf of Ralph Nix, Yates Petroleum Corporation and  
9 Hondo Drilling Company. I have three witnesses, possibly  
10 four. I will swear four witnesses and call three for cer-  
11 tain.

12 DIRECT EXAMINATION

13 BY MR. DICKERSON:

14 Q Call William J. McCaw. Will you state your  
15 name and occupation, please?

16 A I am Bill McCaw. I'm a land man for Ralph Nix.

17 MR. NUTTER: How is your last name spelled?

18 MR. McCAW: M-c-C-a-w.

19 BY MR. DICKERSON:

20 Q Mr. McCaw, are you familiar with this appli-  
21 cation that we filed in this proceeding?

22 A Yes.

23 Q I will ask you to look at what has been marked  
24 Exhibit No. One and please describe what that depicts, please?

25 A This is a land map of the proration unit in  
Township 18 South, Range 26, Section 27, the south half, which  
is colored in yellow. It also has outlined in red the Atoka-  
Pennsylvanian Gas pool.

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1 Q What are your plans, what are Mr. Nix's and the  
2 other applicants' plans for development of this area?

3 A Mr. Nix and his associates are the major owners  
4 in 27 through farm-outs, leases and minerals. Yates Petro-  
5 leum is the major owner in the north-southeast of 40 acres  
6 there. They have all of it leased --

7 Q (Interrupting) northwest-southwest.

8 A Yeah, northwest-southwest, except for a small  
9 part of it, which is the reason for the forced-pooling  
10 application.

11 Q So the forced-pooling application actually is  
12 attributable to the interest of Yates Petroleum Corporation?

13 A That's right.

14 Q And Yates Petroleum Corporation is offset  
15 operator to the lands to the west, is that true?

16 A That's right.

17 Q Mr. McCaw, in addition the application filed  
18 here seeks an exception to the pool rules for the Atoka-  
19 Pennsylvanian Pool, or any alternative for an amendment to  
20 those rules to comply to the statewide rules, requirements.  
21 What is the reason for that portion of the application?

22 A The reason is that because of the special field  
23 rules, you have to drill in the northwest quarter or the  
24 southeast quarter, and because of our geology, we would like  
25 to drill in the southwest quarter and the special pool rules  
won't allow it.

Q And you have further requested that Hondo  
Drilling Company be designated operator of this proposed

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1 well, is that right?

2 A This is true.

3 Q To what depth will the well be drilled?

4 A Approximately 9,500 feet.

5 Q And it will test the entire Pennsylvanian  
6 system through the base of the Morrow formation?

7 A That is true.

8 MR. DICKERSON: That's all. Call Mr. Budd  
9 Hebert.

10 CROSS EXAMINATION

11 BY MR. NUTTER:

12 Q Mr. McCaw, I want to get a couple of points  
13 straight with you before you're excused. Does Ralph Nix con-  
14 trol all of the south half of Section 27 except for certain  
15 interests in the northwest quarter of the southwest quarter?

16 A Yes, it's all under lease, or a farm-out, or  
17 the people are carrying their part of the well.

18 Q And Yates Petroleum Corporation has an interest  
19 in this 40-acre tract?

20 A Yes, sir.

21 Q What interest do they have in that 40 acres?

22 MR. DICKERSON: Mr. Nutter, that is the subject  
23 of Mr. Hebert's testimony.

24 MR. NUTTER: Is this a land man also?

25 MR. DICKERSON: Yes, sir, Yates Petroleum Cor-  
poration.

MR. NUTTER: I see. You got the poolee here  
too?

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MR. DICKERSON: That's right.

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

DIRECT EXAMINATION

BY MR. DICKERSON:

Q Will you state your name and occupation, please?

A Budd Hebert, land man with Yates Petroleum.

Q Mr. Hebert, in the course of your employment, have you been charged with getting this acreage of Yates Petroleum Corporation in shape to drill?

A That's correct.

Q I'll hand you what has been marked Exhibit Two, and I'll ask you to please describe what that depicts?

A This is divided into two sections. The first section indicates the portions of the owners within that area that have been leased by Yates Petroleum. The second portion illustrates the portion of the land holders that have not been leased, because we have not been able to contact these people. We have not been able to ascertain their addresses.

Q So beginning on the third page of this Exhibit No. Two, the Unleased Mineral Interests, those are the interests which are the subject of this application for compulsory pooling?

A That's correct.

Q Will you briefly describe the manner in which you sought to locate these people and some of the problems

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1 you have encountered?

2 A Beginning in late August, I contacted Tom L.  
3 Ingram, who operates the well in the north half of that  
4 Section 27, to locate addressees. Upon obtaining that ini-  
5 tial list, I wrote a letter September 1, '78 to the list of  
6 people that were indicated as land holders within the 40-acre  
7 tract that we're dealing with.

8 I subsequently contacted a Mr. Virgil Johnson.  
9 The Johnson estate owns about a sixth of that 40-acre tract.  
10 It's now dispersed amongst ten of his heirs. I subsequent-  
11 ly was able to lease the Johnson estate with the assistance  
12 of Mr. Virgil Johnson, who gave me additional addresses  
13 and additional family information.

14 I also sent out letters to numerous other land-  
15 hold interests in that area. Some of the letters, I received  
16 no answer on. Some were returned address unknown. So by  
17 the end of September, I had contacted all the Johnson estate.  
18 And by October, the end of October and the middle of Novem-  
19 ber, had leased the Johnson estate and a few of the other  
20 small interest owners as well.

21 Q Were your problems caused primarily by the  
22 fractionalized nature of this ownership?

23 A Yes.

24 Q So all the parties listed on page three of the  
25 Exhibit Two, you have either not had a response from them  
or have not been able to determine their whereabouts?

A That's right. Letters have been sent out to  
the addresses that I had, however.

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1 Q Mr. Hebert, we will hand you what's been  
2 marked Exhibit No. Three and ask you to describe what that  
3 is, please?

4 A This is the letter that I wrote out to all the  
5 interest owners in that 40-acre tract, making an offer to  
6 lease their interests for a \$50-per-net-mineral acre for a  
7 five-year lease and 3/16th royalty.

8 Q That letter is representative of the contact  
9 that you have attempted to have with all these mineral  
10 owners that you do know their whereabouts?

11 A That's correct.

12 Q Tender Exhibit No. Four, and ask you to describe  
13 what that is and its purpose, please?

14 A This is a letter that will make the opportunity  
15 of the interest owners to either lease or to participate in  
16 the well.

17 Q And it is your intention to mail this letter  
18 to all known interest owners immediately following this  
19 hearing, is it not?

20 A That's correct.

21 Q And that letter points out that you will either  
22 seek to obtain an oil and gas lease from all these parties,  
23 or they are given the right to participate in the drilling  
24 of the well, and a copy of the AFE and so forth will be fur-  
25 nished along with your letter?

A That's correct. That's correct.

MR. DICKERSON: Mr. Examiner, that's all I  
have of this witness.

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CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Hebert, I noticed that your Exhibit No. Two and also your Exhibit No. Four carry references to the southwest quarter of the northwest quarter, which has been corrected with ink on the typed copy. Now, were the notices sent correctly?

A Yes, There is an 80-acre tract, 40 acres of which is within this proration unit, including the southwest of the northwest and the northwest of the southwest.

Q I see that reference is made in Exhibit No. Three to both of those 40-acre tracts.

A Yes. The ownership is throughout the 80 acres.

Q I see. So actually even if this error were there, it wouldn't make any material difference as far as ownership is concerned, the people to whom you are addressing the letter?

A That's correct. The letter that I had did make reference to both of those 40-acre tracts.

MR. DICKERSON: Mr. Hebert, if I understood you correctly, the title is uniform to both the northwest-southwest quarter and the southwest-northwest quarter of Section 27, is that right?

A That's correct.

BY MR. NUTTER:

Q What total percentage of this 40-acre tract has been leased by Yates, and what percentage is still outstanding?

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1 A Within the 40-acre tract there is approximately  
2 three-and-a-half acres that have not been leased to date.

3 Q That would be three-and-a-half not mineral  
4 acres?

5 A That is correct, and that is represented --  
6 the ownership is represented at the last page on Exhibit  
7 Two.

8 Q Well, I don't see it there.

9 A I have not quoted the acreage on that. I merely  
10 say that the following interests have not been leased.

11 Q But it adds up to three-and-a-half?

12 A That's right, approximately.

13 Q Okay. Just as a matter of curiosity, some of  
14 these people that have like 240,- 436,800th's of a lease, and  
15 you offered them \$50-an-acre, how much were you offering  
16 them for their interest?

17 A I offered one of them about \$7-1/2 by the time  
18 the fractional interests were carried out.

19 MR. NUTTER: I didn't think it would be that  
20 high.

21 MR. DICKERSON: One further question, Mr. Exam-  
22 iner. Mr. Hebert, on what basis was this Exhibit No. Two  
23 prepared?

24 THE WITNESS: Prepared on the basis of the  
25 correspondence that I had with the lessors and conversations  
that I had with primarily the Johnson, Virgil Johnson, in  
determining the heirship of Victor Thomas and Susan Johnson.

MR. DICKERSON: You also had a title pending on

1 this acreage?

2 THE WITNESS: That is correct, yes.

3 BY MR. NUTTER:

4 Q Mr. Hebert, these people that are being pooled  
5 have the minerals in fee, is that correct?

6 A Yes.

7 Q And they will be working-interest owners as  
8 well as royalty owners in this well?

9 A That's correct.

10 Q Now, the acreage, or the interest that Yates  
11 have acquired in this 40-acre tract are committed to Nix  
12 and to the well, is that correct?

13 A That is correct.

14 Q So the only outstanding thing we have here is  
15 this list of people that as royalty and working-interest  
16 owners control three-and-a-half mineral acres?

17 A Yes, and we have attempted to reach them through  
18 correspondence and we have had letters returned addresses  
19 unknown, or the letter has not been returned, for what rea-  
20 son I don't know.

21 Q There hasn't actually been any rejection of  
22 your offer?

23 A That's correct.

24 MR. NUTTER: If there are no further questions,  
25 Mr. Hebert may be excused.

MR. DICKERSON: Mr. Examiner, I will move the  
admission of Exhibits One, Two, Three and Four.

MR. NUTTER: Exhibits One through Four will be

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1 admitted in evidence.

2 MR. DICKERSON: I call Mr. Bill Ford, please.

3  
4 DIRECT EXAMINATION

5 BY MR. DICKERSON:

6 Q Will you state your name and occupation,  
7 please?

8 A Bill Ford, a Consulting Geologist out of Mid-  
9 land, Texas.

10 Q Mr. Ford, you have previously qualified and  
11 testified before this Oil Conservation Commission, have you  
12 not?

13 A Yes, sir.

14 Q I will hand you what has been marked Exhibit  
15 No. Six, and ask you to please describe what that is?

16 A You've got No. Five on here.

17 Q Five, I'm sorry. It is No. Five.

18 A Exhibit No. Five is a structure map of the area  
19 in question on the top of the lower Morrow series, which is  
20 a uniformly used shale marker throughout the Eddy County  
21 area. As you can see, it shows just regional dip across the  
22 entire area. In addition to which, the recovery of water is  
23 shown in red on the down-dip wells. The up-dip wells that  
24 are producing are circled in orange. Those that have al-  
25 ready been abandoned are shown with an abandoned symbol in  
orange. There is a red dashed line coming down through the  
proposed acreage showing a gas-water contact of minus-5,837.  
Below that is a green dashed line showing a definite 100-

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1 percent water contact at minus-5,908.

2 Q What bearing on this application for an ex-  
3 ception to the special pool rules or an amendment thereof  
4 does this Exhibit depict?

5 A The special pool rules require that a well be  
6 drilled in either the northwest or the southeast quarters  
7 of the Section. As can be seen from this exhibit, the  
8 southeast quarter would be extremely high-risk as to being  
9 water-bearing out of the lower Morrow sands, which is the  
10 target for this project.

11 Q So the significance of this map is that the  
12 proposed location is lying further to the west so as to a-  
13 void the gas-water contact?

14 A That is correct. The further west that you  
15 can go, the less chance you will have of obtaining water,  
16 and the better chance you have of making a good Morrow gas  
17 well.

18 Q Ask you to refer to what has been marked as  
19 Exhibit No. Six and please describe this Exhibit?

20 A Exhibit No. Six is a cross isopac map of the  
21 sands present in the lower Morrow, which is productive  
22 throughout most of the field. As can be seen from this  
23 Exhibit, you have good thick sandbars to the west with a  
24 very thin sand condition going north-south through the cen-  
25 ter of the map, in addition to which the cumulative produc-  
tion figures on the wells through 1/1/78 are shown under  
that.

As can be seen, the thickness of the sand has

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1 a direct bearing on the total amount of production that  
2 has been accumulated. For example, in Section 15, where  
3 we have our thickest sand conditions, we have a well that has  
4 produced over 11-billion cubic feet. As we thin, coming  
5 straight to the south, we go to 7-billion, 5-billion, and  
6 down to 2.4-billion.

7 The map also indicates that we will, in the  
8 south half of Section 27, obtain thicker and better sand  
9 conditions the further west we go, just as we would in  
10 getting away from the water.

11 Q Please refer to Exhibit No. Seven and state  
12 what that depicts?

13 A Exhibit No. Seven is very simply a map showing  
14 the location of the three cross-sections to come.

15 Q And hand you Exhibit No. Eight marked BB-Primo,  
16 and refer to that with reference to the Exhibit No. Seven,  
17 please?

18 A Okay. This is a cross-section going directly  
19 through -- or virtually through the proposed acreage in the  
20 south half of Section 27. Shaded in orange across the whole  
21 map are the lower Morrow Sands, so that you can see how as  
22 you go from the well on the extreme east to the well on the  
23 extreme west, you get considerable additional sand develop-  
24 ment; in addition to which, the Hondo Drilling Company,  
25 Bassett Burney Well in Section 26 is shown to be 100-percent  
26 water-bearing by drill-stem test.

Going to the well in Section 27, immediately  
up-dip, we see that by getting above a minus-5,840 the well

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1 was completed water-free for 9-billion and therefore we  
2 have a 120-foot interval as far as this particular cross-  
3 section is concerned, somewhere in which the actual gas-  
4 water contact will be obtained. The other two wells on the  
5 extreme west are simply put in there to show the better sand  
6 conditions the further that you go to the west.

7 Q Well, now, Mr. Ford, I hand you Exhibit No. 9  
8 and please briefly describe it with reference to Exhibit  
9 No. Seven.

10 A This Exhibit is an east-west cross-section  
11 further to the north, simply showing that if you make an  
12 east-west section to the north of the area, through the area,  
13 and as AA Prime will show through the south of the area, you  
14 have the similar sand conditions improving to the west all  
15 the way across the entire portion of this field. As you can  
16 see, from Well No. One on the right to the last well on the  
17 left, the standard No. One Martin, you can drastically see  
18 the improved sand conditions.

19 Q Lastly, hand you Exhibit No. Ten and please  
20 describe it with reference to No. Seven.

21 A Exhibit No. Ten is also an east-west cross-sec-  
22 tion further to the south. The main importance of this is  
23 that it does have two wells on the extreme right part of the  
24 cross-section that had sand development, but the sub-sea  
25 datum was sufficiently low that the wells produced water  
from the Lower Morrow Series. The one well in Section 4,  
Sammy Dam No. One Fanny, was completed from the Morrow, but  
it is from the upper Morrow as shown by the perforations on

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1 the low.

2 Q Mr. Ford, were these Exhibits prepared by you  
3 or under your direction?

4 A Yes, they were.

5 Q And are you familiar with the facts underlining  
6 in the application for the exception to the special pool  
7 rules that we are making in this proceeding?

8 A Yes, sir.

9 Q And you are employed, are you not, and appear  
10 before this Oil Conservation Division on behalf of Hondo  
11 Drilling Company?

12 A Yes, sir, I am, as a consultant.

13 Q Mr. Ford, in your opinion and based on your  
14 analysis of these Exhibits, what risk factors enter into the  
15 drilling of this proposed Morrow test?

16 A Well, referring back to Exhibit No. Five, the  
17 first Exhibit, I think this is the most significant in show-  
18 ing that it is impossible to absolutely define the gas-water  
19 contact. But it appears at this stage that the gas water  
20 contact is of such a nature that any well drilled in the east  
21 half of the south half would be extremely high-risk and a  
22 very hazardous location as far as water-free completion.  
23 I would even go so far as to say that there is some risk in  
24 the west half.

25 Q In your opinion, do these Exhibits, in your  
interpretation of these Exhibits, support the proposed loca-  
tion that we seek in this proceeding?

A Yes, sir.

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1 Q Can you characterize the risk involved in  
2 drilling this well in terms of whether it is a high risk?

3 A I would say very high-risk.

4 Q And in your opinion, would a penalty of 200-  
5 percent in addition to reasonable well cost for the interest  
6 which is the subject of the compulsory pooling application  
7 be reasonable?

8 A I think so. Probably 300-percent.

9 Q Mr. Ford, in the alternative, the application  
10 filed in this proceeding seeks to have the pool rules for  
11 the Atoka-Pennsylvanian Pool amended to conform to the  
12 statewide Rule 104, in which case the proposed location  
13 sought here would be a standard location. Do you have an  
14 opinion whether or not an amendment to those rules would be  
15 advantageous for development of this area?

16 A I think that it would. There is no question  
17 that it would in this particular case in the south half of  
18 27. For example, the north half of Section 33. The well  
19 that was drilled there reached a total depth of approximately  
20 25 feet above the top of the Lower Morrow. It was sufficient  
21 on the electric logs to make an estimated point for the  
22 structure map. It cannot be proven how much sand is present,  
23 but as you can see from the isopac map on Exhibit Six, that  
24 location appears to be a very favorable location for addi-  
25 tional Lower Morrow production. Yet it is in the northeast  
quarter and could not be drilled without an additional  
hearing.

MR. DICKERSON: Mr. Examiner, that's all the

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1 questions I have of this witness.

3 CROSS EXAMINATION

4 BY MR. NUTTER:

5 Q Mr. Ford, you make reference to the well that  
6 had been drilled in Section 33, didn't you?

7 A Yes. It shows on there as an oil well. The  
8 well was completed, if I remember correctly, out of the  
9 Graybird. It was drilled through the upper part of the  
10 Morrow, but it did not penetrate the lower Morrow, which  
11 is the productive sand in this immediate area.

12 Q So on your Exhibit you say "Not Drilled", you  
13 mean not drilled to the Morrow?

14 A That's correct, not drilled sufficiently deep  
15 enough to show this lower Morrow formation.

16 MR. NUTTER: Okay. That's what I was getting  
17 confused on. Are there any questions of Mr. Ford? He may  
18 be excused.

19 MR. DICKERSON: Mr. Examiner, at this time I  
20 move the admission of Exhibits Five through Ten.

21 MR. NUTTER: Exhibits Five through Ten will be  
22 admitted in evidence.

23 MR. DICKERSON: I'm sorry, I do have additional  
24 questions of Mr. Ford pertaining to the supervisory cost of  
25 the proposed Hondo Drilling Company operations.

REDIRECT EXAMINATION

BY MR. DICKERSON:

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1 Q Mr. Ford, hand you Exhibit No. Twelve and will  
2 you briefly describe what this depicts?

3 A You got Eleven.

4 Q Eleven, I'm sorry.

5 A This is a standard AFE for the drilling of  
6 this well.

7 Q This was prepared by Hondo Drilling Company,  
8 was it not?

9 A Yes, sir.

10 Q Do you have knowledge of the experience of  
11 Hondo Drilling Company both as a drilling contractor and  
12 operator in Eddy County?

13 A I have what I would say is general knowledge  
14 of their -- yes. They operate wells. They have done con-  
15 siderable drilling in Eddy County.

16 Q And they, to your knowledge, are experienced in  
17 drilling and operating Morrow test gas wells?

18 A Yes, sir.

19 Q Exhibit No. Twelve, Mr. Ford, is a blank form  
20 1977 AAPL model form operating agreement. Is it your under-  
21 standing that Hondo Drilling Company and the other working-  
22 interest owners in this proposed venture intend to execute  
23 that form operating agreement only with the amendments ne-  
24 cessary for the agreement of the parties?

25 A Yes, sir.

Q And Hondo has requested and generally charges  
in this area supervisory cost on the COPAS 1974 Accounting  
Procedure Form there attached of \$2,000 for drilling wells

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1 and \$300 for producing wells, is that correct?

2 A Yes, sir.

3 Q Mr. Ford, in your opinion will the granting  
4 of this application in this proceeding prevent waste and pro-  
5 tect correlative rights?

6 A Yes, sir.

7 MR. DICKERSON: Mr. Examiner, I have no further  
8 questions.

9 MR. NUTTER: Mr. Ford, have the other working-  
10 interest owners who are a party to this agreement agreed to  
11 this \$2,300? This Exhibit here is blank. It hasn't been  
12 filled out in any respect.

13 THE WITNESS: I can't answer that for sure, sir  
14 but I do not think they have.

15 MR. DICKERSON: Mr. Examiner, I might say that  
16 the details -- Hondo Drilling Company, for the record, has  
17 a working-interest percent farm-outs from Mr. Ralph Nix and  
18 some of his associates in this proposed venture, and some of  
19 the details concerning the nature of Hondo's interest have  
20 not been detailed. Yates Petroleum Corporation and Ralph  
21 Nix are familiar with this proposed supervisory cost.

22 MR. NUTTER: Has any of the volunteer working-  
23 interest owners agreed to it?

24 MR. DICKERSON: It has not been executed by any  
25 parties.

MR. NUTTER: They're familiar with it and they're  
familiar with this blank form, but they haven't agreed to  
\$2,300?



1 MR. DICKERSON: Yes, sir, but that is the pro-  
2 posal that will be submitted to all parties.

3 MR. NUTTER: Are there any other questions of  
4 Mr. Ford? He may be excused again.

5 MR. DICKERSON: Move the Exhibits Eleven and  
6 Twelve.

7 MR. NUTTER: Applicant's Exhibits Eleven and  
8 Twelve will be admitted in evidence.

9 MR. DICKERSON: We have nothing further.

10 MR. NUTTER: You're not going to call that  
11 fourth witness?

12 MR. DICKERSON: No, sir.

13 MR. NUTTER: Does anyone have anything they  
14 wish to offer in Case No. 6412? We will take the Case  
under advisement with a 15-minute recess.

15 (Hearing concluded.)  
16  
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25

SALLY WALTON BOYD  
CERTIFIED SHORTHAND REPORTER  
2120 Palm Beach Blvd. (S.W.) 33501  
Santa Fe, New Mexico 87501

## REPORTER'S CERTIFICATE

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

*Stefanie Xanthull*  
Stefanie Xanthull, C.S.R.

I do hereby certify that the foregoing is a complete and correct transcript of the proceedings in the Examiner hearing of Case No. 6402 heard by me on 12/20 1978.

*[Signature]* Examiner  
Oil Conservation Division

SALLY WALTON BOYD  
CERTIFIED SHORTHAND REPORTER  
1020 Plaza Blanca (SOS) 471-2462  
Santa Fe, New Mexico 87501



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. 6412  
Order No. R-5909

APPLICATION OF RALPH NIX FOR COMPULSORY  
POOLING AND AN UNORTHODOX LOCATION,  
OR IN THE ALTERNATIVE, AN AMENDMENT  
TO POOL RULES, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 20, 1978, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 16th 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 applicant, Ralph Nix, seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the S/2 of Section 27, Township 18 South, Range 26 East, NMPM, Atoka-Pennsylvanian Gas Pool, Eddy County, New Mexico.

(3) That the applicant further seeks approval for the unorthodox location of the unit well at a point 660 feet from the South line and 1980 feet from the East line of said Section 27, or in the alternative, the rescission of the Atoka-Pennsylvanian Gas Pool Well Location Rules to permit the drilling of the subject well at the above-described location, which is in conformity to the General Well Location Rules for the Pennsylvanian formation in Southeast New Mexico.

(4) That the applicant has the right to drill and proposes to cause a well to be drilled in the S/2 of said Section 27.

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

-2-

Case No. 6412  
Order No. R-5909

(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 Hondo Drilling Company 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 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(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 \$2000.00 per month while drilling and \$300.00 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.

(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.

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Case No. 6412  
Order No. R-5909

(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 1, 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, in the Pennsylvanian formation underlying the S/2 of Section 27, Township 18 South, Range 26 East, NMPM, Atoka-Pennsylvanian Gas Pool, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 660 feet from the South line and 1980 feet from the West line of said Section 27, said unorthodox location also being hereby approved.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of April, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of 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 Hondo Drilling 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.



Case No. 6412  
Order No. R-5909

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

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$2000.00 per month while drilling and \$300.00 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

-5-

Case No. 6412

Order No. R-5909

share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

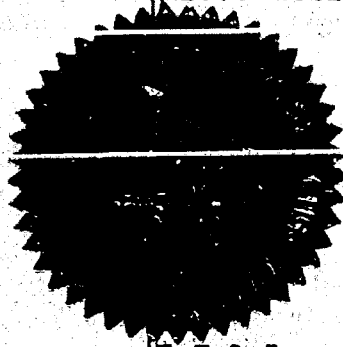
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(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 Eddy 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.



SEAL

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

*Joe D. Ramey*  
JOE D. RAMEY  
Director

rd/

T  
i  
S

CAN 3A 6412

TITLE TO MINERALS  
NW/4 SW/4 Section 27,  
Township 18 South, Range 26 East, N.M.P.M.

THE FOLLOWING INTERESTS HAVE BEEN LEASED:

First Presbyterian Church of Artesia, New Mexico, a corporation . . . . .	145600/436800
Leslie W. Skuzie and Cathrin Hoffman Skuzie, his wife . . . . .	145600/436800
The heirs and devisees of A. L. Johnson, deceased, who appear to be:	
Madge Cautham Johnson . . . . .	1820/436800
Alton L. Johnson . . . . .	1092/436800
Bertha Johnson Bradford . . . . .	1092/436800
Susie Johnson Justin . . . . .	1092/436800
Hallie Mae Johnson Witt . . . . .	1092/436800
Homer A. Johnson . . . . .	1092/436800
The heirs and devisees of W. W. Johnson and Jewell McClellan, both deceased, who appears to be Joel McClellan, Jr. and Mary Lee McClellan, his wife . .	7280/436800
The heirs and devisees of A. R. Johnson, deceased, who appear to be:	
Audrey W. Johnson . . . . .	1456/436800
Alta Johnson Wisdom . . . . .	1456/436800
J. V. Johnson, deceased, and Tera Owens, his wife, now remarried . . . . .	1456/436800
Ethel Johnson Barker . . . . .	1456/436800
V. A. Johnson . . . . .	1456/436800
The heirs and devisees of Alice Johnson Vernon, deceased, who appear to be:	
W. E. Vernon . . . . .	2426-2/3 436800
A. L. Vernon . . . . .	2426-2/3 436800
Arthur Vernon . . . . .	2426-2/3 436800
The heirs and devisees of Serena Johnson Thompson, deceased, who appear to be:	
Oleta Wells . . . . .	1040/436800
Carvel Thompson . . . . .	1040/436800
Marlin Thompson . . . . .	1040/436800
Juanita Willeford . . . . .	1040/436800
George Thompson . . . . .	1040/436800
Lynn McKowen . . . . .	1040/436800
Carroll Thompson . . . . .	1040/436800
The heirs and devisees of Berry Johnson, deceased, who appear to be:	
Mary Johnson Clark . . . . .	1365/436800
Exer Johnson, a/k/a Exia Johnson Scott . . . . .	1183/436800
Guy Johnson . . . . .	1183/436800
LaVeta Johnson Abbott . . . . .	1183/436800
Aquilla Johnson . . . . .	1183/436800

BEFORE EXAMINER
OIL CONSERVATION DIVISION
EXHIBIT NO. 2
CASE NO. 6412

Jack W. McCaw . . . . .	4095/436800
Dorothy G. Kemper . . . . .	4095/436800
Randy Patterson . . . . .	1820/436800
Budd H. Hebert and Doris A. Hebert, his wife, as joint tenants . . . . .	1820/436800
Ray Hall Beck . . . . .	3185/436800
Jerry Book . . . . .	1820/436800
Dave Harle . . . . .	1820/436800
Randy Harris . . . . .	1820/436800
Eddie M. Mahfood and Shirley A. Mahfood, his wife, as joint tenants . . . . .	3185/436800
Johnny Morgan . . . . .	1820/436800
B. W. Harper and Ruthe Harper, his wife, as joint tenants . . . . .	3185/436800
Scott E. Wilson and Cynthia M. Wilson, his wife, as joint tenants . . . . .	2275/436800
J. E. Gatlin Estate by Walter L. Cooper, Administrator . . . . .	1680/436800
The heirs and devisees of J. W. Barnett, deceased, who appears to be Vesta A. Barnett Paness . . . . .	1680/436800
W. E. Justice and Robbie L. Justice, his wife . . . . .	1680/436800
Carmex, Inc. . . . .	5460/436800
Eugene Nearburg . . . . .	3640/436800
Tom L. Ingram . . . . .	3640/436800 - will carry his interest



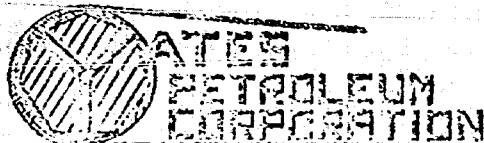
TITLE TO MINERALS  
NW/4 SW/4 Section 27,  
Township 18 South, Range 26 East, N.M.P.M.

THE FOLLOWING INTERESTS HAVE NOT BEEN LEASED:

Ruby Johnson Stowers . . . . .	1183/436800	
V. C. Chron . . . . .	1680/436800	
W. S. Partin . . . . .	1680/436800	
J. D. Thomas . . . . .	1680/436800	
The heirs and devisees of R. S. Hindman, deceased, who appear to be:		
George Hindman . . . . .	240/436800	
E. E. Hindman . . . . .	240/436800	
W. R. Hindman . . . . .	240/436800	
Stant Hindman . . . . .	240/436800	
Laura Pearl Littrell . . . . .	240/436800	
Mary Etta Weeks . . . . .	240/436800	
Othelia Scoggins . . . . .	240/436800	
The heirs and devisees of J. M. Gatlin, deceased, who appear to be:		
Altha Mary Tyson . . . . .	420/436800	
Wilma Jocile Blake . . . . .	1260/436800	
The heirs and devisees of John Steel, a/k/a John Steele, who appear to be:		
James Perry Steele . . . . .	420/436800	
Stanley Gosa Steele . . . . .	420/436800	
Mary Edna Tanner . . . . .	420/436800	
John Boyd Steele, Jr. . . . .	420/436800	
The heirs and devisees of R. M. Baxter and Della Stevens Baxter, his wife, both deceased, who appear to be:		
Goble L. Baxter . . . . .	840/436800	
Creda Baxter King . . . . .	840/436800	
The heirs and devisees of A. J. Coleman, deceased, who appear to be:		
Minnie Coleman . . . . .	420/436800	
Ruthe C. Martin . . . . .	252/436800	
Ross E. Coleman . . . . .	252/436800	
Margaret Pitcher . . . . .	252/436800	
Elizabeth Maloney . . . . .	252/436800	
Robert A. Coleman . . . . .	252/436800	
The heirs and devisees of J. W. Watson and Beulah Skelton Watson, his wife, both deceased, who appear to be:		
Pauline Watson Newton . . . . .	4368/436800	
Martha Watson Watkins . . . . .	4368/436800	
Beulah Watson Doyle . . . . .	4368/436800	
Lena Faye Copeland Watson . . . . .	4368/436800	
The heirs and devisees of Rufus Morgan Watson, who appear to be Madge Waits Johnson Watson, John William Watson, Rufus W. Watson, Madge Watson Dover, Mary Margaret Watson Courson and Thomas W. Watson . . . . .		4368/436800



E. C. Hindman . . . . .	1680/436800
N. H. Trout . . . . .	1680/436800
The heirs and devisees of Bertha Johnson Ferguson, deceased, who appear to be:	
Thelma Adcock . . . . .	1456/436800
Floyd Ferguson . . . . .	1456/436800
Cora Belle Rader . . . . .	1456/436800
Howard Ferguson . . . . .	1456/436800
Linda Thomson, a married woman, sole and only heir of Roy Ferguson and Mary Ferguson, his wife, both deceased . . . . .	1456/436800
Independent Co-Executrixes of the estate of Susie M. Beaty, being:	
Nancy Beaty Loveless . . . . .	<u>2426-2/3</u> 436800
Dorothy Beaty Akers . . . . .	<u>2426-2/3</u> 436800
Inez Beaty Stevens . . . . .	<u>2426-2/3</u> 436800



207 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 746-3558

PRESIDENT  
MARTIN YATES, III  
VICE PRESIDENT  
JOHN A. YATES  
VICE PRESIDENT  
B. W. HARPER  
SEC. TREAS.

September 1, 1978

Ms. Martha W. Watkins  
1120 SW 1st Street  
Cooper, Texas 75432

Re: Oil and Gas Lease  
Township 18 South, Range 26 East, NMPM  
Section 27: SW $\frac{1}{4}$ NW $\frac{1}{4}$ , NW $\frac{1}{4}$ SW $\frac{1}{4}$   
Eddy County, New Mexico

Dear Ms. Watkins:

Yates Petroleum Corporation is interested in seeing that a well gets drilled in Section 27 that would include your mineral interests. Until your interests are leased; however, it will be difficult to put together a deal to drill a well. We would, therefore, like to extend an offer to lease your mineral interests under the above captioned lands. This will enable you to receive royalty on any well drilled that includes your acreage.

We are prepared to offer \$50.00 per net mineral acre for a five year lease providing for 3/16 royalty.

In the event this offer is of interest to you, I am enclosing an Oil and Gas lease and a draft to cover the bonus and rentals. If the lease looks satisfactory please sign it and have it notarized, then sign the draft and send the originals to:

First National Bank  
P. O. Drawer AA  
Artesia, New Mexico 88210  
Attention: Mr. Brent Hammett

for collection.

Our title information may be out of date, so please be sure to check the lease thoroughly before signing and returning. If you have any questions, please call me collect at the above number and I shall attempt to answer them.

BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
<i>Mif</i>	EXHIBIT NO. <u>3</u>
CASE NO. <u>6412</u>	

Ms. Martha W. Watkins  
September 1, 1978  
Page 2.

Our thanks for your time and consideration of this request.

Very truly yours,

Jack W. McCaw  
Land Department

By: Budd H. Hebert

BHH/pr  
Enc.



207 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO - 88210  
TELEPHONE 746-3556

S. P. YATES  
PRESIDENT  
MARTIN YATES, III  
VICE PRESIDENT  
JOHN A. YATES  
VICE PRESIDENT  
B. W. HARPER  
SEC. - TREAS.

*3 1/2 net min  
acres have  
not been  
leased*

Dear

We believe that you are the owner of the interest set forth opposite your name on the attached Exhibit "A", covering the ~~NW/4~~ NW/4 Section 27, Township 18 South, Range 26 East, N.M.P.M. We do hereby offer to lease your interest, at \$50.00 per net mineral acre bonus, for a five year lease, at 3/16ths royalty.

In the alternative, you may desire to participate in the drilling of the Hondo Drilling Company John M. Kelly No. 1, which is to be located in S/2 Section 27, described above. Attached as Exhibit "B" is a proposed AFE, setting forth your percentage of estimated costs of this well, together with estimated total costs. If you exercise your right to participate in this venture, you will also be required to execute a joint operating agreement.

Within 30 days from the date hereof, you will please advise the undersigned of your election in the above matter. If you decide to lease on the foregoing terms, we will prepare and forward a lease to you, with draft attached. Otherwise, please furnish us with your check in the full amount of your share of estimated dry hole costs, and we will furnish you with the operating agreement and final AFE for execution.

BEFORE EXAMINER NUTTER  
OIL CONSERVATION DIVISION  
Nix EXHIBIT NO. 4  
CASE NO. 6412

-2-

The failure to comply with the above options will result in your interest being subjected to compulsory pooling, with attendant costs and penalties to be withheld from your interest.

Very truly yours,

YATES PETROLEUM CORPORATION

By: \_\_\_\_\_

Budd Hebert for  
Jack W. McCaw  
Land Department

Lease \_\_\_\_\_ Well No. \_\_\_\_\_ Field Undesignated  
 & Morrow Depth 9500'  
 Formation  
 Location S/2, Section 27, Township 18 South, Range 26 East  
 Reason for Request Drill and Complete Morrow Gas Well

IF APPROVAL IS GIVEN, OPERATOR IS AUTHORIZED TO PROCEED AND THE UNDERSIGNED GRANTING APPROVAL AGREES TO PAY FOR WORK REQUIRED IN PROPORTION TO UNDERSIGNED'S SHARE OF THE WORKING INTEREST.

APPROVED BY:

BEFORE TRANSFER

By:

**Date**

CH 60151841 - 11-01-01

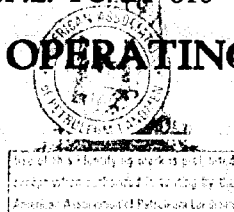
11

CASE NO. 6412

\_\_\_\_\_



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



**OPERATING AGREEMENT**

DATED

\_\_\_\_\_, 19\_\_\_\_,

OPERATOR \_\_\_\_\_

CONTRACT AREA \_\_\_\_\_

COUNTY OR PARISH OF \_\_\_\_\_ STATE OF \_\_\_\_\_

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

DEPOSED EXAMINER MUTTER
OIL LANDMAN ASSOCIATION
EXHIBIT NO. 12
CASE NO. 6412

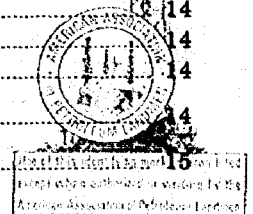
**GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:**

1. Title Page - Fill in blank as applicable.
2. Preamble, Page 1 - Name of Operator.
3. Article II - Exhibits:
  - (a) Indicate Exhibits to be attached.
  - (b) If it is desired that no reference be made to Non-discrimination, the reference to Exhibit "F" should be deleted.
4. Article IV.A - Title Examination - Select option as agreed to by the parties.
5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
  - (a) Delete Articles IV.B.1 and IV.B.2.
  - (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
  - (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."
6. Article V - Operator - Enter name of Operator.
7. Article VI.A - Initial Well:
  - (a) Date of commencement of drilling.
  - (b) Location of well.
  - (c) Obligation depth.
8. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.
9. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.
10. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.
11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.
12. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.
13. Article XIII. - Term of Agreement:
  - (a) Select Option as agreed to by parties.
  - (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.
14. Signature Page - Enter effective date.



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## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between \_\_\_\_\_, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

## WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS

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

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

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

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

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

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

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

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

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

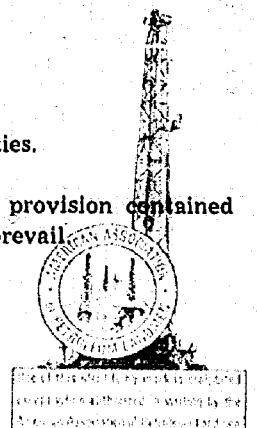
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.  
EXHIBITS

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

- ☐ A. Exhibit "A", shall include the following information:
  - (1) Identification of lands subject to agreement,
  - (2) Restrictions, if any, as to depths or formations,
  - (3) Percentages or fractional interests of parties to this agreement,
  - (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
  - (5) Addresses of parties for notice purposes.
- ☐ B. Exhibit "B", Form of Lease.
- ☐ C. Exhibit "C", Accounting Procedure.
- ☐ D. Exhibit "D", Insurance.
- ☐ E. Exhibit "E", Gas Balancing Agreement.
- ☐ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

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



**ARTICLE III.  
INTERESTS OF PARTIES**

**A. Oil and Gas Interests:**

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

**B. Interest of Parties in Costs and Production:**

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

**ARTICLE IV.  
TITLES**

**A. Title Examination:**

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

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

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

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

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

**B. Loss of Title:**

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

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



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

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

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

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

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

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection  
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties  
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.  
24

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

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

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

48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or  
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-  
50 coming a party to this agreement.  
51

52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.  
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties  
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
55 the Contract Area.  
56

## 57 ARTICLE V. 58 OPERATOR

### 59 A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

60 \_\_\_\_\_ shall be the  
61 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on  
62 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-  
63 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator  
64 to the other parties for losses sustained or liabilities incurred, except such as may result from gross  
65 negligence or willful misconduct.  
66  
67  
68  
69  
70



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

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

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

**C. Employees:**

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

**D. Drilling Contracts:**

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

## ARTICLE VI. DRILLING AND DEVELOPMENT

**A. Initial Well:**

On or before the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, Operator shall commence the drilling of a well for oil and gas at the following location:

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

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

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

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

1 **B. Subsequent Operations:**

2  
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area  
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled  
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing  
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the  
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-  
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-  
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the  
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.  
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given  
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,  
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed  
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any  
15 notice or response given by telephone shall be promptly confirmed in writing.

16  
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article  
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to  
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect  
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of  
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period  
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed  
23 operation and complete it with due diligence. Operator shall perform all work for the account of the  
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-  
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform  
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-  
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when  
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms  
29 and conditions of this agreement.

30  
31 If less than all parties approve any proposed operation, the proposing party, immediately after the  
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest  
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-  
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)  
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the  
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",  
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its  
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify  
39 all parties of such decision.

40  
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in  
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting  
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and  
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such  
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole  
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions  
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall  
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned  
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.  
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such  
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party  
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and  
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's  
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,  
55 calculated at the well, or market value thereof if such share is not sold (after deducting production  
56 taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of  
57 or measured by the production from such well accruing with respect to such interest until it reverts)  
58 shall equal the total of the following:

59  
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface  
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,  
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the  
63 cost of operation of the well commencing with first production and continuing until each such Non-  
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being  
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which  
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-  
67 ginning of the operation; and

68  
69 (b) \_\_\_\_\_% of that portion of the costs and expenses of drilling reworking, deepening, or plugging  
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

1 \_\_\_\_% of that portion of the cost of newly acquired equipment in the well (to and including the well-  
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-  
3 pated therein.

4  
5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's  
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-  
7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from  
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-  
9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not  
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-  
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-  
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13  
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share  
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of  
16 all production, severance, gathering and other taxes, and all royalty, overriding royalty and other  
17 burdens applicable to Non-Consenting Party's share of production.

18  
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall  
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of  
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,  
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the  
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of  
24 salvage.

25  
26 Within sixty (60) days after the completion of any operation under this Article, the party con-  
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-  
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,  
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,  
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed  
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being  
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-  
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the  
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the  
35 amount of proceeds realized from the sale of the well's working interest production during the preceding  
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties  
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any  
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any  
39 such operation which would have been owned by a Non-Consenting Party had it participated therein  
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,  
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;  
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43  
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest  
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-  
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same  
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-  
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,  
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be  
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in  
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52  
53 Notwithstanding the provisions of this Article VI.B.2, it is agreed that without the mutual consent  
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well  
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing  
56 well spacing pattern for such source of supply.

57  
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial  
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)  
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall  
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article  
62 VI.A.

#### 63 64 C. Right to Take Production in Kind:

65  
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of  
67 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-  
68 velopment and producing operations and in preparing and treating oil for marketing purposes and  
69 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-  
70 sition by any party of its proportionate share of the production shall be borne by such party. Any



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

3  
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its  
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled  
6 to receive payment direct from the purchaser thereof for its share of all production.

7  
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately  
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have  
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such  
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking  
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-  
13 erator shall be subject always to the right of the owner of the production to exercise at any time its  
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a  
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for  
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the  
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the  
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's  
19 share of gas production without first giving such other party thirty (30) days notice of such intended  
20 sale.

21  
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-  
23 liveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not  
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the  
25 balancing or accounting between the respective accounts of the parties shall be in accordance with  
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as  
27 Exhibit "E", or is a separate Agreement.

#### 28 29 D. Access to Contract Area and Information:

30  
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect  
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-  
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon  
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-  
35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports  
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings  
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to  
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the  
39 information.

#### 40 41 E. Abandonment of Wells:

42  
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well  
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole  
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent  
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours  
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and  
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All  
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,  
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-  
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct  
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

53  
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-  
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-  
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and  
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense  
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment  
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-  
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvageable  
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated  
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall  
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,  
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-  
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the  
67 formation or formations then open to production. If the interest of the abandoning party is or includes  
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an  
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-  
70 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

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

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

## ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

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

### B. Liens and Payment Defaults:

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

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

### C. Payments and Accounting:

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

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

**D. Limitation of Expenditures:**

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

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

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

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

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

**E. Royalties, Overriding Royalties and Other Payments:**

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

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

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

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

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



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

3  
4 **G. Taxes:**

5  
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad  
7 valorem taxation all property subject to this agreement which by law should be rendered for such  
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-  
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be  
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-  
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its  
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in  
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold  
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such  
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-  
16 ner provided in Exhibit "C".

17  
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within  
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all  
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative  
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and  
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay  
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then  
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25  
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-  
27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-  
28 duced under the terms of this agreement.

29  
30 **H. Insurance:**

31  
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's  
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-  
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge  
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have  
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the  
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.  
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the  
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain  
40 such other insurance as Operator may require.

41  
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently  
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for  
44 such insurance for Operator's fully owned automotive equipment.

45  
46 **ARTICLE VIII.**

47 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

48  
49 **A. Surrender of Leases:**

50  
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall  
52 not be surrendered in whole or in part unless all parties consent thereto.

53  
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and  
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express  
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and  
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties  
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-  
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas  
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas  
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".  
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,  
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,  
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-  
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties  
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells  
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance  
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plug-  
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

1 be shared by the parties assignee in the proportions that the interest of each bears to the interest of all  
2 parties assignee.

3  
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or  
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract  
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter  
7 be subject to the terms and provisions of this agreement.

8  
9 **B. Renewal or Extension of Leases:**

10  
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties  
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt  
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such  
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper  
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,  
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17  
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it  
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of  
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages  
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23  
24 Each party who participates in the purchase of a renewal lease shall be given an assignment of its  
25 proportionate interest therein by the acquiring party.

26  
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest  
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease  
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after  
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted  
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal  
32 lease and shall not be subject to the provisions of this agreement.

33  
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas  
35 leases.

36  
37 **C. Acreage or Cash Contributions:**

38  
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling  
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who  
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or  
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is  
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling  
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto  
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and  
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and  
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly  
48 notify all other parties of all acreage or money contributions it may obtain in support of any well or  
49 any other operation on the Contract Area.

50  
51 If any party contracts for any consideration relating to disposition of such party's share of substances  
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this  
53 Article VIII.C.

54  
55 **D. Subsequently Created Interest:**

56  
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent  
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest,  
59 which such interests are hereinafter referred to as "subsequently created interest", such subsequently  
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as  
61 follows:

62  
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the  
64 party conducting such operations becomes entitled to receive the production attributable to the interest  
65 out of which the subsequently created interest is derived, such party shall receive same free and clear  
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently  
67 created interests and shall indemnify and hold the other parties hereto free and harmless from and  
68 all liability resulting therefrom.

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

#### E. Maintenance of Uniform Interest:

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

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

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

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

#### F. Waiver of Right to Partition:

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

#### G. Preferential Right to Purchase:

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

### ARTICLE IX.

#### INTERNAL REVENUE CODE ELECTION

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

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

#### ARTICLE X. CLAIMS AND LAWSUITS

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

#### ARTICLE XI. FORCE MAJEURE

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

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

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

#### ARTICLE XII. NOTICES

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

#### ARTICLE XIII. TERM OF AGREEMENT

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

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal, or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.



1 ☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled  
2 under any provision of this agreement, results in production of oil and/or gas in paying quantities, this  
3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-  
4 tion, and for an additional period of \_\_\_\_\_ days from cessation of all production; provided, however,  
5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in  
6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-  
7 erations have been completed and if production results therefrom, this agreement shall continue in  
8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well  
9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil  
10 and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-  
11 tions are commenced within \_\_\_\_\_ days from the date of abandonment of said well.

12  
13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from  
14 any liability which has accrued or attached prior to the date of such termination.

15  
16 **ARTICLE XIV.**  
17 **COMPLIANCE WITH LAWS AND REGULATIONS**

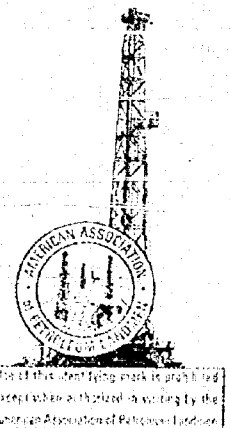
18  
19 **A. Laws, Regulations and Orders:**

20  
21 This agreement shall be subject to the conservation laws of the state in which the committed  
22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of  
23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and  
24 orders.

25  
26 **B. Governing Law:**

27  
28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-  
29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-  
30 terpretation of construction, shall be governed and determined by the law of the state in which the  
31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most  
32 of the land in the Contract Area is located shall govern.

33  
34 **ARTICLE XV.**  
35 **OTHER PROVISIONS**



ARTICLE XVI.  
MISCELLANEOUS

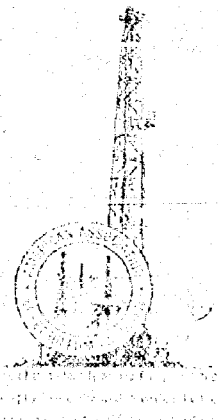
This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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

IN WITNESS WHEREOF, this agreement shall be effective as of \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

OPERATOR

NON-OPERATORS





## EXHIBIT " "

Attached to and made a part of .....

.....

.....

# 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:

- ( ) 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 ( ) 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 \$ \_\_\_\_\_  
Producing Well Rate \$ \_\_\_\_\_

- (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, re-drilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

**2. Overhead - Major Construction**

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

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

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

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

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

**3. Amendment of Rates**

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

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

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

**1. Purchases**

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

**2. Transfers and Dispositions**

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

**A. New Material (Condition A)**

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

(2) Line Pipe

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

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

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

**B. Good Used Material (Condition B)**

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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



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

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

**C. Other Used Material (Condition C and D)**

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

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

**3. Premium Prices**

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

**4. Warranty of Material Furnished by Operator**

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

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

**1. Periodic Inventories, Notice and Representation**

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

**2. Reconciliation and Adjustment of Inventories**

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

**3. Special Inventories**

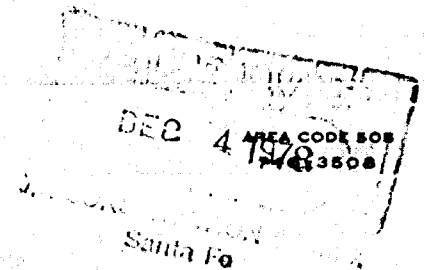
Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed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

**4. Expense of Conducting Periodic Inventories**

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

A. J. LOSEE  
JOEL M. CARSON  
CHAD DICKERSON

LAW OFFICES  
LOSEE & CARSON, P.A.  
300 AMERICAN HOME BUILDING  
P. O. DRAWER 239  
ARTESIA, NEW MEXICO 88210



1 December 1978

*Case 6412*

Ms. Lynn Teschendorf  
New Mexico Oil Conservation  
Division  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Ralph Nix Application  
S/2 Sec. 2, T-18-S, R-26-E

Dear Lynn:

As requested by you on the phone, the proposed drillsite has now been determined, and the same is 660 feet from the south line and 1980 feet from the west line of Section 27, Township 18 South, Range 26 East, N.M.P.M. The well will be called the Hondo Drilling Company No. 1 John M. Kelly.

Please let me know if you need anything further.

Sincerely yours,

LOSEE, CARSON & DICKERSON, P.A.

Chad Dickerson

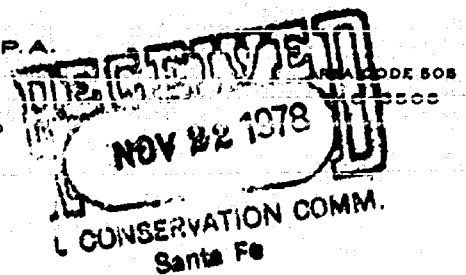
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A. J. LOSEE  
JOEL M. CARSON  
CHAD DICKERSON

LAW OFFICES  
LOSEE & CARSON, P.A.  
300 AMERICAN HOME BUILDING  
P. O. DRAWER 239  
ARTESIA, NEW MEXICO 88210

21 November 1978



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

Dear Mr. Ramey:

Enclosed for filing, please find three copies of Application of Ralph Nix for Compulsory Pooling and for an Exception to the Special Pool Rules and Regulations for the Atoka-Pennsylvanian Gas Pool, Southeastern New Mexico, or for an Amendment Thereof.

We ask that this case be set for hearing and that you furnish us with a docket of said hearing.

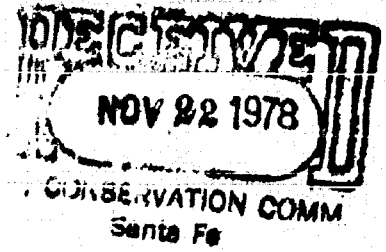
Sincerely yours,

LOSEE, CARSON & DICKERSON, P.A.

  
Chad Dickerson

CD:jcb  
Enclosures

cc w/enclosure: Mr. Ralph Nix



BEFORE THE OIL CONSERVATION DIVISION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF :  
RALPH NIX FOR COMPULSORY POOLING :  
AND FOR AN EXCEPTION TO THE SPECIAL : CASE NO. 6412  
POOL RULES AND REGULATIONS FOR THE :  
ATOKA-PENNSYLVANIAN GAS POOL, SOUTH- :  
EASTERN NEW MEXICO, OR FOR AN AMENDMENT :  
THEREOF :

APPLICATION

COMES NOW RALPH NIX, by his attorneys, and in support  
hereof, respectfully states:

1. That applicant controls the majority of the work-  
ing interest in the Pennsylvanian formation underlying:

Township 18 South, Range 26 East, N.M.P.M.

Section 27: S/2

2. The New Mexico Oil Conservation Commission, in  
Case Nos. 2275 and 1669, by Order No. R-1670-E, established the  
Atoka-Pennsylvanian Gas Pool, Southeastern New Mexico, and Special  
Rules and Regulations therefor, covering the following described  
lands:

Township 18 South, Range 26 East, N.M.P.M.

Section 1: All  
Section 2: All  
Section 3: E/2  
Section 10: E/2  
Section 11: All  
Section 12: All  
Section 13: All  
Section 14: All  
Section 15: All  
Section 16: E/2  
Section 19: E/2  
Section 20: All  
Section 21: All  
Section 22: All  
Section 23: W/2  
Section 27: N/2

Township 18 South, Range 26 East, N.M.P.M. (continued)

Section 28: All  
Section 29: All  
Section 30: NE/4, W/2 NW/4

containing 9,840 acres, more or less,  
in Eddy County, New Mexico.

3. Applicant seeks an exception to the well location requirements of the Special Rules and Regulations for the Atoka-Pennsylvanian Gas Pool, which require that a well be located in the NW/4 or the SE/4 of a section, and shall be located no nearer than 990 feet to the outer boundary of the quarter section, nor nearer than 330 feet from any governmental quarter-quarter section line.

4. Applicant proposes to drill his well at a location to be determined in the SW/4 of said Section 27, Township 18 South, Range 26 East, and to dedicate the S/2 of said Section 27 to the well. Said well location will be an unorthodox location under the Special Rules and Regulations for the Atoka-Pennsylvanian Gas Pool, but will be located at a standard location for gas wells in this area if said rules are amended to permit Rule 104-C of the Oil Conservation Division to control.

5. The well will be drilled to a depth sufficient to adequately test the Morrow formation of the Pennsylvanian system, and a standard 320-acre proration unit comprising the S/2 of said Section 27 should be dedicated to the well.

6. There are interest owners in the proration unit who have not agreed to pool their interests.

7. Hondo Drilling Company should be designated the operator of the well on the proration unit.

8. 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 his just and fair share of the gas in said unit, without unnecessary expense, all mineral interests, whatever they may be, from the surface through the Morrow formation underlying the S/2 of said Section 27, should be pooled.

9. That any non-consenting working interest owner who does not pay his share of estimated well costs should have his share of the reasonable well costs, plus an additional 200% thereof, withheld from production as a reasonable charge for the risk involved in the drilling of the well.

10. Operator should be authorized to withhold the proportionate share of each interest subjected to compulsory pooling of the reasonable total charge of Operator for supervision of drilling and producing wells from production.

WHEREFORE, applicant prays:

A. Upon hearing, the Division enter its order pooling all mineral interests, whatever they may be, from the surface through the Morrow formation underlying the S/2 of said Section 27, Township 18 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, to form a 320-acre spacing unit dedicated to applicant's well.

B. Upon hearing, the Division enter its order granting applicant an exception to the Special Rules and Regulations for the Atoka-Pennsylvanian Gas Pool, and authorizing applicant to drill his well at a standard location under Rule 104-C.

C. In the alternative, upon hearing, the Division enter its order amending the Special Rules and Regulations for the Atoka-Pennsylvanian Gas Pool to accord with the well location requirements of Rule 104-C.

D. And for such other and further relief as may be  
just in the premises.

RALPH NIX

By: Chad Dickerson  
Chad Dickerson

LOSEE, CARSON & DICKERSON, P.A.  
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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. 6412

Order No. R- 5909

APPLICATION OF RALPH NIX FOR COMPULSORY  
POOLING AND AN UNORTHODOX LOCATION,  
OR IN THE ALTERNATIVE, AN AMENDMENT  
TO POOL RULES, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 20  
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, Ralph Nix,  
seeks an order pooling all mineral interests in the Pennsylvanian  
formation underlying the S/2  
of Section 27, Township 18 South, Range 26 East,  
NMPM, Atoka-Pennsylvanian Gas Pool, Eddy County, New  
Mexico.

(3) That the applicant further seeks approval for  
the ~~unorthodox~~ location of the unit well at a point  
660 feet from the North line and 1880 feet from the  
East line of <sup>and</sup> Section 27, or in the alternative, the  
recession of the Atoka-Pennsylvanian Gas Pool to  
well location ~~has~~ to permit the drilling of the  
subject well at the above-described location, which  
is in conformity to the General Well Location Law  
for the Pennsylvanian formation in Southeast  
New Mexico.

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<sup>4</sup>  
(3) That the applicant has the right to drill and proposes cause a well to be drilled in the 3/4 of said Section 27 to ~~drill a well at an unorthodox location in the SW/4 of said section~~

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

<sup>6</sup>  
(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

<sup>7</sup>  
(6) That Hondo Drilling Company ~~the applicant~~ should be designated the operator of the subject well and unit.

<sup>8</sup>  
(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

<sup>9</sup>  
(8) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

<sup>10</sup>  
(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

<sup>11</sup>  
(10) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

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*while drilling and \$300.00 per month  
while producing*

<sup>12</sup>  
(11) That \$2000.00 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.

<sup>13</sup>  
(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

<sup>14</sup>  
(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before April 1, 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, in the Pennsylvanian formation underlying the S/2 of Section 27, Township 18 South, Range 26 East, NMPM, Atoka-Pennsylvanian Gas Pool, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing

and proration unit to be dedicated to a well to be drilled at an unorthodox location 660 feet from the south line and 1980 feet from the west line of said Section 27, said unorthodox location

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of April, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Pennsylvanian formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of 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 ~~Ralph Nix~~ Honda Drilling 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, 20 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs. *while drilling and 300.00 per month while producing are*

(9) That \$2000.00 per month <sup>is</sup> 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.



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(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 Eddy 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.