

CASE 6993: TOM BOLACK FOR COMPULSORY  
POOLING, SAN JUAN COUNTY, NEW MEXICO

Case No.

6993

Application

Transcripts

Small Exhibits

ETC





STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

November 29, 1983

TONEY ANAYA  
GOVERNOR

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
15051827-5800

Mr. Richard T. C. Tully, P.A.  
P. O. Box 268  
Farmington, New Mexico 87499-0268

Re: OCD Case No. 6993, Order No.  
R-6455

Dear Rick:

Your letter to Joe Ramey of November 14, 1983, asking for a declaration that Order No. R-6455 be declared null and void has been given to me for response. I have reviewed our normal forced pooling order and I don't believe that it is necessary for this order to be declared null and void since, it appears to me, that if no parties are forced pooled by the order it simply is of no effect. Therefore, I suggest that we leave the order in place and it will not have any effect on those parties who agree to participate in one way or another.

If this proposed approach causes you or your clients undue burden, please let me know at your earliest convenience.

Sincerely,

W. PERRY PEARCE  
General Counsel

WPP/dr

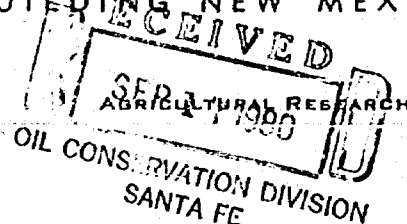
KEEPING OUR LAND PRODUCTIVE . . . BUILDING NEW MEXICO

EXPERIMENTAL FARM



TOM BOLACK, OWNER

RT. 3 SOUTH, BOX 47  
FARMINGTON, NEW MEXICO 87401



September 15, 1980

Dr. Eugene P. Mathias  
12027 Venice Blvd.  
Los Angeles, CA 90066

Southland Royalty Co.  
410 Seventeenth St., Ste. 1000  
Denver, CO 80202

New Mexico Energy & Minerals Dept. ✓  
Oil Conservation Division  
Attn: Mr. Joe D. Ramey  
P.O. Box 2088  
Santa Fe, NM 87501

Case 6993  
file

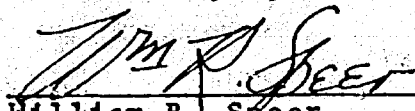
Re: NMOCD Compulsory Pooling Order No.  
R-6455; Tom Bolack #1 Tommy Bolack  
Well, SW/4 Sec. 1, T30N-R12W, N.M.P.M.  
San Juan County, New Mexico

Dear Sir,

In compliance with the New Mexico Oil Conservation Division Order No. R-6455, issued September 10, (copy attached), Mr. Tom Bolack herewith supplies each of you with a copy of an itemized schedule of estimated well costs for this Dakota Test well, which estimate has been previously sent to each addressed party. It is requested that the non-consenting working interest owner indicate if he now plans to pay his share of the estimated well costs to the operator. If the previously non-consenting working interest owner does plan to join in the drilling of the well, would he please sign one copy of the attached well cost estimate in the appropriate space and return it, together with a check in the amount of his pro-rata share of the estimated cost, to the operator. If the non-consenting working interest owner does elect to join in the drilling of the well, it is requested that he execute one copy of the Operating Agreement for the well previously supplied him or, if unavailable, request an additional copy from the operator.

Very truly yours,

TOM BOLACK, Operator

  
William R. Speer,  
Agent for the Operator

cc: Tom Bolack

1j

Each participating owner to pay proportionate share actual well cost subject to Operating Agreement

RECEIVED

SEP 17 1980

PARTNER'S APPROVAL

WELL COST ESTIMATE ☒ OR FINAL COST ☐ OIL CONSERVATION DIVISION

SANTA FE

TOM BOLACK		WELL NO. 1	FIELD Basin DK
LEASE NAME Tommy Bolack		COUNTY San Juan	Flora Vista-G
LOCATION SW/4, Sec.1, T30N, R12W		TOTAL DEPTH 5970/6880	STATE New Mexico
FORMATION Gallup/Dakota			TOTAL DAYS

Prorated Costs On A-B-C Method Items

Totals A-Common B- GAL C- DK

TUBULAR GOODS:

Surface Casing 8 5/8 Inch 2500 @ \$8.00/Ft.  
 Int. Casing 5 1/2 Inch 7000 @ \$6.75/Ft.  
 Prod. Casing 5 1/2 Inch 7000 @ \$6.75/Ft.  
 Liner 2 3/8 Inch 7000 @ \$2.80/Ft.  
 Tubing 1 3/4 Inch 6000 @ \$2.05/Ft.

WELLHEAD EQUIPMENT

OTHER EQUIPMENT:

Surface Production Equipment  
 Liner Hangers and Production Packers & setng  
 Tubing Accessories

DRILLING COSTS:

Footage 6880 @ \$16.00 s/Ft.  
 Day Work 3days @ 4,850 s/Day  
 Day Work s/Day  
 Day Work s/Day  
 Service Unit 8days @ 1,500 s/Day  
 Rig Rental Tools csg. crew  
 Rig Moving Costs (cat)

CEMENTING: (Cement, Pump Trucks and Drayage)

Surface  
 Intermediate  
 Production

\$ 2,000	\$ 2,000	\$	\$
47,250	47,250		
19,600			19,600
12,300		12,300	
19,500		7,000	12,500
32,000		15,000	17,000
3,500		3,500	
2,000		1,000	1,000
110,080	110,080		
14,550	14,550		
12,000		6,000	6,000
2,000	2,000		
1,000	1,000		
2,500	2,500		
19,000	19,000		

ESTIMATED COST ONLY  
Each participating owner to pay proportionate  
share actual well cost subject to Operating  
Agreement

RECEIVED  
SEP 17 1980

PARTNER'S APPROVAL

WELL COST ESTIMATE ☒ OR FINAL COST ☐ OIL CONSERVATION DIVISION  
SANTA FE

TOM BOLACK

WELL NAME Tommy Bolack	WELL NO. 1	FIELD Basin DK Flora Vista-G
LOCATION SW/4 SW/4, Sec.1, T30N, R12W	COUNTY San Juan	STATE New Mexico
FORMATION Gallup/Dakota	TOTAL DEPTH 5970/6880	TOTAL DAYS

Prorated Costs On A-B-C Method  
Items

Totals A-Common B- GAL C- DK

**TUBULAR GOODS:**

Surface Casing 8 5/8 inch 2500 @ \$8.00/Ft.  
Int. Casing 5 1/2 inch 7000 @ \$6.75/Ft.  
Prod. Casing 5 1/2 inch 7000 @ \$6.75/Ft.  
Liner 5 1/2 inch 7000 @ \$2.80/Ft.  
Tubing 2 3/8 inch 7000 @ \$2.80/Ft.  
Tubing 1 3/4 inch 6000 @ \$2.05/Ft.

\$ 2,000	\$ 2,000	\$	\$
47,250	47,250		
19,600			19,600
12,300		12,300	

**WELLHEAD EQUIPMENT**

19,500		7,000	12,500
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**OTHER EQUIPMENT:**

Surface Production Equipment  
Liner Hangers and Production Packers & setting  
Tubing Accessories

32,000		15,000	17,000
3,500		3,500	
2,000		1,000	1,000

**DRILLING COSTS:**

Footage 6880 @ \$16.00 S/Ft.  
Day Work 3 days @ 4,850 S/Day  
Day Work S/Day  
Day Work S/Day  
Service Unit 8 days @ 1,500 S/Day  
Rig Rental Tools CSG. crew  
Rig Moving Costs (cat)

110,080	110,080		
14,550	14,550		
12,000		6,000	6,000
2,000	2,000		
1,000	1,000		

**CEMENTING: (Cement, Pump Trucks and Drayage)**

Surface  
Intermediate  
Production  
Liner  
Liner

2,500	2,500		
19,000	19,000		

**Displacement charges (Nowsco)**

Sq. Jobs

6,000		3,000	3,000
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**FORMATION TREATMENT: NO.**

Acidizing total stimulation costs  
Fracturing - Equipment  
Fluid Wtr Gel.  
Fluid Additives Pkr & bridge plug  
Prepping Agent Lbs.  
Tank Rental

69,000		16,000	53,000
4,200		1,200	3,000
3,000		3,000	
3,700		700	3,000

**SPECIAL SERVICES (Surveys and Tests)**

Perforating  
Mud Logging  
Electric and Radioactive Logging  
Drill Stem Tests  
Cores

9,000		2,000	7,000
14,000	14,000		

**MATERIALS:**

Drilling Mud and Chemicals (mod. l. c.)  
Drilling Gas or Air  
Water all trucked  
Bits  
Fuel  
Hauling  
Tubular Inspection  
Miscellaneous

40,000	40,000		
7,000	7,000		
3,000	3,000		
5,000		2,000	3,000
8,000	8,000		
8,000	8,000		

**ACCESS AND LOCATION AND CLEANUP  
SUPERVISION, LEGAL, ETC.**

479,180	278,380	72,700	128,100
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Plus 5% Contingency  
TOTAL COST

\$ 503,140	\$ 292,300	\$ 76,335	\$ 134,505
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+134,505  
426,805 = Dk only

GAL = 1/2 A+B = \$222,485

DK = 1/2 A+C = \$280,655



STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

December 2, 1980

BRUCE KING  
GOVERNOR

LARRY KEHOE  
SECRETARY

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

Mr. Richard T. C. Tully  
P. O. Box 268  
Farmington, New Mexico 87401

Re: Extension of Time  
Order No. R-6455

Dear Sir:

Reference is made to your letter dated November 21, 1980, wherein you request additional time for Mr. Tom Bolack to commence drilling operations on the S/2 of Section 1, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico, which lands were pooled by said order and a commencement date of December 1, 1980, established for the unit well.

Mr. Bolack is hereby authorized an extension of time until January 15, 1981, in which to start drilling operations. It is hoped that the drilling rig availability and tubular goods problems will have been worked out and that the unit well may be commenced on or before that date.

It is left up to the operator to notify all interested parties of this extension.

Very truly yours,

JOE D. RAMEY,  
Director

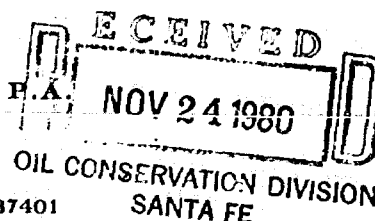
JDR/DSN/dr

cc: Case File 6993



JAMES B. COONEY (1908-1979)  
RICHARD T. C. TULLY  
RICHARD L. LEE

JAMES B. COONEY, P.A.  
ATTORNEYS AT LAW  
811 WEST APACHE  
P. O. BOX 268  
FARMINGTON, NEW MEXICO 87401



(505) 327-3388

November 21, 1980

*Nutter*

Joe D. Ramey, Director  
New Mexico Oil Conservation Division  
Post Office Box 2088  
Santa Fe, New Mexico 87501

Re: Tom Bolack  
Tommy Bolack No. 1 Well  
San Juan County, New Mexico

Dear Mr. Ramey:

On September 10, 1980 the New Mexico Oil Conservation Division issued Order No. R-6455 for Case No. 6993 in the Matter of the Application of Tom Bolack for Compulsory Pooling, San Juan County, New Mexico.

This Force Pooling Order pertains to the Dakota Formation underlying the S/2 of Section 1, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico. The Dakota well to be drilled in this half section is named the "Tommy Bolack No. 1 Well".

Under Paragraph (1) of the above-described Order, Tom Bolack as operator of this well must commence the drilling of this well on or before the first day of December, 1980. This letter is a request to the NMOCD to extend the commencement date for the drilling of the Tommy Bolack No. 1 Well to January 15, 1981.

The request for an extension of the time to commence this well is based upon several reasons:

First, a drilling contract for this well has been entered into, but the drilling contractor will not have a rig available until after December 1, 1980.

Second, the operator of this well has encountered numerous obstacles and difficulties in securing casing and tubular goods for this well. Fortunately, this problem of securing casing and tubular goods has now been resolved, but took up a tremendous amount of time between the issuance of the above-described Order and the present time.

Joe D. Ramey  
November 21, 1980  
Page Two

Finally, the request for an additional 45 days to commence the drilling of this well is necessary because rig availability from the drilling contractor is still somewhat in a state of uncertainty. Hopefully, the drilling contractor will be able to arrange his very tight drilling schedule to accommodate the operator of this well sometime during December, 1980. However, if a rig does not become available during December, 1980, it is respectfully requested that an additional period of 15 days into January, 1981 will allow an additional time period within which this well can be commenced.

If you wish additional information concerning this extension of time to be submitted, including a copy of the executed drilling contract, please advise and we will promptly send the requested information and material.

Thank you in advance for your assistance and cooperation in this matter. Please advise if you need further information.

Sincerely,

*Richard T. C. Tully*  
Richard T. C. Tully

RTCT:cb

xc: Tommy Bolack and Terry Bolack,  
Co-Personal Representatives of the  
Estate of Alice N. Bolack, Deceased  
Route 3 South, Box 47  
Farmington, New Mexico 87401

William R. Speer  
Consulting Geologist  
Post Office Box 255  
Farmington, New Mexico 87401

Larry Van Ryan  
Production Superintendent  
Southland Royalty Company  
Post Office Box 570  
Farmington, New Mexico 87401

Jim Sims, District Engineer  
U. S. Geological Survey  
Post Office Box 959  
Farmington, New Mexico 87401

Frank Chavez, Supervisor  
District III Office  
Energy and Minerals Department  
New Mexico Oil Conservation Div.  
1000 Rio Brazos Road  
Aztec, New Mexico 87410



BRUCE KING  
GOVERNOR  
LARRY KEHOE  
SECRETARY

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

September 12, 1980

POST OFFICE BOX 2068  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87501  
(505) 827-2434

Mr. Richard T. C. Tully  
James B. Cooney  
Attorneys at Law  
P. O. Box 268  
Farmington, New Mexico 87401

Re: CASE NO. 6993  
ORDER NO. R-6455

Applicant:

Tom Bolack

Dear Sir:

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

Yours very truly,

  
JOE D. RAMEY  
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x  
Artesia OCD x  
Aztec OCD x

Other \_\_\_\_\_

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. 6993  
Order No. R-6455

APPLICATION OF TOM BOLACK FOR  
COMPULSORY POOLING, SAN JUAN  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on August 6, 1980,  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 10th day of September, 1980, 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, Tom Bolack, seeks an order pooling  
all mineral interests in the Dakota formation underlying the S/2  
of Section 1, Township 30 North, Range 12 West, NMPM. Basin-  
Dakota Pool, San Juan County, New Mexico.
- (3) That the applicant has the right to drill and proposes  
to drill a well at a standard location thereon.
- (4) That there are interest owners in the proposed proration  
unit who have not agreed to pool their interests.
- (5) That to avoid the drilling of unnecessary wells, to  
protect correlative rights, and to afford to the owner of each  
interest in said unit the opportunity to recover or receive  
without unnecessary expense his just and fair share of the gas  
in said pool, the subject application should be approved by  
pooling all mineral interests, whatever they may be, within said  
unit.

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Case No. 6993  
Order No. R-6455

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

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

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

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

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

(11) That \$1045.00 per month while drilling and \$200.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 1, 1980, the order pooling said unit should become null and void and of no effect whatsoever.



3-  
Case No. 6993  
Order No. R-6455

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Dakota formation underlying the S/2 of Section 1, Township 30 North, Range 12 West, NMPM, Basin-Dakota Pool, San Juan 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 a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of December, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Dakota formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of December, 1980, 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 Tom Dolack is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 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

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Case No. 6993  
Order No. R-6455

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 who 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 \$1045.00 per month while drilling and \$200.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

-5-  
Case No. 6993  
Order No. R-6455

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

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

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

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

  
JOE D. RAMEY  
Director

  
S E A L

rd/

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO  
6 August 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Tom Bolack for com-  
pulsory pooling, San Juan County,  
New Mexico.

CASE  
6993

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

Ernest L. Padilla, Esq.  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

Richard Tully, Esq.  
811 W. Apache  
Farmington, New Mexico 87401

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

I N D E X

WILLIAM R. SPEER

Direct Examination by Mr. Tully

3

Cross Examination by Mr. Nutter

29

E X H I B I T S

Applicant Exhibit One, Application

4

Applicant Exhibit Two, Map

5

Applicant Exhibit Three, Letters

6

Applicant Exhibit Four, Letter

9

Applicant Exhibit Five, Document

12

Applicant Exhibit Six, Document

12

Applicant Exhibit Seven, Document

12

Applicant Exhibit Eight, Correspondence

16

Applicant Exhibit Nine, Document

22

SULLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409



1 MR. NUTTER: We'll call next Case Number  
2 6993.

3 MR. PADILLA: Application of Tom Bolack  
4 for compulsory pooling, San Juan County, New Mexico.

5 MR. TULLY: I'm Richard Tully, Farmington,  
6 New Mexico, representing Tom Bolack.

7 I have one witness to be sworn, Mr.  
8 William R. Speer.

9  
10 (Witness sworn.)

11  
12 WILLIAM R. SPEER  
13 being called as a witness and having been duly sworn upon his  
14 oath, testified as follows, to-wit:

15  
16 DIRECT EXAMINATION

17 BY MR. TULLY:

18 Q Would you please state your name, address,  
19 and occupation?

20 A My name is William R. Speer. I'm a con-  
21 sulting geologist from Farmington, New Mexico, 401 Petroleum  
22 Plaza Bldg.

23 Q And in what capacity are you appearing  
24 here today?

25 A As a representative and consultant for

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 Mr. Tom Bolack.

2 Q Have you previously testified before the  
3 New Mexico Oil Conservation Division?

4 A Yes, I have.

5 MR. TULLY: Mr. Nutter, are Mr. Speer's  
6 qualifications acceptable to testify as an expert witness?

7 MR. NUTTER: Yes, they are.

8 Q Referring now to Exhibit Number One, which  
9 I believe you have in front of you, would you please identify  
10 and briefly explain this exhibit?

11 A Exhibit Number One is our application  
12 for compulsory pooling submitted on behalf of Mr. Bolack, for  
13 a proposed Dakota well to be located in the south half of  
14 Section 1, Township 30 North, Range 12 West, San Juan County,  
15 New Mexico.

16 The application proposes to dedicate the  
17 south half of that section for a Dakota test well within the  
18 field area. The applicant, Mr. Bolack, is a 50 percent working  
19 interest owner in that south half of Section 1. We have  
20 sought the agreement of other interest holders in that south  
21 half drilling unit and have not received the approval of Dr.  
22 Eugene Mathias, who owns a 12-1/2 percent working interest  
23 in the Dakota drilling unit.

24 We have made application to pool this  
25 interest as a compulsory pooling order from the Commission.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 Q Does this application indicate that Dr.  
2 Mathias was sent the application by certified mail, return re-  
3 ceipt requested?

4 A Yes, it does. On the copy submitted we  
5 have shown the copies of our receipt for receipt of our copy  
6 sent to Dr. Mathias.

7 Q Referring now to Exhibit Number Two,  
8 would you please identify and explain this exhibit?

9 A Yes, Exhibit Two is a map of the area  
10 involved in our application, termed the Flora Vista Area. It  
11 shows portions of Township 31 North and 30 North, Ranges 11  
12 and 12 West, in San Juan County, New Mexico.

13 Centered on the map is the drilling unit  
14 outlined in red, the south half of Section 1 of 30 North, 12  
15 West. It shows the southwest quarter to be leased to Mr.  
16 Bolack, 280 acres in the southeast to be leased by Southland  
17 Royalty Company --

18 MR. NUTTER: Not 280 acres.

19 A No, it would be --

20 MR. NUTTER: 120 acres.

21 A -- 120 acres. And 40 acres to Dr.  
22 Mathias, also in the southeast quarter.

23 I've highlighted the data shown on each  
24 well, indicates production data from those wells. This area  
25 is an old developed area with production coming from at least

1 four different, five different, productive zones. Our concern  
2 is with the Dakota formation, the production from each of the  
3 wells surrounding this drilling unit from the Dakota formation  
4 have been highlighted in yellow for your better view.

5 The legend shows the production data to  
6 indicate the producing formation, the 1979 production, both of  
7 gas and oil, the date of the first production from the wells  
8 by month and year, the cumulative gas production and cumulative  
9 oil production.

10 Q Is it the intent of this application to  
11 have Tom Bolack designated as the operator of this well and  
12 also that the proposed well be drilled on his lease?

13 A Yes, it is.

14 Q Referring now to what has been marked as  
15 Exhibit Number Three, would you please identify and explain  
16 this exhibit?

17 A Exhibit Three is a series of letters, cor-  
18 respondence between the U. S. Department of Interior, Geologi-  
19 cal Survey's Albuquerque office, with both El Paso Natural  
20 Gas Company and Mr. Bolack, pertaining to a request of the  
21 USGS that the lease of Mr. Bolack's NMO-2707, appears to be  
22 subject to drainage in their estimation, and they request that  
23 information regarding plans to protect the Federal acreage  
24 from drainage.

25 The first letter in the sequence on Ex-

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Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 exhibit Three, was sent to El Paso Natural Gas Company, mis-  
 2 takenly. The owner of record, Mr. Bolack, has the rights be-  
 3 low the Mesaverde on this particular lease. El Paso Natural  
 4 Gas Company has a half interest in all rights above the Mesa-  
 5 verde.

6 So Mr. John Ahlm, landman for El Paso  
 7 Natural Gas Company, in the second letter advised the USGS of  
 8 this situation and forwarded a copy of the letter to Mr. Bolack  
 9 for answer.

10 The third letter, dated March 13th, is a  
 11 reply from Mr. Bolack to the USGS office in Albuquerque, Mr.  
 12 Daniel, pointing out that the State regulations required the  
 13 dedication of 320 acres to the Dakota well and that it would  
 14 be necessary to communitize this 320 to drill a Dakota test.  
 15 It pointed out that, in the second paragraph, with respect to  
 16 whether the drilling of such a Dakota well is an economic  
 17 endeavor, he considered that to be open to question. It sets  
 18 out some of the production data on the surrounding Dakota  
 19 wells.

20 And on the second page of that letter  
 21 states that it is doubtful that a Dakota well on my lease is  
 22 economically feasible at this time.

23 And it does also point out that if pro-  
 24 ductio from other formations could be obtained and produced  
 25 concurrently from a Dakota well on the subject lease, a con-

SALLY W. BOYD, C.S.R.

RI 1 Box 193-B  
 Santa Fe, New Mexico 87501  
 Phone (505) 435-7409



1 diseration which appears possible from my studies, then the  
2 economics could be more favorable.

3 The third letter is a letter from the GS  
4 allowing an extension of time to study this more thoroughly.

5 The August 5th letter from Mr. Bolack is  
6 a reply to the GS again, and states that the delay in reply to  
7 his letter was occasioned by the need to await the data pre-  
8 sented in Case 6533 held before the New Mexico Oil Conservation  
9 Division on April the 30th, and the subsequent ruling on this  
10 case, which was not issued until May the 22nd. This case  
11 dealt with changes in the Commission's Order R-1670 and R-1670C,  
12 pertaining to spacing regulations for Dakota formation wells  
13 in the San Juan Basin.

14 The letter goes on to state that the  
15 testimony presented at the NMOCC hearing by the most active  
16 operators in the Basin indicated that because of the lithologic  
17 nature of the gas productive Dakota formation in the Basin, a  
18 single well would not efficiently and effectively drain a 320-  
19 acre proration unit.

20 It further says that, on the second page,  
21 in light of this testimony I requested Mr. William R. Speer,  
22 Consulting Geologist, in the San Juan Basin to evaluate the  
23 subject lease to determine if, in his opinion, the lease is  
24 being subjected to drainage. As his attached report will show,  
25 he does not believe that the lease is being drained at all by

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Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 the Texaco No. 1 Barton Well.

2 His study also indicates that a well  
3 drilled on any lease for Dakota production -- on my lease for  
4 Dakota production only would not be an economical venture. I  
5 concur in his opinion.

6 All of that exhibit is correspondence  
7 with the USGS.

8 Q So as of August 5th, 1979, it was the  
9 position of Tom Bolack and yourself as a consultant, that this  
10 well would probably not be an economical venture?

11 A That is correct.

12 Q Okay. Now, referring to what has been  
13 marked as Exhibit Number Four, would you please identify and  
14 explain that exhibit?

15 A Exhibit Four is a letter to Southland  
16 Royalty Company and to Dr. Eugene Mathias, working interest  
17 holders in the south half of Section 1, Township 30 North,  
18 Range 12 West, San Juan County, New Mexico. That letter is  
19 dated April the 21st of this year.

20 Between the last letter that we referred  
21 to in Exhibit Three, which was August the 5th of '79, the letter  
22 to Mr. Daniel, Consolidated Oil and Gas Company drilled a well,  
23 if you will refer to Exhibit Two again, Consolidated drilled  
24 a well in Section 2 of 30 North, 12 West, in the extreme south-  
25 east corner, which is a direct offset to Mr. Bolack's lease.

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Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 This well has -- is in the process of  
2 being completed now, but we did obtain a copy of the log of  
3 that well and it was logged on January the 23rd of 1980, and  
4 the log test indicates that production is possible from both  
5 the Gallup and the Mesaverde sections, as well as the Dakota,  
6 and with this additional information, we consider the prospects  
7 of an economical dual completion of a Dakota test on Mr. Bolack's  
8 property, and the re-assessment allowed me to suggest that a  
9 dual completion would be an economical venture, and it resulted  
10 in the letter that was Exhibit Number Four.

11 The letter states, from Mr. Bolack to  
12 Southland Royalty and Eugene Mathias, that he proposes that  
13 we pool our respective oil and gas leases in the south half of  
14 Section 1, Township 30 North, Range 12 West, San Juan County,  
15 New Mexico, to form a Dakota drilling and proration unit, as  
16 required by State and Federal law, and that we jointly drill a  
17 6880 foot Dakota formation test well in the southwest quarter  
18 southwest quarter of that section.

19 I further propose to act as the operator  
20 for such unit.

21 Further in the letter he says, because  
22 production possibilities also exist under the proposed location  
23 from both the Gallup formation and the Mesaverde formation, I  
24 propose to evaluate these possibilities for a dual completion  
25 of the Dakota with either of these formations, when total depth

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Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 for the proposed well is reached and electric logs are avail-  
2 able. Since the Gallup formation would appear to offer the  
3 greater potentialities and would not require additional legal  
4 agreements, it would be given preferential consideration for  
5 a dual completion.

6 On the second page he stated, should a  
7 dual completion be attempted, the operator then would prorate  
8 the costs of the attempt on the basis of an ABC method of allo-  
9 cation in the manner illustrated by the two enclosed well cost  
10 estimates. Splitting the cost between the common cost, those  
11 attributable solely to the Dakota and those attributable en-  
12 tirely to the Gallup or Mesaverde. Each participant then would  
13 pay only his proportionate share of the cost allocated to his  
14 interest in the well.

15 He stated that while this method of allo-  
16 cating well costs for a dual completion is somewhat more com-  
17 plex than for a single completion, it is necessary for a  
18 drilling block in which lease ownership is varied as to forma-  
19 tional interest. It will also result in a lesser cost for each  
20 participant with respect to his interest in comparison with  
21 those incurred in a single zone completion.

22 Should a dual Dakota-Mesaverde completion  
23 attempt appear warranted, it would be necessary to obtain ad-  
24 ditional communitization and operational agreements before  
25 conducting the attempt.

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Rt. 1 Box 193-B  
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Phone (505) 455-7409

1 I'd like to interject here the reason for  
2 that is that, of course, El Paso Natural Gas Company has a half  
3 interest in the Mesaverde under this particular lease, and of  
4 course, would require communitization of the Mesaverde interests,  
5 as well as a new operating agreement to cover it.

6 Going on in the letter, it says, if you  
7 do own the oil and gas leases, as indicated on the enclosed  
8 proposed communitization agreement, and if you are agreeable  
9 to joining in the drilling of the Dakota test well, as proposed,  
10 and under the terms of the enclosed proposed operating agree-  
11 ment, please have the appropriate person execute the communi-  
12 tization and operating agreements, approve the proposed well  
13 cost estimates by notarized signature, keeping one copy and  
14 returning the balance to me.

15 Accompanying this letter were documents  
16 which we are entering as Exhibits Five, Six, and Seven.

17 Q Before going to these Exhibits Five, Six,  
18 and Seven, if the proposed well is completed in the Gallup  
19 formation, what oil pool would that be in?

20 A That would be in the Gallup Flora Vista  
21 Pool, which is spaced on 160-acre spacing.

22 Q Referring now to Exhibit Number Five,  
23 would you please identify and explain this exhibit?

24 A Exhibit Five is a proposed communitization  
25 agreement covering the subject well, which was sent with the

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 letter dated April the 21st, 1980.

2 It's a standard communitization agreement,  
3 which, if you will look at page three, has been executed by  
4 both Mr. Bolack and the attorney for Southland Royalty Company,  
5 G. B. Babcock. Approval by the Southland people was made on  
6 May the 27th, 1980.

7 Q And does this communitization agreement  
8 cover the Dakota formation on that?

9 A Yes, it does.

10 Q Referring now to Exhibit A of Exhibit  
11 Number Five, the communitization agreement, does this Exhibit  
12 A define the parameters of the oil and gas leases that would  
13 be communitized to this well?

14 A Yes, it does, showing the acreages pre-  
15 viously described.

16 Q And referring now to Exhibit Number Six,  
17 will you please identify and explain this exhibit?

18 A Exhibit Number Six is the operating agree-  
19 ment that also accompanied the April 21st letter. It's a stand-  
20 ard operating agreement, standard in that it very closely  
21 follows AAPL Form 610, 1977 edition, for a model operating  
22 agreement. It describes the acreage as we've previously de-  
23 scribed in the communitization agreement. It has attached a  
24 COPAS 1974 exhibit as Exhibit A, accounting procedures for the  
25 joint operations of this well, which we've called the Tom Bolack



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Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 No. 1 Tommy Bolack Well.

2 Under the Exhibit A we call for overhead  
3 drilling and producing operation on a fixed rate basis. Salaries,  
4 wages, and personal expenses of technical employees and/or the  
5 cost of professional consultant service, contract services,  
6 shall not be covered by the overhead rates, and the fixed rate  
7 basis that we've proposed on it is for drilling well rate of  
8 \$1045 per month, and a producing well rate of \$200 per month.

9 Q Referring to it looks like some additional  
10 language up at the top of this overhead III, there is in paren-  
11 thesis, it says see Section VI, Miscellaneous. Would you  
12 please advise us what that refers to?

13 A Yes. That's shown on page five of that  
14 Exhibit A. It pertains to overhead costs and is in essence a  
15 request for -- to be allowed to adjust these fixed rates on  
16 the basis of an inflationary factor, which would be determined  
17 from time to time.

18 Q Has this operating agreement been exe-  
19 cuted by any of the working interest owners?

20 A It has been executed by Southland Royalty  
21 Company.

22 Q Referring now to Exhibit Number Seven,  
23 would you please identify and explain this exhibit?

24 A Exhibit Number Seven is a well cost esti-  
25 mate, or AFE, for the Tom Bolack No. 1 Tommy Bolack Dakota

1 Well, a copy of which accompanied the April 21st letter to  
2 working interest owners within the south half of Section 1.  
3 It -- the Exhibit Seven is for the Gallup-Dakota, possible  
4 Gallup-Dakota dual completion well, and it shows the method in  
5 which the costs would be prorated between the Gallup and Dakota  
6 interests, should that completion be made.

7 The same well cost estimate can be utilized,  
8 and is utilized in the event that a Dakota only production is  
9 obtained from the well. Without going through it in detail,  
10 and I'll be glad to answer questions about it, the totals and  
11 all, I think we should look down at the bottom and see that  
12 the estimated costs for a Gallup-Dakota dual completion is  
13 \$503,140. That's the first column total.

14 The second column shows common costs to  
15 both the Gallup and the Dakota, and below the total, which was  
16 \$292,300 for common costs, has been added the Dakota costs,  
17 that are column C, to give a \$426,805 for a Dakota only com-  
18 pletion.

19 Now the costs, of course, prorated to the  
20 different interests, in this case for a dual completion in the  
21 Gallup, we would have, referring directly to Dr. Mathias' 40-  
22 acre 12-1/2 percent interest, in the Dakota only, his costs  
23 on the basis of these totals would be for Dakota production,  
24 \$53,350, and because Dr. Mathias would not have an interest in  
25 Gallup production were it obtained, his interests with respect

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Rt. 1 Box 193-R  
Santa Fe, New Mexico 87501  
Phone (505) 453-7409

1 to a dual well, the cost to him for such a dual completion  
2 would be \$35,082.

3 Q Has this AFE, or well cost estimate, been  
4 executed by any of the working interest owners?

5 A Yes, the copy that has been made for Ex-  
6 hibit Seven has been executed by Mr. Van Ryan of Southland  
7 Royalty, and indicates their approval of this AFE for the  
8 Tommy Bolack No. 1.

9 Q Who prepared this well cost estimate?

10 A I did.

11 MR. NUTTER: Now Southland would not share  
12 in the Gallup either, would they?

13 A No, they would not.

14 MR. NUTTER: And they agreed to this divi-  
15 sion of costs for Gallup and Dakota?

16 A Yes, they did. I assume in part because  
17 it would result in a cheaper cost to them in the Dakota well,  
18 should it be dual completed.

19 Q Referring now to Exhibit Number Eight,  
20 would you please identify and explain this exhibit?

21 A Exhibit Eight is a series of letters, of  
22 correspondence between Mr. Tom Bolack and Dr. E. P. Mathias of  
23 Los Angeles, pertaining to his interest in the proposed well.

24 The initial letter is dated May the 30th,  
25 1980, and this was subsequent to the original letter of April

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Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 th 21st, sent Dr. Mathias with the operating -- proposed oper-  
2 ating agreement, unitization agreement, and AFE.

3 Summarizing some of the points in the ini-  
4 tial letter here, dated May the 30th, Mr. Bolack says, I have  
5 since received a favorable response from Southland Royalty but  
6 have not heard from you to date. Would you please respond?  
7 And notes that the scarcity of available drilling rigs and  
8 slowdown in governmental clearances, and that it is his inten-  
9 tion to drill this well at least by the fall, and certainly  
10 during 1980, and he urgently requests that Dr. Mathias inform  
11 him as to whether or not he is going to elect to join the pro-  
12 posed well,

13 Mr. Bolack received a reply from Dr. Mathias  
14 on June the 13th, which the last line says, I am willing to  
15 consider a reasonable buy offer for the total 80 acres. The  
16 80 acres refers to the fact that Dr. Mathias has an additional  
17 40 acres adjoining his 40 in the south half of Section 1, that  
18 lies in the north half. It consists of the northeast of the --  
19 I mean the southeast of the northeast quarter of Section 1.  
20 And that 40, incidentally, is dedicated to a Dakota test drilled  
21 by Amoco in the north half of Section 1.

22 The third letter is a letter from Mr.  
23 Bolack to Dr. Mathias, dated June the 17th, a reply to his  
24 letter, to Dr. Mathias' letter. He states that, my preference  
25 is still that you join in the drilling of the proposed well;

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Phone (505) 455-7409

1 that I am reluctant to make an offer for your acreage primarily  
2 because it is burdened with what I think an excessive over-  
3 riding royalty, if the information that I have is correct that  
4 there is 30 percent in outstanding royalties against the lease.  
5 In the interests of, however in the interest possibly of  
6 speeding the drilling the well, I'm willing to make an offer  
7 to purchase your acreage, and further that I would need to know  
8 all of the commitments attached to the northern 40 acres; fur-  
9 ther that this offer would be conditioned upon your providing  
10 me with complete documentation of your ownership and the terms  
11 and provisions of your obligations. I'm sure that you're  
12 aware that the State of New Mexico has forced pooling provisions  
13 in its regulations.

14 He says that because there has been a con-  
15 siderable time since I made my original drilling proposal to  
16 you without response on your part, and because our other part-  
17 ner, Southland Royalty Company, has executed the required agree-  
18 ments, I earnestly request that you give prompt consideration,  
19 first, to joining us in the drilling of the well by executing  
20 the agreements previously sent to you, or failing that, to in-  
21 form me soon if my offer to purchase your interest is acceptable.

22 He says further, that if I do not hear  
23 from you before the first of this coming month, it would be  
24 necessary for me to ask for a hearing before the Oil and Gas  
25 Conservation Division to request that your acreage in the

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1 south half of Section 1 be force pooled to the proposed Dakota  
2 test.

3 The next letter, dated June 19th, from  
4 Dr. Mathias to Mr. Bolack, says in part, my offer to you to  
5 purchase the necessary acreage for your communitization should  
6 have indicated a reluctance on my part to become financially  
7 involved in any more drilling.

8 At the bottom is says, please send docu-  
9 mentation or references so that we may read this ruling in  
10 its entirety, ruling referring to the compulsory pooling rulings.

11 Mr. Bolack's June the 24th reply to Dr.  
12 Mathias starts out, in response to your request for documenta-  
13 tion of the State of New Mexico regulations of compulsory  
14 pooling, I'm enclosing, first, a copy of the act pertaining  
15 to statutory unitization; secondly, a copy of the draft form  
16 showing the type of information considered by the Oil Conser-  
17 vation Division in a compulsory pooling hearing; and thirdly,  
18 a copy of a recent docket for the OCD, showing four cases in-  
19 volving compulsory or forced pooling requests by various oper-  
20 ators.

21 The second paragraph, he says, I'm still  
22 hopeful that you will give serious consideration to joining  
23 Southland Royalty and me in the drilling of this proposed well.

24 Further on in the body of the letter,  
25 last line, he says, you did not indicate in your letter

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1 if my assumptions about your interest are correct.

2 And in the final paragraph, he states,  
3 I'm willing to increase my previous offer for your acreage by  
4 an additional \$1000 if you still will not contemplate joining  
5 in the well. This offer is again contingent upon your providing  
6 documentation to verify my assumptions as to your ownership ob-  
7 ligations on the 80 acres. Further, again, a quick decision  
8 on your part is necessary, as I am obliged to proceed with the  
9 request for compulsory pooling hearing very soon, due to the  
10 time constraints.

11 There was -- there had been no reply up  
12 to July the 10th, when the application for compulsory pooling  
13 was made, that is Exhibit Number One, and on July the 25th Mr.  
14 Bolack asked me to contact Dr. Mathias by phone to inform him  
15 that our hearing had been scheduled for August the 6th, and  
16 further to explain to him, as well as I could, about compulsory  
17 pooling, about the geology, about the economics of the drilling  
18 of this well, and to see again if we could persuade him to  
19 either join or to sell his lease.

20 On July the 26th, from my personal diary  
21 notes, I made the call to Dr. Mathias in Los Angeles, talked  
22 to him at some length, told him that I represented Mr. Bolack  
23 and wanted to explain some of the facts as we saw them with  
24 respect to the well, and I did inform him at that time that  
25 our hearing was set for August the 6th.

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Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 We went through a rather lengthy discus-  
2 sion of all of the things. I don't believe in my own mind  
3 that Dr. Mathias is too knowledgeable to the oil and gas busi-  
4 ness, so we tried to -- to make as clear and objective a pre-  
5 sentation as we could of what the economics of this well and  
6 the production possibilities were.

7 During that conversation he reiterated  
8 that he would prefer to sell the lease. I discussed with him  
9 whether or not he knew exactly what his interests were, and  
10 he stated that he did not; that he would advise me to check  
11 with his attorneys, gave me the name of his attorneys there  
12 in Los Angeles, and that he would like to have me go over this  
13 same discussion with his lawyers, in particular a Mr. David  
14 Reeve (sic), who was knowledgeable in the oil and gas business,  
15 and then his lawyers could contact him for discussion of this.

16 Later, from my personal diary, on July  
17 the 30th I did call Mr. David Reeve (sic) with the law firm  
18 of Rosen, Wattell, and Gilbert (sic) in Los Angeles, about Dr.  
19 Mathias' acreage. I thoroughly reviewed all the correspondence  
20 that we've discussed here as Exhibit Number Eight, and deter-  
21 mined from my conversation of some length with him, that they  
22 did not either have the ownership with respect -- they could  
23 not verify that his net revenue interest was 70 percent in the  
24 two leases, or in the 80 acres.

25 In the interim I had checked the county,

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1 or I had had the county records checked, and was satisfied in  
2 my own mind that there are 30 percent in royalty interest out  
3 against these leases; that he has a 70 percent net revenue  
4 interest in both of these 40's.

5 I told Mr. Woo (sic) in my conversation  
6 that the price offer by Mr. Bolack for the purchase of these  
7 was a fair price in my estimation. In fact, we -- we furthered  
8 the offer by agreeing to accept some of the costs that were  
9 against the Amoco well to the north that were outstanding  
10 costs that Dr. Mathias had acquired in the 40 acres in the  
11 north half of the section, as an additional incentive to have  
12 him sell. We stated at that time to him that we would have  
13 to have an answer to this offer before the August the 6th  
14 hearing and I was told by Mr. Woo (sic) that he would be getting  
15 back in touch with me before next week prior to this hearing.

16 To date I have not had any correspondence  
17 or phone conversations with either Mr. Woo (sic) or Dr. Mathias.

18 Q In your opinion did Tom Bolack and your-  
19 self use reasonable efforts to try to come to a mutually ac-  
20 ceptable agreement, whether for joining in the well or for  
21 purchasing Dr. Mathias' interest?

22 A I think we did.

23 Q Referring now to Exhibit Number Nine,  
24 would you please identify and explain this exhibit?

25 A Exhibit Nine is an exhibit that I prepared

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Phone (505) 455-7409

1 recently, primarily to help the Examiner and the Commission to  
2 evaluate our request for a 200 percent risk factor for the  
3 operator in assuming Dr. Mathias' costs of drilling and com-  
4 pleting and equipping this proposed well.

5 I'd direct your attention to, first, to  
6 the last page of this exhibit, if you will, which is a Dakota  
7 oil and gas production history tabulation of selected wells  
8 that are adjacent to Mr. Bolack's lease in the Section 1, and  
9 if you'll look at that in conjunction with Exhibit Two, if I  
10 can but find Exhibit Two, here we go, the Flora Vista map,  
11 you'll see that the wells listed on that production history  
12 chart are wells surrounding the proposed location for the No.  
13 1 Tommy Bolack well.

14 The first being the Texaco No. 1 Barton  
15 Well, which is the offset well to the south of the proposed  
16 location. Again I would refer you to the legend on the map,  
17 indicating that the highlighted in yellow are the Dakota pro-  
18 duction figures current on the map, and they should correspond  
19 with the production history chart, and if you look carefully,  
20 you'll see that they do not exactly correspond. The reason  
21 for this is that the production data that I put on the map,  
22 Exhibit Two, were obtained from El Paso Natural Gas Company's  
23 production records available to me. The production information  
24 on the production history chart, Exhibit Nine, were obtained  
25 from the OCD records as I had them to date. With the exception --

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 no, not with exception. The last -- this production history  
2 carries through to June of this year. In other words, it shows  
3 the first half of this year production, so that these production  
4 figures are very current, but there is a slight discrepancy  
5 and I think that the discrepancy -- I say I think, because it  
6 now occurs to me that the production figures I see here do in-  
7 clude the first half of '80 and on my map I show only through  
8 1979 cumulative figures.

9 There is a slight difference but I believe  
10 it's a minor difference.

11 Also included on the production history  
12 is the Amoco Scott Well, which is to the north of our -- in  
13 the north half of Section 1. You'll note I show the Southland  
14 Royalty No. 1 Zachary Well, which is -- is immediately to the  
15 northwest of our proposed location, and I'll note at this time  
16 that that well, a completion attempt was made in the Dakota  
17 and it was abandoned after some 11-million cubic feet of pro-  
18 duction. So we do have a well that was abandoned immediately  
19 offsetting, or diagonally offsetting the proposed location.

20 Consolidated No. 1 Clayton Well is in  
21 Section 2 in the southwest quarter. The Beta Well is included.  
22 It's up in Section 36 of 31, 12. It was included primarily  
23 because it was cited in the USGS letter to Mr. Bolack as a  
24 possible draining well, so it was included, the data on it,  
25 also, in this chart.

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Phone (505) 455-7409

1 Now back to the -- well, I'd like to take  
2 a moment to point out that the production from all of the  
3 Dakota surrounding wells, and there are four immediate ones,  
4 the maximum production to date from the Dakota, the best pro-  
5 duction to date is from the Consolidated Well in the southwest  
6 of Section 2, which has a cumulative gas production of 346.7-  
7 million cubic feet, and that well has been producing, is one  
8 of the longer producing wells, if not the longest, in the area,  
9 from the Dakota has been producing since 1962. So each of  
10 these wells has a productive history that should allow a fair  
11 estimation of what their capabilities are. As you can see,  
12 the number of years they've been producing is listed at the  
13 bottom of each column.

14 I think from our correspondence and dis-  
15 cussion, it's obvious that we consider the Dakota as a marginal  
16 economical venture in there, and it's only that we have the  
17 potentiality of a dual completion in there that would appear  
18 to -- to us to offer the best economical considerations, and  
19 as I said, the Gallup is the primary concern. If you look at  
20 the production from the Consolidated Well on Exhibit Number  
21 Two from the Gallup formation, you'll see that that well has  
22 produced in excess of 2-billion cubic feet of gas from the  
23 Gallup, so it's a substantial reservoir here.

24 Now, with the Consolidated 1-E Well having  
25 been drilled in the southeast of Section 2, and looking at the

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1 log and seeing the fact that the Gallup is represented on that  
2 log, we're of the mind that we have a reasonable opportunity  
3 for a dual completion, but of course our consideration in this  
4 hearing is for a Dakota well only, and looking back at the  
5 first page of Exhibit Nine, we've attempted to do some eval-  
6 uation of the economics involved with Dr. Mathias' interest  
7 in here.

8 We've assumed from our area fee that Dr.  
9 Mathias' portion of a Dakota well cost only would be \$53,350.  
10 We further assume that from Dakota gas production only in the  
11 proposed location, that we could expect a net price for Dr.  
12 Mathias' interests of something on the order of \$1.59 per Mcf,  
13 and we arrived at that figure by taking the July, 1980 NGPA  
14 Section 103 price of \$2.25-1/2 per million BTU. We've as-  
15 sumed a BTU adjustment of 11,000 BTU in the area, by looking  
16 at several of the wells, and we've made a pressure base ad-  
17 justment of 15,025. We've assumed taxes at the rate of 7 per-  
18 cent, and we've assumed his royalty to be 30 percent, to arrive  
19 at that net price of \$1.59.4 per Mcf.

20 Now, we equate that back in B, 1-B, to  
21 what it might take in gas to recover that \$53,350 cost to Dr.  
22 Mathias at those -- at that net price, and we infer that the  
23 production from the well would require roughly 267-million  
24 before we would have a return of that money, and we look back  
25 at the chart on the last page of this exhibit to arrive at

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1 these figures, that in order to produce 267-million from the  
2 Texaco Barton Well it took, I'll say approximately 18 plus  
3 years because the Barton Well has not yet produced 260-million  
4 cubic feet.

5 The Amoco Well took approximately 11 years  
6 to produce 267; the Consol, 11.7 years; the Beta Well, 15+  
7 years.

8 Now if we assume an 11-year recovery of  
9 that 267-million cubic feet, which is the best of the four  
10 wells we referred to, and we make some assumptions about the  
11 cost of the money, of 12 percent interest rate, which is the  
12 current prime rate plus one percent, assume it is compounded  
13 semi-annually, then that cost of \$53,350 has an undeferred  
14 value of \$181,367. That's from a present worth factor of .233,  
15 and then -- and thus the compound factor is 4.29, or in essence,  
16 4.29, I beg your pardon, which is essentially 429 percent of  
17 that Mathias well cost.

18 Further, if we under E, add a 9 percent  
19 per year inflation rate to those 11-year recovery results, we  
20 end up with a compound amount factor of almost 9 to 1.

21 Now that all pertains to the Dakota well  
22 and assumes only Dakota production. We've looked in II at  
23 the possibilities under a Dakota-Gallup dual completion for  
24 Dr. Mathias' interests. His portion of the cost for such a  
25 well would be \$35,082. We've used the same assumptions with

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1 a net gas price and to recover the \$35,082 it would require  
2 approximately 176-million production from the well. Again we  
3 made a comparison of the four surrounding wells and -- as to  
4 number of years to took to produce 176-million, and we get  
5 in the Texaco Well, 13.3 years; from the Amoco, 5.6; in the  
6 Consolidated, 5.8; from the Beta, 14.7.

7 Again in this case we've assumed that  
8 10-year recovery, which is an average of those four wells, and  
9 we come up with a compound amount factor of 3.4.

10 Then we assumed a 5.6-year recovery, which  
11 is the best indicated by any of the wells around there, and we  
12 do get a compound amount factor of 1.81.

13 Now if you take that best possible re-  
14 covery and add on a 9 percent per year inflation rate, we get  
15 a compound amount factor of 3.06.

16 All of this, of course, is designed, this  
17 analysis, is to point out that the recovery of the monies Dr.  
18 attributable to Dr. Mathias' interest should justify the 200  
19 percent risk factor that has been requested by Mr. Bolack.

20 Q Would it be fair then to state that based  
21 upon this economic evaluation, as well as the surrounding  
22 Dakota production, or lack of Dakota production, that you are  
23 requesting a risk factor of 200 percent in this hearing?

24 A Yes, it is,

25 Q Were these exhibits prepared under your

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1 supervision and control?

2 A Yes, they were.

3 MR. TULLY: At this time I would move  
4 for the introduction of the Exhibits One through Nine into  
5 evidence.

6 MR. NUTTER: Exhibits One through Nine  
7 will be admitted in evidence.

8 Q In your professional opinion, will the  
9 approval of this forced pooling application result in the  
10 recovery of additional hydrocarbons; it will not commit waste;  
11 it will not impair correlative rights; and it will avoid the  
12 drilling of unnecessary wells?

13 A That is correct.

14 Q Do you feel, in your professional opinion,  
15 that the terms and conditions that you have proposed in the  
16 operating agreement are just and reasonable?

17 A Yes, I do.

18 MR. TULLY: I have no further questions.

19  
20 CROSS EXAMINATION

21 BY MR. NUTTER:

22 Q Mr. Speer, Exhibit Nine shows that the  
23 payout picture is bleak for the Mathias interest here, whether  
24 it's a dual completion or a single completion, I think, and  
25 for that reason you say that Bolack is justified in asking

SALLY W. BOYD, C.S.R.

RT 1 Box 193-B  
Santa Fe, New Mexico 87501  
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1 200 percent.

2 A. We're making the assumption that a com-  
3 pusory pooling would be justified and indicating that 200 per-  
4 cent should be a fair factor, yes.

5 Q. But actually, before Mathias would ever  
6 come in for a penny, he would have to pay far more than this  
7 \$53,000. He'd have to pay \$106,000 on top of the \$53,000,  
8 wouldn't he?

9 A. \$6000 from what?  
10 Q. \$6000? Now the 200 percent penalty --

11 A. Oh, I see.  
12 Q. -- his cost for a single completion is  
13 \$53,000. You're asking for 200 percent, so his share would  
14 be \$53,000 plus \$106,000 penalty, or he'd have to pay \$159,000.  
15 The payout for him is even bleaker than it is for Bolack, isn't  
16 it?

17 A. Yes, it is.  
18 Q. What do you think Mathias' best out is,  
19 sell the lease to Bolack?

20 A. Oh, well, I wouldn't speculate as to what  
21 his out is on it. It's obvious that you're probably correct,  
22 it's selling the lease, or selling it to anyone, possibly.

23 His problem, if I may make an observation,  
24 is of course that his interests, he's got a terrible overriding  
25 royalty interest attached to this, and he apparently, from his

SALLY W. BOYD, C.S.R.  
Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 conversation with me, paid an exorbitant price for the acreage  
2 originally.

3 Q I think in one of his notes there he  
4 stated that he had paid \$12,000 for the lease originally.

5 A \$12,500 for 40 acres, right, which is  
6 what, \$150 an acre, or something on that order.

7 I think it's obvious in my own mind that  
8 he paid too high a price for this originally, and then of  
9 course, he allowed too much royalties out, but as we pointed  
10 out to him, I felt like the offer made by Mr. Bolack was in  
11 line with what the current prices are. Apparently his -- he  
12 would like to get his money back from the thing, and --

13 A He never has stated what he wanted for  
14 the lease, has he?

15 A No.

16 Q I didn't see it anywhere in this corres-  
17 pondence.

18 A No, he has never given any indication.

19 Q He said that he had paid \$12,000 but he  
20 declined an offer of \$2000 for the 40 or \$3000 for the 80, and  
21 then Bolack upped it to \$4000 for the 80, didn't he?

22 A Yes, I believe that's what it is in the  
23 body of these letters here, and then as a final offer that I  
24 made on the phone, when we found out that -- and Dr. Mathias  
25 in conversation, he said that he owed something in excess of

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Phone (505) 455-7409



1 \$2000 to Amoco on the Dakota well to the north, I counseled  
2 Mr. Bolack, and he said we would accept his obligations on  
3 that. So in essence he's offered him \$6000 for 80 acres, which  
4 is \$75 an acre.

5 Q But if it takes, in the case of the  
6 Texaco Well, it took 18 years to produce the amount of gas  
7 that would pay off \$53,000. It will take three times 18 years,  
8 or 54 years, for him to pay off his share of the well plus the  
9 100 percent penalty.

10 A I would think your analysis is correct.

11 Q How old is Dr. Mathias?

12 A I don't have any idea. I've only talked  
13 to him on the phone.

14 Obviously, this whole thing wouldn't fly  
15 for the Dakota lone for anybody.

16 Q Right.

17 A In my estimation. It hangs on being able  
18 to be dually produced.

19 Q Okay, now up at the top of your Exhibit  
20 Nine, point IV there under A, where you say royalties at 30  
21 percent.

22 A Yes.

23 Q Where you say 0.759, that's dollars, isn't  
24 it?

25 A No, that's cents per Mcf.

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Rt. 1 Box 193-B  
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Phone (505) 455-7409

1 Q  
2 75.9 cents.

Yeah, but it would be .759 dollars, or

3 A.

Yeah, right.

4 Q

Yeah, it didn't have a dollar sign there.

5 A.

I'm sorry, I didn't notice that.

6 Q

And it's not percent. It's --

7 A.

It's dollars.

8 Q

It's a dollar, which is subtracted from  
9 the value of the gas to come up with the net value of \$1.59.

10 A.

Correct. Taxes and royalties have been  
11 added together and subtracted from the previous figure of 2.53  
12 dollars per Mcf. That doesn't have a dollar sign on it, either.

13 Q

Okay.

14 MR. NUTTER: Are there any further ques-  
15 tions of Mr. Speer? He may be excused.

16 Do you have anything further, Mr. Tully?

17 MR. TULLY: No, sir, thank you.

18 MR. NUTTER: We'll take Case Number 6993.

19 under advisement.

20  
21  
22 (Hearing concluded.)  
23  
24  
25

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that  
the foregoing Transcript of Hearing before the Oil Conserva-  
tion 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.

Sally W. Boyd C.S.R.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

I do hereby certify that the foregoing is  
a complete and true transcript of the proceedings in  
the Examiner hearing of Case No. 6993  
heard by me on 8/6 1980.

[Signature] Examiner  
Oil Conservation Division

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION  
STATE LAND OFFICE BLDG.  
SANTA FE, NEW MEXICO  
6 August 1980

EXAMINER HEARING

IN THE MATTER OF:

Application of Tom Bolack for com-  
pulsory pooling, San Juan County,  
New Mexico.

CASE  
6993

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

Ernest L. Padilla, Esq.  
Legal Counsel to the Division  
State Land Office Bldg.  
Santa Fe, New Mexico 87501

For the Applicant:

Richard Tully, Esq.  
811 W. Apache  
Farmington, New Mexico 87401

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

I N D E X

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WILLIAM R. SPEER

Direct Examination by Mr. Tully

Cross Examination by Mr. Nutter

3

29

E X H I B I T S

Applicant Exhibit One, Application

Applicant Exhibit Two, Map

Applicant Exhibit Three, Letters

Applicant Exhibit Four, Letter

Applicant Exhibit Five, Document

Applicant Exhibit Six, Document

Applicant Exhibit Seven, Document

Applicant Exhibit Eight, Correspondence

Applicant Exhibit Nine, Document

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1 MR. NUTTER: We'll call next Case Number  
2 6993.

3 MR. PADILLA: Application of Tom Bolack  
4 for compulsory pooling, San Juan County, New Mexico.

5 MR. TULLY: I'm Richard Tully, Farmington,  
6 New Mexico, representing Tom Bolack.

7 I have one witness to be sworn, Mr.  
8 William R. Speer.

9  
10 (Witness sworn.)

11  
12 WILLIAM R. SPEER  
13 being called as a witness and having been duly sworn upon his  
14 oath, testified as follows, to-wit:

15  
16 DIRECT EXAMINATION

17 BY MR. TULLY:

18 Q Would you please state your name, address,  
19 and occupation?

20 A My name is William R. Speer. I'm a con-  
21 sulting geologist from Farmington, New Mexico, 401 Petroleum  
22 Plaza Bldg.

23 Q And in what capacity are you appearing  
24 here today?

25 A As a representative and consultant for

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Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409



1 Mr. Tom Bolack.

2 Q Have you previously testified before the  
3 New Mexico Oil Conservation Division?

4 A Yes, I have.

5 MR. TULLY: Mr. Nutter, are Mr. Speer's  
6 qualifications acceptable to testify as an expert witness?

7 MR. NUTTER: Yes, they are.

8 Q Referring now to Exhibit Number One, which  
9 I believe you have in front of you, would you please identify  
10 and briefly explain this exhibit?

11 A Exhibit Number One is our application  
12 for compulsory pooling submitted on behalf of Mr. Bolack, for  
13 a proposed Dakota well to be located in the south half of  
14 Section 1, Township 30 North, Range 12 West, San Juan County,  
15 New Mexico.

16 The application proposes to dedicate the  
17 south half of that section for a Dakota test well within the  
18 field area. The applicant, Mr. Bolack, is a 50 percent working  
19 interest owner in that south half of Section 1. We have  
20 sought the agreement of other interest holders in that south  
21 half drilling unit and have not received the approval of Dr.  
22 Eugene Mathias, who owns a 12-1/2 percent working interest  
23 in the Dakota drilling unit.

24 We have made application to pool this  
25 interest as a compulsory pooling order from the Commission.

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Phone (505) 455-7409

1 Q Does this application indicate that Dr.  
2 Mathias was sent the application by certified mail, return re-  
3 ceipt requested?

4 A Yes, it does. On the copy submitted we  
5 have shown the copies of our receipt for receipt of our copy  
6 sent to Dr. Mathias.

7 Q Referring now to Exhibit Number Two,  
8 would you please identify and explain this exhibit?

9 A Yes. Exhibit Two is a map of the area  
10 involved in our application, termed the Flora Vista Area. It  
11 shows portions of Township 31 North and 30 North, Ranges 11  
12 and 12 West, in San Juan County, New Mexico.

13  
14 Centered on the map is the drilling unit  
15 outlined in red, the south half of Section 1 of 30 North, 12  
16 West. It shows the southwest quarter to be leased to Mr.  
17 Bolack, 280 acres in the southeast to be leased by Southland  
18 Royalty Company --

19 MR. NUTTER: Not 280 acres.

20 A No, it would be --

21 MR. NUTTER: 120 acres.

22 A -- 120 acres. And 40 acres to Dr.  
23 Mathias, also in the southeast quarter.

24 I've highlighted the data shown on each  
25 well, indicates production data from those wells. This area  
is an old developed area with production coming from at least

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1 four different, five different, productive zones. Our concern  
2 is with the Dakota formation, the production from each of the  
3 wells surrounding this drilling unit from the Dakota formation  
4 have been highlighted in yellow for your better view.

5 The legend shows the production data to  
6 indicate the producing formation, the 1979 production, both of  
7 gas and oil, the date of the first production from the wells  
8 by month and year, the cumulative gas production and cumulative  
9 oil production.

10 Q Is it the intent of this application to  
11 have Tom Bolack designated as the operator of this well and  
12 also that the proposed well be drilled on his lease?

13 A Yes it is.

14 Q Referring now to what has been marked as  
15 Exhibit Number Three, would you please identify and explain  
16 this exhibit?

17 A Exhibit Three is a series of letters, cor-  
18 respondence between the U. S. Department of Interior, Geologi-  
19 cal Survey's Albuquerque office, with both El Paso Natural  
20 Gas Company and Mr. Bolack, pertaining to a request of the  
21 USGS that the lease of Mr. Bolack's NMO-2707, appears to be  
22 subject to drainage in their estimation, and they request that  
23 information regarding plans to protect the Federal acreage  
24 from drainage.

25 The first letter in the sequence on Ex7

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 435-7409

hibit Three, was sent to El Paso Natural Gas Company, mistakenly. The owner of record, Mr. Bolack, has the rights below the Mesaverde on this particular lease. El Paso Natural Gas Company has a half interest in all rights above the Mesaverde.

So Mr. John Ahlm, landman for El Paso Natural Gas Company, in the second letter advised the USGS of this situation and forwarded a copy of the letter to Mr. Bolack for answer.

The third letter, dated March 13th, is a reply from Mr. Bolack to the USGS office in Albuquerque, Mr. Daniel, pointing out that the State regulations required the dedication of 320 acres to the Dakota well and that it would be necessary to communitize this 320 to drill a Dakota test. It pointed out that, in the second paragraph, with respect to whether the drilling of such a Dakota well is an economic endeavor, he considered that to be open to question. It sets out some of the production data on the surrounding Dakota wells.

And on the second page of that letter states that it is doubtful that a Dakota well on my lease is economically feasible at this time.

And it does also point out that if production from other formations could be obtained and produced concurrently from a Dakota well on the subject lease, a con-

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

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Page 8

1 diseration which appears possible from my studies, then the  
2 economics could be more favorable.

3 The third letter is a letter from the GS  
4 allowing an extension of time to study this more thoroughly.

5 The August 5th letter from Mr. Bolack is  
6 a reply to the GS again, and states that the delay in reply to  
7 his letter was occasioned by the need to await the data pre-  
8 sented in Case 6533 held before the New Mexico Oil Conservation  
9 Division on April the 30th, and the subsequent ruling on this  
10 case, which was not issued until May the 22nd. This case  
11 dealt with changes in the Commission's Order R-1670 and R-1670C,  
12 pertaining to spacing regulations for Dakota formation wells  
13 in the San Juan Basin.

14 The letter goes on to state that the  
15 testimony presented at the NMOCC hearing by the most active  
16 operators in the Basin indicated that because of the lithologic  
17 nature of the gas productive Dakota formation in the Basin, a  
18 single well would not efficiently and effectively drain a 320-  
19 acre proration unit.

20 It further says that, on the second page,  
21 in light of this testimony I requested Mr. William R. Speer,  
22 Consulting Geologist, in the San Juan Basin to evaluate the  
23 subject lease to determine if, in his opinion, the lease is  
24 being subjected to drainage. As his attached report will show,  
25 he does not believe that the lease is being drained at all by

1 the Texaco No. 1 Barton Well.

2 His study also indicates that a well  
3 drilled on any lease for Dakota production -- on my lease for  
4 Dakota production only would not be an economical venture. I  
5 concur in his opinion.

6 All of that exhibit is correspondence  
7 with the USGS.

8 Q So as of August 5th, 1979, it was the  
9 position of Tom Bolack and yourself as a consultant, that this  
10 well would probably not be an economical venture?

11 A That is correct.

12 Q Okay. Now, referring to what has been  
13 marked as Exhibit Number Four, would you please identify and  
14 explain that exhibit?

15 A Exhibit Four is a letter to Southland  
16 Royalty Company and to Dr. Eugene Mathias, working interest  
17 holders in the south half of Section 1, Township 30 North,  
18 Range 12 West, San Juan County, New Mexico. That letter is  
19 dated April the 21st of this year.

20 Between the last letter that we referred  
21 to in Exhibit Three, which was August the 5th of '79, the letter  
22 to Mr. Daniel, Consolidated Oil and Gas Company drilled a well,  
23 if you will refer to Exhibit Two again, Consolidated drilled  
24 a well in Section 2 of 30 North, 12 West, in the extreme south-  
25 east corner, which is a direct offset to Mr. Bolack's lease.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409



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Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 This well has -- is in the process of  
2 being completed now, but we did obtain a copy of the log of  
3 that well and it was logged on January the 23rd of 1980, and  
4 the log test indicates that production is possible from both  
5 the Gallup and the Mesaverde sections, as well as the Dakota,  
6 and with this additional information, we consider the prospects  
7 of an economical dual completion of a Dakota test on Mr. Bolack's  
8 property, and the re-assessment allowed me to suggest that a  
9 dual completion would be an economical venture, and it resulted  
10 in the letter that was Exhibit Number Four.

11 The letter states, from Mr. Bolack to  
12 Southland Royalty and Eugene Mathias, that he proposes that  
13 we pool our respective oil and gas leases in the south half of  
14 Section 1, Township 30 North, Range 12 West, San Juan County,  
15 New Mexico, to form a Dakota drilling and production unit, as  
16 required by State and Federal law, and that we jointly drill a  
17 6880 foot Dakota formation test well in the southwest quarter  
18 southwest quarter of that section.

19 I further propose to act as the operator  
20 for such unit.

21 Further in the letter he says, because  
22 production possibilities also exist under the proposed location  
23 from both the Gallup formation and the Mesaverde formation, I  
24 propose to evaluate these possibilities for a dual completion  
25 of the Dakota with either of these formations, when total depth

1 for the proposed well is reached and electric logs are avail-  
2 able. Since the Gallup formation would appear to offer the  
3 greater potentialities and would not require additional legal  
4 agreements, it would be given preferential consideration for  
5 a dual completion.

6 On the second page he stated, should a  
7 dual completion be attempted, the operator then would prorate  
8 the costs of the attempt on the basis of an ABC method of allo-  
9 cation in the manner illustrated by the two enclosed well cost  
10 estimates. Splitting the cost between the common cost, those  
11 attributable solely to the Dakota and those attributable en-  
12 tirely to the Gallup or Mesaverde. Each participant then would  
13 pay only his proportionate share of the cost allocated to his  
14 interest in the well.

15 He stated that while this method of allo-  
16 cating well costs for a dual completion is somewhat more com-  
17 plex than for a single completion, it is necessary for a  
18 drilling block in which lease ownership is varied as to forma-  
19 tional interest. It will also result in a lesser cost for each  
20 participant with respect to his interest in comparison with  
21 those incurred in a single zone completion.

22 Should a dual Dakota-Mesaverde completion  
23 attempt appear warranted, it would be necessary to obtain ad-  
24 ditional communitization and operational agreements before  
25 conducting the attempt.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 I'd like to interject here the reason for  
2 that is that, of course, El Paso Natural Gas Company has a half  
3 interest in the Mesaverde under this particular lease, and of  
4 course, would require communitization of the Mesaverde interests,  
5 as well as a new operating agreement to cover it.

6 Going on in the letter, it says, if you  
7 do own the oil and gas leases, as indicated on the enclosed  
8 proposed communitization agreement, and if you are agreeable  
9 to joining in the drilling of the Dakota test well, as proposed,  
10 and under the terms of the enclosed proposed operating agree-  
11 ment, please have the appropriate person execute the communi-  
12 tization and operating agreements, approve the proposed well  
13 cost estimates by notarized signature, keeping one copy and  
14 returning the balance to me.

15 Accompanying this letter were documents  
16 which we are entering as Exhibits Five, Six, and Seven.

17 Q Before going to these Exhibits Five, Six,  
18 and Seven, if the proposed well is completed in the Gallup  
19 formation, what oil pool would that be in?

20 A That would be in the Gallup Flora Vista  
21 Pool, which is spaced on 160-acre spacing.

22 Q Referring now to Exhibit Number Five,  
23 would you please identify and explain this exhibit?

24 A Exhibit Five is a proposed communitization  
25 agreement covering the subject well, which was sent with the

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

RL 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 letter dated April the 21st, 1980.

2 It's a standard communitization agreement,  
3 which, if you will look at page three, has been executed by  
4 both Mr. Bolack and the attorney for Southland Royalty Company,  
5 G. B. Babcock. Approval by the Southland people was made on  
6 May the 27th, 1980.

7 Q And does this communitization agreement  
8 cover the Dakota formation on that?

9 A Yes, it does.

10 Q Referring now to Exhibit A of Exhibit  
11 Number Five, the communitization agreement, does this Exhibit  
12 A define the parameters of the oil and gas leases that would  
13 be communitized to this well?

14 A Yes, it does, showing the acreages pre-  
15 viously described.

16 Q And referring now to Exhibit Number Six,  
17 will you please identify and explain this exhibit?

18 A Exhibit Number Six is the operating agree-  
19 ment that also accompanied the April 21st letter. It's a stand-  
20 ard operating agreement, standard in that it very closely  
21 follows AAPL Form 610, 1977 edition, for a model operating  
22 agreement. It describes the acreage as we've previously de-  
23 scribed in the communitization agreement. It has attached a  
24 COPAS 1974 exhibit as Exhibit A, accounting procedures for the  
25 joint operations of this well, which we've called the Tom Bolack

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 No. 1 Tommy Bolack Well.

2 Under the Exhibit A we call for overhead  
3 drilling and producing operation on a fixed rate basis. Salaries,  
4 wages, and personal expenses of technical employees and/or the  
5 cost of professional consultant service, contract services,  
6 shall not be covered by the overhead rates, and the fixed rate  
7 basis that we've proposed on it is for drilling well rate of  
8 \$1045 per month, and a producing well rate of \$200 per month.

9 Q Referring to it looks like some additional  
10 language up at the top of this overhead III, there is in paren-  
11 thesis, it says see Section VI, Miscellaneous. Would you  
12 please advise us what that refers to?

13 A Yes. That's shown on page five of that  
14 Exhibit A. It pertains to overhead costs and is in essence a  
15 request for -- to be allowed to adjust these fixed rates on  
16 the basis of an inflationary factor, which would be determined  
17 from time to time.

18 Q Has this operating agreement been exe-  
19 cuted by any of the working interest owners?

20 A It has been executed by Southland Royalty  
21 Company.

22 Q Referring now to Exhibit Number Seven,  
23 would you please identify and explain this exhibit?

24 A Exhibit Number Seven is a well cost esti-  
25 mate, or AFE, for the Tom Bolack No. 1 Tommy Bolack Dakota

1 Well, a copy of which accompanied the April 21st letter to  
2 working interest owners within the south half of Section 1.  
3 It -- the Exhibit Seven is for the Gallup-Dakota, possible  
4 Gallup-Dakota dual completion well, and it shows the method in  
5 which the costs would be prorated between the Gallup and Dakota  
6 interests, should that completion be made.

7 The same well cost estimate can be utilized,  
8 and is utilized in the event that a Dakota only production is  
9 obtained from the well. Without going through it in detail,  
10 and I'll be glad to answer questions about it, the totals and  
11 all, I think we should look down at the bottom and see that  
12 the estimated costs for a Gallup-Dakota dual completion is  
13 \$503,140. That's the first column total.

14 The second column shows common costs to  
15 both the Gallup and the Dakota, and below the total, which was  
16 \$292,300 for common costs, has been added the Dakota costs,  
17 that are column C, to give a \$426,805 for a Dakota only com-  
18 pletion.

19 Now the costs, of course, prorated to the  
20 different interests, in this case for a dual completion in the  
21 Gallup, we would have, referring directly to Dr. Mathias' 40-  
22 acre 12-1/2 percent interest, in the Dakota only, his costs  
23 on the basis of these totals would be for Dakota production,  
24 \$53,350, and because Dr. Mathias would not have an interest in  
25 Gallup production were it obtained, his interests with respect

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409



SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 to a dual well, the cost to him for such a dual completion  
2 would be \$35,082.

3 Q Has this AFE, or well cost estimate, been  
4 executed by any of the working interest owners?

5 A Yes, the copy that has been made for Ex-  
6 hibit Seven has been executed by Mr. Van Ryan of Southland  
7 Royalty, and indicates their approval of this AFE for the  
8 Tommy Bolack No. 1.

9 Q Who prepared this well cost estimate?

10 A I did.

11 MR. NUTTER: Now Southland would not share  
12 in the Gallup either, would they?

13 A No, they would not.

14 MR. NUTTER: And they agreed to this divi-  
15 sion of costs for Gallup and Dakota?

16 A Yes, they did, I assume in part because  
17 it would result in a cheaper cost to them in the Dakota well,  
18 should it be dual completed.

19 Q Referring now to Exhibit Number Eight,  
20 would you please identify and explain this exhibit?

21 A Exhibit Eight is a series of letters, of  
22 correspondence between Mr. Tom Bolack and Dr. E. P. Mathias of  
23 Los Angeles, pertaining to his interest in the proposed well.

24 The initial letter is dated May the 30th,  
25 1980, and this was subsequent to the original letter of April

1 th 21st, sent Dr. Mathias with the operating -- proposed oper-  
2 ating agreement, unitization agreement, and AFE.

3 Summarizing some of the points in the ini-  
4 tial letter here, dated May the 30th, Mr. Bolack says, I have  
5 since received a favorable response from Southland Royalty but  
6 have not heard from you to date. Would you please respond?  
7 And notes that the scarcity of available drilling rigs and  
8 slowdown in governmental clearances, and that it is his inten-  
9 tion to drill this well at least by the fall, and certainly  
10 during 1980, and he urgently requests that Dr. Mathias inform  
11 him as to whether or not he is going to elect to join the pro-  
12 posed well.

13 Mr. Bolack received a reply from Dr. Mathias  
14 on June the 13th, which the last line says, I am willing to  
15 consider a reasonable buy offer for the total 80 acres. The  
16 80 acres refers to the fact that Dr. Mathias has an additional  
17 40 acres adjoining his 40 in the south half of Section 1, that  
18 lies in the north half. It consists of the northeast of the --  
19 I mean the southeast of the northeast quarter of Section 1.  
20 And that 40, incidentally, is dedicated to a Dakota test drilled  
21 by Amoco in the north half of Section 1.

22 The third letter is a letter from Mr.  
23 Bolack to Dr. Mathias, dated June the 17th, a reply to his  
24 letter, to Dr. Mathias' letter. He states that, my preference  
25 is still that you join in the drilling of the proposed well;

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico, 87501  
Phone (505) 455-7409

1 that I am reluctant to make an offer for your acreage primarily  
2 because it is burdened with what I think an excessive over-  
3 riding royalty, if the information that I have is correct that  
4 there is 30 percent in outstanding royalties against the lease.  
5 In the interests of, however in the interest possibly of  
6 speeding the drilling the well, I'm willing to make an offer  
7 to purchase your acreage, and further that I would need to know  
8 all of the commitments attached to the northern 40 acres; fur-  
9 ther that this offer would be conditioned upon your providing  
10 me with complete documentation of your ownership and the terms  
11 and provisions of your obligations. I'm sure that you're  
12 aware that the State of New Mexico has forced pooling provisions  
13 in its regulations.

14 He says that because there has been a con-  
15 siderable time since I made my original drilling proposal to  
16 you without response on your part, and because our other part-  
17 ner, Southland Royalty Company, has executed the required agree-  
18 ments, I earnestly request that you give prompt consideration,  
19 first, to joining us in the drilling of the well by executing  
20 the agreements previously sent to you, or failing that, to in-  
21 form me soon if my offer to purchase your interest is acceptable.

22 He says further, that if I do not hear  
23 from you before the first of this coming month, it would be  
24 necessary for me to ask for a hearing before the Oil and Gas  
25 Conservation Division to request that your acreage in the

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 south half of Section 1 be force pooled to the proposed Dakota  
2 test.

3 The next letter, dated June 19th, from  
4 Dr. Mathias to Mr. Bolack, says in part, my offer to you to  
5 purchase the necessary acreage for your communitization should  
6 have indicated a reluctance on my part to become financially  
7 involved in any more drilling.

8 At the bottom it says, please send docu-  
9 mentation or references so that we may read this ruling in  
10 its entirety, ruling referring to the compulsory pooling rulings.

11 Mr. Bolack's June the 24th reply to Dr.  
12 Mathias starts out, in response to your request for documenta-  
13 tion of the State of New Mexico regulations on compulsory  
14 pooling, I'm enclosing, first, a copy of the act pertaining  
15 to statutory unitization; secondly, a copy of the draft form  
16 showing the type of information considered by the Oil Conser-  
17 vation Division in a compulsory pooling hearing; and thirdly,  
18 a copy of a recent docket for the OCD, showing four cases in-  
19 volving compulsory or forced pooling requests by various oper-  
20 ators.

21 The second paragraph, he says, I'm still  
22 hopeful that you will give serious consideration to joining  
23 Southland Royalty and me in the drilling of this proposed well.

24 Further on in the body of the letter,  
25 last line, he says, you did not indicate in your letter

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 433-7409

1 if my assumptions about your interest are correct,

2 And in the final paragraph, he states,  
3 I'm willing to increase my previous offer for your acreage by  
4 an additional \$1000 if you still will not contemplate joining  
5 in the well. This offer is again contingent upon your providing  
6 documentation to verify my assumptions as to your ownership ob-  
7 ligations on the 80 acres. Further, again, a quick decision  
8 on your part is necessary, as I am obliged to proceed with the  
9 request for compulsory pooling hearing very soon, due to the  
10 time constraints.

11 There was -- there had been no reply up  
12 to July the 10th, when the application for compulsory pooling  
13 was made, that is Exhibit Number One, and on July the 25th Mr.  
14 Bolack asked me to contact Dr. Mathias by phone to inform him  
15 that our hearing had been scheduled for August the 6th, and  
16 further to explain to him, as well as I could, about compulsory  
17 pooling, about the geology, about the economics of the drilling  
18 of this well, and to see again if we could persuade him to  
19 either join or to sell his lease.

20 On July the 26th, from my personal diary  
21 notes, I made the call to Dr. Mathias in Los Angeles, talked  
22 to him at some length, told him that I represented Mr. Bolack  
23 and wanted to explain some of the facts as we saw them with  
24 respect to the well, and I did inform him at that time that  
25 our hearing was set for August the 6th.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B

Santa Fe, New Mexico 87501

Phone (505) 455-7409

1 We went through a rather lengthy discus-  
2 sion of all of the things. I don't believe in my own mind  
3 that Dr. Mathias is too knowledgeable to the oil and gas busi-  
4 ness, so we tried to -- to make as clear and objective a pre-  
5 sentation as we could of what the economics of this well and  
6 the production possibilities were.

7 During that conversation he reiterated  
8 that he would prefer to sell the lease. I discussed with him  
9 whether or not he knew exactly what his interests were, and  
10 he stated that he did not; that he would advise me to check  
11 with his attorneys, gave me the name of his attorneys there  
12 in Los Angeles, and that he would like to have me go over this  
13 same discussion with his lawyers, in particular a Mr. David  
14 Reeve (sic), who was knowledgeable in the oil and gas business,  
15 and then his lawyers could contact him for discussion of this.

16 Later, from my personal diary, on July  
17 the 30th I did call Mr. David Reeve (sic) with the law firm  
18 of Rosen, Wattell, and Gilbert (sic) in Los Angeles, about Dr.  
19 Mathias' acreage. I thoroughly reviewed all the correspondence  
20 that we've discussed here as Exhibit Number Eight, and deter-  
21 mined from my conversation of some length with him, that they  
22 did not either have the ownership with respect -- they could  
23 not verify that his net revenue interest was 70 percent in the  
24 two leases, or in the 80 acres.

25 In the interim I had checked the county,

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 435-7409



1 or I had had the county records checked, and was satisfied in  
2 my own mind that there are 30 percent in royalty interest out  
3 against these leases; that he has a 70 percent net revenue  
4 interest in both of these 40's.

5 I told Mr. Woo (sic) in my conversation  
6 that the price offer by Mr. Bolack for the purchase of these  
7 was a fair price in my estimation. In fact, we -- we furthered  
8 the offer by agreeing to accept some of the costs that were  
9 against the Amoco well to the north that were outstanding  
10 costs that Dr. Mathias had acquired in the 40 acres in the  
11 north half of the section, as an additional incentive to have  
12 him sell. We stated at that time to him that we would have  
13 to have an answer to this offer before the August the 6th  
14 hearing and I was told by Mr. Woo (sic) that he would be getting  
15 back in touch with me before next week prior to this hearing.

16 To date I have not had any correspondence  
17 or phone conversations with either Mr. Woo (sic) or Dr. Mathias.

18 Q In your opinion did Tom Bolack and your-  
19 self use reasonable efforts to try to come to a mutually ac-  
20 ceptable agreement, whether for joining in the well or for  
21 purchasing Dr. Mathias' interest?

22 A I think we did.

23 Q Referring now to Exhibit Number Nine,  
24 would you please identify and explain this exhibit?

25 A Exhibit Nine is an exhibit that I prepared

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 recently, primarily to help the Examiner and the Commission to  
2 evaluate our request for a 200 percent risk factor for the  
3 operator in assuming Dr. Mathias' costs of drilling and com-  
4 pleting and equipping this proposed well.

5 I'd direct your attention to, first, to  
6 the last page of this exhibit, if you will, which is a Dakota  
7 oil and gas production history tabulation of selected wells  
8 that are adjacent to Mr. Bolack's lease in the Section 1, and  
9 if you'll look at that in conjunction with Exhibit Two, if I  
10 can but find Exhibit Two, here we go, the Flora Vista map,  
11 you'll see that the wells listed on that production history  
12 chart are wells surrounding the proposed location for the No.  
13 1 Tommy Bolack well.

14 The first being the Texaco No. 1 Barton  
15 Well, which is the offset well to the south of the proposed  
16 location. Again I would refer you to the legend on the map,  
17 indicating that the highlighted in yellow are the Dakota pro-  
18 duction figures current on the map, and they should correspond  
19 with the production history chart, and if you look carefully,  
20 you'll see that they do not exactly correspond. The reason  
21 for this is that the production data that I put on the map,  
22 Exhibit Two, were obtained from El Paso Natural Gas Company's  
23 production records available to me. The production information  
24 on the production history chart, Exhibit Nine, were obtained  
25 from the OCD records as I had them to date. With the exception --

SALLY W. BOYD, C.S.R.

Rt. 1 Box 194-B  
Santa Fe, New Mexico 87501  
Phone (505) 433-7409

1 no, not with exception. The last -- this production history  
2 carries through to June of this year. In other words, it shows  
3 the first half of this year production, so that these production  
4 figures are very current, but there is a slight discrepancy  
5 and I think that the discrepancy -- I say I think, because it  
6 now occurs to me that the production figures I see here do in-  
7 clude the first half of '80 and on my map I show only through  
8 1979 cumulative figures.

9 There is a slight difference but I believe  
10 it's a minor difference.

11 Also included on the production history  
12 is the Amoco Scott Well, which is to the north of our -- in  
13 the north half of Section 1. You'll note I show the Southland  
14 Royalty No. 1 Zachary Well, which is -- is immediately to the  
15 northwest of our proposed location, and I'll note at this time  
16 that that well, a completion attempt was made in the Dakota  
17 and it was abandoned after some 11-million cubic feet of pro-  
18 duction. So we do have a well that was abandoned immediately  
19 offsetting, or diagonally offsetting the proposed location.

20 Consolidated No. 1 Clayton Well is in  
21 Section 2 in the southwest quarter. The Beta Well is included.  
22 It's up in Section 36 of 31, 12. It was included primarily  
23 because it was cited in the USGS letter to Mr. Bolack as a  
24 possible draining well, so it was included, the data on it,  
25 also, in this chart.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7109

1 Now back to the --- well, I'd like to take  
2 a moment to point out that the production from all of the  
3 Dakota surrounding wells, and there are four immediate ones,  
4 the maximum production to date from the Dakota, the best pro-  
5 duction to date is from the Consolidated Well in the southwest  
6 of Section 2, which has a cumulative gas production of 346.7-  
7 million cubic feet, and that well has been producing, is one  
8 of the longer producing wells, if not the longest, in the area,  
9 from the Dakota has been producing since 1962. So each of  
10 these wells has a productive history that should allow a fair  
11 estimation of what their capabilities are. As you can see,  
12 the number of years they've been producing is listed at the  
13 bottom of each column.

14 I think from our correspondence and dis-  
15 cussion, it's obvious that we consider the Dakota as a marginal  
16 economical venture in there, and it's only that we have the  
17 potentiality of a dual completion in there that would appear  
18 to --- to us to offer the best economical considerations, and  
19 as I said, the Gallup is the primary concern. If you look at  
20 the production from the Consolidated Well on Exhibit Number  
21 Two from the Gallup formation, you'll see that that well has  
22 produced in excess of 2-billion cubic feet of gas from the  
23 Gallup, so it's a substantial reservoir here.

24 Now, with the Consolidated 1-E Well having  
25 been drilled in the southeast of Section 2, and looking at the

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7405

1 log and seeing the fact that the Gallup is represented on that  
2 log, we're of the mind that we have a reasonable opportunity  
3 for a dual completion, but of course our consideration in this  
4 hearing is for a Dakota well only, and looking back at the  
5 first page of Exhibit Nine, we've attempted to do some eval-  
6 uation of the economics involved with Dr. Mathias' interest  
7 in here.

8 We've assumed from our area fee that Dr.  
9 Mathias' portion of a Dakota well cost only would be \$53,350.  
10 We further assume that from Dakota gas production only in the  
11 proposed location, that we could expect a net price for Dr.  
12 Mathias' interests of something on the order of \$1.59 per Mcf,  
13 and we arrived at that figure by taking the July, 1980 NGPA  
14 Section 103 price of \$2.25-1/2 per million BTU. We've as-  
15 sumed a BTU adjustment of 11,000 BTU in the area, by looking  
16 at several of the wells, and we've made a pressure base ad-  
17 justment of 15.025. We've assumed taxes at the rate of 7 per-  
18 cent, and we've assumed his royalty to be 30 percent, to arrive  
19 at that net price of \$1.59.4 per Mcf.

20 Now, we equate that back in B, 1-B, to  
21 what it might take in gas to recover that \$53,350 cost to Dr.  
22 Mathias at those -- at that net price, and we infer that the  
23 production from the well would require roughly 267-million  
24 before we would have a return of that money, and we look back  
25 at the chart on the last page of this exhibit to arrive at

SALLY W. BOYD, C.S.R.

Rt. 1, Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-1409



1 these figures, that in order to produce 267-million from the  
2 Texaco Barton Well it took, I'll say approximately 18 plus  
3 years because the Barton Well has not yet produced 260-million  
4 cubic feet.

5 The Amoco Well took approximately 11 years  
6 to produce 267; the Consol, 11.7 years; the Beta Well, 15+  
7 years.

8 Now if we assume an 11-year recovery of  
9 that 267-million cubic feet, which is the best of the four  
10 wells we referred to, and we make some assumptions about the  
11 cost of the money, of 12 percent interest rate, which is the  
12 current prime rate plus one percent, assume it is compounded  
13 semi-annually, then that cost of \$53,350 has an undeferred  
14 value of \$181,367. That's from a present worth factor of .233,  
15 and then -- and thus the compound factor is 4.29, or in essence,  
16 4.29, I beg your pardon, which is essentially 429 percent of  
17 that Mathias well cost.

18 Further, if we under E, add a 9 percent  
19 per year inflation rate to those 11-year recovery results, we  
20 end up with a compound amount factor of almost 9 to 1.

21 Now that all pertains to the Dakota well  
22 and assumes only Dakota production. We've looked in II at  
23 the possibilities under a Dakota-Gallup dual completion for  
24 Dr. Mathias' interests. His portion of the cost for such a  
25 well would be \$35,082. We've used the same assumptions with

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 435-7409



1 a net gas price and to recover the \$35,082 it would require  
2 approximately 176-million production from the well. Again we  
3 made a comparison of the four surrounding wells and -- as to  
4 number of years to took to produce 176-million, and we get  
5 in the Texaco Well, 13.3 years; from the Amoco, 5.6; in the  
6 Consolidated, 5.8; from the Beta, 14.7.

7 Again in this case we've assumed that  
8 10-year recovery, which is an average of those four wells, and  
9 we come up with a compound amount factor of 3.4.

10 Then we assumed a 5.6-year recovery, which  
11 is the best indicated by any of the wells around there, and we  
12 do get a compound amount factor of 1.81.

13 Now if you take that best possible re-  
14 covery and add on a 9 percent per year inflation rate, we get  
15 a compound amount factor of 3.06.

16 All of this, of course, is designed, this  
17 analysis, is to point out that the recovery of the monies Dr.  
18 attributable to Dr. Mathias' interest should justify the 200  
19 percent risk factor that has been requested by Mr. Bolack.

20 Q Would it be fair then to state that based  
21 upon this economic evaluation, as well as the surrounding  
22 Dakota production, or lack of Dakota production, that you are  
23 requesting a risk factor of 200 percent in this hearing?

24 A Yes, it is.

25 Q Were these exhibits prepared under your

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 supervision and control?

2 A Yes, they were.

3 MR. TULLY: At this time I would move  
4 for the introduction of the Exhibits One through Nine into  
5 evidence.

6 MR. NUTTER: Exhibits One through Nine  
7 will be admitted in evidence.

8 Q In your professional opinion, will the  
9 approval of this forced pooling application result in the  
10 recovery of additional hydrocarbons; it will not commit waste;  
11 it will not impair correlative rights; and it will avoid the  
12 drilling of unnecessary wells?

13 A That is correct.

14 Q Do you feel, in your professional opinion,  
15 that the terms and conditions that you have proposed in the  
16 operating agreement are just and reasonable?

17 A Yes, I do.

18 MR. TULLY: I have no further questions.

19  
20 CROSS EXAMINATION

21 BY MR. NUTTER:

22 Q Mr. Speer, Exhibit Nine shows that the  
23 payout picture is bleak for the Mathias interest here, whether  
24 it's a dual completion or a single completion, I think, and  
25 for that reason you say that Bolack is justified in asking

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 200 percent.

2 A We're making the assumption that a com-  
3 pusory pooling would be justified and indicating that 200 per-  
4 cent should be a fair factor, yes.

5 Q But actually, before Mathias would ever  
6 come in for a penny, he would have to pay far more than this  
7 \$53,000. He'd have to pay \$106,000 on top of the \$53,000,  
8 wouldn't he?

9 A \$6000 from what?

10 Q \$6000? Now the 200 percent penalty --

11 A Oh, I see.

12 Q -- his cost for a single completion is  
13 \$53,000. You're asking for 200 percent, so his share would  
14 be \$53,000 plus \$106,000 penalty, or he'd have to pay \$159,000.  
15 The payout for him is even bleaker than it is for Bolack, isn't  
16 it?

17 A Yes, it is.

18 Q What do you think Mathias' best out is,  
19 sell the lease to Bolack?

20 A Oh, well, I wouldn't speculate as to what  
21 his out is on it. It's obvious that you're probably correct,  
22 it's selling the lease, or selling it to anyone, possibly.

23 His problem, if I may make an observation,  
24 is of course that his interests, he's got a terrible overriding  
25 royalty interest attached to this, and he apparently, from his

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7405

1 conversation with me, paid an exorbitant price for the acreage  
2 originally.

3 Q I think in one of his notes there he  
4 stated that he had paid \$12,000 for the lease originally.

5 A \$12,500 for 40 acres, right, which is  
6 what, \$150 an acre, or something on that order.

7 I think it's obvious in my own mind that  
8 he paid too high a price for this originally, and then of  
9 course, he allowed too much royalties out, but as we pointed  
10 out to him, I felt like the offer made by Mr. Bolack was in  
11 line with what the current prices are. Apparently his -- he  
12 would like to get his money back from the thing, and --

13 A He never has stated what he wanted for  
14 the lease, has he?

15 A No.

16 Q I didn't see it anywhere in this corres-  
17 pondence.

18 A No, he has never given any indication.

19 Q He said that he had paid \$12,000 but he  
20 declined an offer of \$2000 for the 40 or \$3000 for the 80, and  
21 then Bolack upped it to \$4000 for the 80, didn't he?

22 A Yes, I believe that's what it is in the  
23 body of these letters here, and then as a final offer that I  
24 made on the phone, when we found out that -- and Dr. Mathias  
25 in conversation, he said that he owed something in excess of

SALLY W. BOYD, C.S.R.

Rt. 1 Box 199-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 \$2000 to Amoco on the Dakota well to the north, I counseled  
2 Mr. Bolack, and he said we would accept his obligations on  
3 that. So in essence he's offered him \$6000 for 80 acres, which  
4 is \$75 an acre.

5 Q But if it takes, in the case of the  
6 Texaco Well, it took 18 years to produce the amount of gas  
7 that would pay off \$53,000. It will take three times 18 years,  
8 or 54 years, for him to pay off his share of the well plus the  
9 100 percent penalty.

10 A I would think your analysis is correct.

11 Q How old is Dr. Mathias?

12 A I don't have any idea. I've only talked  
13 to him on the phone.

14 Obviously, this whole thing wouldn't fly  
15 for the Dakota lons for anybody.

16 Q Right.

17 A In my estimation. It hangs on being able  
18 to be dually produced.

19 Q Okay, now up at the top of your Exhibit  
20 Nine, point IV there under A, where you say royalties at 30  
21 percent.

22 A Yes.

23 Q Where you say 0.759, that's dollars, isn't  
24 it?

25 A No, that's cents per Mcf.

SALLY W. BOYD, C.S.R.

Rt. 1 Box 191-B

San Antonio, New Mexico 87501

Phone (505) 455-7409

SALLY W. BOYD, C.S.R.

Rt. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7409

1 Q  
2 75.9 cents.

Yeah, but it would be .759 dollars, or

3 A

Yeah, right.

4 Q

Yeah, it didn't have a dollar sign there.

5 A

I'm sorry, I didn't notice that.

6 Q

And it's not percent. It's --

7 A

It's dollars.

8 Q

It's a dollar, which is subtracted from  
9 the value of the gas to come up with the net value of \$1.59.

10 A

Correct. Taxes and royalties have been  
11 added together and subtracted from the previous figure of 2.53  
12 dollars per Mcf. That doesn't have a dollar sign on it, either.

13 Q

Okay.

14

MR. NUTTER: Are there any further ques-

15 tions of Mr. Speer?

He may be excused.

16

Do you have anything further, Mr. Tully?

17

MR. TULLY: No, sir, thank you.

18

MR. NUTTER: We'll take Case Number 6993

19

under advisement.

20

21

(Hearing concluded.)

22

23

24

25



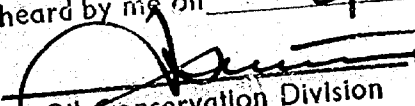
C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that  
the foregoing Transcript of Hearing before the Oil Conserva-  
tion 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.

SALLY W. BOYD, C.S.R.

RT. 1 Box 193-B  
Santa Fe, New Mexico 87501  
Phone (505) 455-7439

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 6993  
heard by me on 8/6 1980.

 Examiner  
Oil Conservation Division

JAMES B. COONEY (1908-1979)  
RICHARD T. C. TULLY  
DIRECTORS:  
KENDALL O. SCHLENKER  
JOHN R. COONEY

JAMES B. COONEY, P.A.  
ATTORNEYS AT LAW  
811 WEST APACHE  
P. O. BOX 268  
FARMINGTON, NEW MEXICO 87401

[505] 327-3388

July 10, 1980

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

Re: Application for Compulsory Pooling  
San Juan County, New Mexico

Dear Mr. Ramey:

Enclosed are the following instruments concerning the Application for Compulsory Pooling by Tom Bolack for a proposed Dakota well to be located in the S/2 of Section 1, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico:

1. Three copies of the Application.
2. Three copies of a Certificate of Mailing stating that Dr. Eugene P. Mathias, all other working interest owners in the Dakota Formation in the S/2 of the above-described Section 1, the United States Geological Survey, and the Supervisor of the District III Office of the New Mexico Oil Conservation Division have been notified of this Application.

It would be appreciated if you would place this Application for hearing on or after August 6, 1980.

Thank you in advance for your assistance and cooperation in this matter. Please advise if you need further information.

Sincerely,

*Richard T. C. Tully*

Richard T. C. Tully

RTCT:cb

Enclosures

BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	1
CASE NO.	6993

# DISTRIBUTION

1. Frank Chavez, Supervisor  
District III Office  
Energy and Minerals Department  
New Mexico Oil Conservation Division  
1000 Rio Brazos Road  
Aztec, New Mexico 87410
2. Jim Sims, District Engineer  
U. S. Geological Survey  
Post Office Box 959  
Farmington, New Mexico 87401
3. Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, California 90066
4. Larry Van Ryan  
Production Superintendent  
Southland Royalty Company  
Post Office Box 570  
Farmington, New Mexico 87401
5. Tommy Bolack and Terry Bolack,  
Co-Personal Representatives of the  
Estate of Alice N. Bolack, Deceased  
Route 3 South, Box 47  
Farmington, New Mexico 87401
6. ✓ William R. Speer  
Consulting Geologist  
Post Office Box 255  
Farmington, New Mexico 87401

REGISTERED NO. 7000		POSTMARK OF	
POST OFFICE COMPLETION	Reg. Fee \$ 51.99	Special Delivery \$	MAILING OFFICE
	Handling Charge \$	Return Receipt \$	
	Postage \$ 54	Restricted Delivery \$	
	RECEIVED BY Diane		
FULL VALUE \$ NV		AIRMAIL	
CUSTOMER COMPLETION (Please Print)	FROM	TO	
	Tom Bolack		
	Rt # 3 Bx 47		
	Farmington, N.M. 87401		
Mr. Eugene P. Mathias			ZIP CODE
12027 Venice Blvd			
Los Angeles, CA 90066			90066

PS FORM 3806 Oct. 1978 RECEIPT FOR REGISTERED MAIL (Customer Copy)

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION  
OF TOM BOLACK FOR COMPULSORY POOL-  
ING, SAN JUAN COUNTY, NEW MEXICO

CASE NO. \_\_\_\_\_

APPLICATION

COMES NOW Tom Bolack, by his attorney, Richard T. C. Tully,  
and, as provided by Section 70-2-17(C), NMSA 1978 Compilation,  
hereby makes application for an Order pooling all of the mineral  
interests in and under the S/2 of Section 1, Township 30 North,  
Range 12 West, NMPM, San Juan County, New Mexico, and in support  
thereof further states:

1. Applicant proposes to dedicate the S/2 of the above-mentioned Section 1 to a well to be drilled to test the Dakota Formation within the boundary of the proposed pooled unit.
2. Applicant is the owner of 50% of the working interest in and under the S/2 of the above-mentioned Section 1, and Applicant has the right to drill thereon.
3. Applicant has sought and at the time of filing this Application has been unable to obtain the voluntary agreement or consent to join in the drilling of the well from the following operators:

<u>Name</u>	<u>Interest</u>
Dr. Eugene P. Mathias	12.50% Working Interest

4. To the best of the Applicant's information and belief, the address for Dr. Eugene P. Mathias is 12027 Venice Boulevard, Los Angeles, California 90066.

5. The pooling of the above interest and the completion of this well will avoid the drilling of unnecessary wells, it will further protect correlative rights, and it will prevent waste.

*own 12 1/2 % of Section 1.*

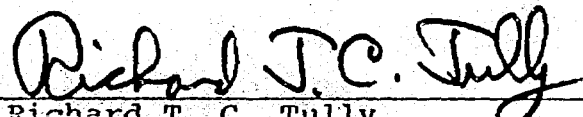
6. In order to permit the Applicant to obtain his just and fair share of the oil and gas underlying the subject lands, the mineral interests should be pooled and the Applicant should be designated as the Operator of the well to be drilled.

WHEREFORE, Applicant prays that this Application be set for hearing before the Division or the Division's duly-appointed examiner, and that after notice and hearing as required by law the Division enter its Order pooling all of the mineral interests of the Dakota Formation underlying the S/2 of Section 1, Township 30 North, Range 12 West, NMPM. Applicant further prays that he be named Operator of the well, and that the Order make provision for the Applicant to recover out of production his costs of drilling, completing, equipping, and operating the subject well, including costs of supervision and overhead charges, and a risk factor in the amount of 200% for the risk assumed by the Applicant in drilling, completing, and equipping the well, and such other and further relief as may be proper.

Respectfully submitted,

TOM BOLACK

By:

  
Richard T. C. Tully  
Attorney for Applicant  
JAMES B. COONEY, P.A.  
P. O. Box 268  
Farmington, New Mexico 87401  
505-327-3388

CERTIFICATE OF MAILING

I hereby certify that I mailed a copy of the foregoing Application to Dr. Eugene P. Mathias at 12027 Venice Boulevard, Los Angeles, California 90066 by "Certified Mail - Return Receipt Requested" and

by First Class Mail, pre-addressed and postage pre-paid, to all other working interest owners in the Dakota Formation in the S/2 of the above-described Section 1, the United States Geological Survey, and the Supervisor of the District III Office of the New Mexico Oil Conservation Division on the 11<sup>th</sup> day of July, 1980.

*Richard T. C. Tully*  
 Richard T. C. Tully  
 Attorney for Applicant

RECEIVED JUL 17 1980

UNITED STATES POSTAL SERVICE  
 OFFICIAL BUSINESS

SENDER INSTRUCTIONS  
 • Put your name, address, and ZIP CODE in the space below.  
 • Complete items 1, 2, and 3 on the reverse.  
 • Addressed return ends are attached to front of article if space permits. Otherwise attach to back of article.  
 • Check "Return Receipt Requested" adjacent to number.

RETURN TO

Richard T. C. Tully - Attorney at Law  
 (Name of Sender)

P. O. Box 268  
 (Street or P.O. Box)

Farmington, New Mexico 87401  
 (City, State, and ZIP Code)

RE: Tommy Bolack #1 Well

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

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

1. The following service is requested (check one).  
☒ Show to whom and date delivered ..... 45¢  
☐ Show to whom, date, and address of delivery .....  
☐ RESTRICTED DELIVERY  
 Show to whom and date delivered .....  
☐ RESTRICTED DELIVERY  
 Show to whom, date, and address of delivery .....  
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:  
 Dr. Eugene Mathias  
 12027 Venice Boulevard  
 Los Angeles, California 90066

3. ARTICLE DESCRIPTION:  
 REGISTERED NO. CERTIFIED NO. INSURED NO.  
 738982

(Always obtain signature of addressee or agent)

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

4. DATE OF DELIVERY 7/14 POSTMARK  
 JUL 14 1980

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE

★ GPO: 1977-0-249595

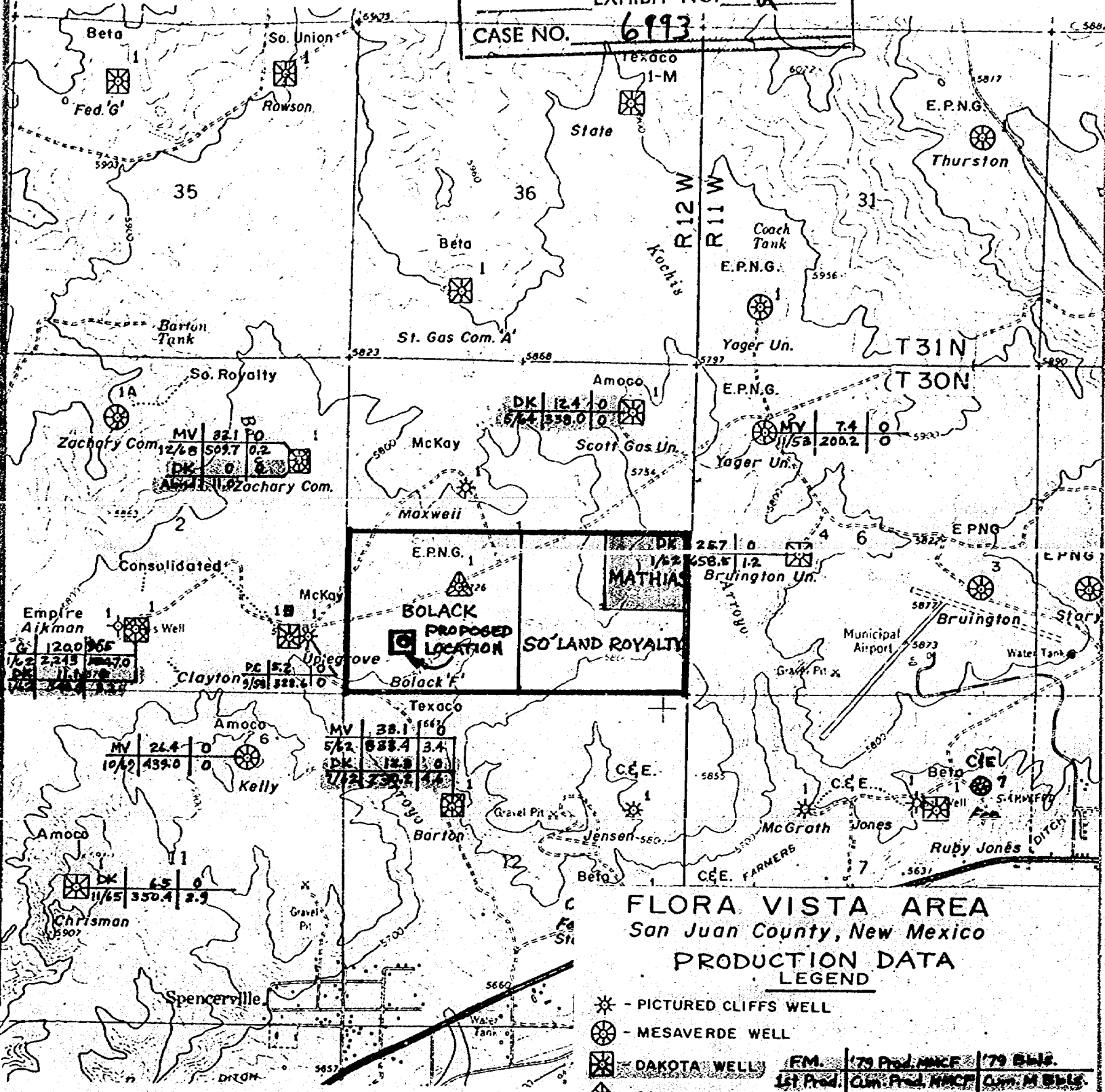


# BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

EXHIBIT NO. 2

CASE NO. 6993





United States Department of the Interior

GEOLOGICAL SURVEY  
Conservation Division  
P. O. Box 26124  
Albuquerque, N. M. 87125

FEB 06 1979

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

FEB 13 1979

El Paso Natural Gas Company  
P. O. Box 990  
Farmington, New Mexico 87401

Gentlemen:

According to our records, you are the operator of Federal oil and gas lease NM-02707. This lease is subject to drainage by the wells listed on the attached sheet. Land within the lease subject to drainage is the SW $\frac{1}{4}$  sec. 1, T. 30 N., R. 12 W., N.M.P.M.

Both the terms of your lease and the oil and gas operating regulations require protection of the leased lands from drainage. Accordingly, please advise us by no later than thirty days from receipt of this letter regarding your plans for protecting the subject Federal lease from drainage.

If at that time, it is decided that no offset protection is necessary, detailed engineering, geologic and economic data should be furnished to justify your position.

Sincerely yours,

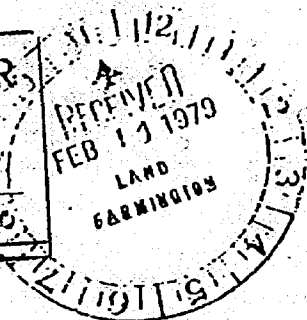
*Gene F. Daniel*

GENE F. DANIEL  
Asst. Oil and Gas Supervisor, SRMA

Enclosure



BEFORE EXAMINER NUTTER  
OIL CONSERVATION DIVISION  
EXHIBIT NO. 3  
CASE NO. 6993



Texas

Don't know

- 1) L. M. Barton Well No. 1, in the SE $\frac{1}{4}$ NW $\frac{1}{4}$  sec. 12, T. 30 N., R. 12 W., N.M.P.M. This well was reported as completed on September 15, 1961 in the Dakota formation with an initial potential of 2,305 MCF per day. - AOF (IP = 2132 MCF) L.M.V IP 1813 MCF, 2013 MCF AOF
- 2) State Gas Com Unit "A" Well No. 1, in the SE $\frac{1}{4}$ SW $\frac{1}{4}$  sec. 36, T. 31 N., R. 12 W., N.M.P.M. This well was reported as completed on March 9, 1965 in the Dakota formation with an initial potential of 2,486 MCF per day.
- 3) Scott Gas Unit Well No. 1, in the NE $\frac{1}{4}$ NE $\frac{1}{4}$  sec. 1, T. 30 N., R. 12 W., N.M.P.M. This well was reported as completed on June 9, 1962 in the Dakota formation with an initial potential of 2,541 MCF per day.

1) 1978 Prod. = 11,224 MCF (31 MCFPD in 365.3 days produced) '75 SIPT 677"  
 Cumul. thro' '77 = 265,222 MCF (13,352 MCF in '77) WHFP 243"  
 216,456 MCF thro' 1975 (14.5 yrs.)  
 Run 1976 Prod. 27,188  
 Cumul. thro' '77 = 763,335 MCF  
 879,223 MCF

2) 1978 Prod. = 2,501 MCF (7 MCFPD in 365 days produced)  
 Cumul. thro' '77 = 172,985 MCF (5,389 MCF in '77)  
 175,586 MCF thro' 1976 (13.5 yrs.)

3) 1978 Prod. = 13,779 MCF (38 MCFPD in 365.3 days produced)  
 Cumul. thro' '77 = 311,571 MCF (11,377 MCF in '77)  
 325,350 MCF thro' 1975 (14.5 yrs.)

4) Aztec

**El Paso** NATURAL GAS  
COMPANY

P O. BOX 990  
FARMINGTON, NEW MEXICO 87401  
PHONE. 505 325-2841

February 15, 1979

UNITED STATES GEOLOGICAL SURVEY  
Attention: Mr. Gene F. Daniel  
Post Office Box 26124  
Albuquerque, New Mexico 87125

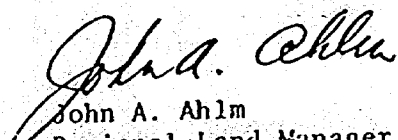
Re: Your Letter Dated February 6, 1979  
Regarding Possible Drainage to  
Federal Oil & Gas Lease NM-02707  
San Juan County, New Mexico

Gentlemen:

We have received the captioned letter regarding possible drainage to the  
SW $\frac{1}{4}$  Section 1, T30N, R12W, in the Dakota formation.

Please be advised that the Dakota rights in this lease are owned by Mr. Tom  
Bolack and not El Paso Natural Gas Company. Therefore, we are forwarding  
your letter to Mr. Bolack for his reply.

Yours very truly,

  
John A. Ahlm  
Regional Land Manager  
Energy Resource Development

JAA:DMP:ld

cc: ~~Mr. Tom Bolack~~

March 13, 1979

Mr. Gene F. Daniel,  
Ass't. Oil and Gas Supervisor  
U.S. Geological Survey, Conservation Div.  
P.O. Box 26124  
Albuquerque, New Mexico 87125

Re: Federal Oil and Gas Lease NM-02707  
SW/4, Section 1, T30N, R12W,  
San Juan County, New Mexico

Dear Mr. Daniel,

By letter dated February 6, you informed El Paso Natural Gas Company as operator of the above lease that the lease was subject to drainage by off-setting wells. Since the wells noted in your letter produce from the Dakota formation and El Paso has oil and gas rights only to the base of the Mesaverde formation, they forwarded the letter to me as the owner of the Dakota rights for a reply.

As you are aware state regulations require the dedication of 320 acres to a Dakota well and as my lease covers only 160 acres (the southwest quarter), it would be necessary to communitize the lease with that of the owners of the southeast quarter in order to drill such a well. (State records indicate that the north half of the section is dedicated to the Amoco #1 Scott Gas Unit well in the NE/4 NE/4 of the same section). I am uncertain as to the ownership of oil and gas rights under the southeast quarter as it appears from my records to be divided among several lessees, but I will undertake to determine this and will contact the owners to determine whether or not they would be interested in joining such a test, as an initial requirement.

With respect to whether the drilling of such a Dakota test is an economical endeavor, it is open to question. The production records on surrounding Dakota wells listed in your letter show cumulative productions through the end of 1978 to range from 175.6 MMCF to a maximum of 325.4 MMCF. These wells have been producing from 13½ to 16½ years. Reservoir engineering studies indicate that ultimate recoveries from the Dakota in this area might result in total production of ½ BCF to a maximum of 2 BCF in something like a 40-year time span. A well location in the southwest quarter would probably result in production in the lower half of this range. Given the current well costs for a Dakota test (approximately \$275,000), the royalty and tax rates attributable



to the lease and the difficulties in obtaining appropriate governmental clearance to drill such a well, it is doubtful that a Dakota well on my lease is economically feasible at this time.

If production from other formations could be obtained and produced concurrently from a Dakota well on the subject lease, a consideration which appears possible from my studies, then the economics could be more favorable. Since the formation rights on my lease vary, and may also on the adjoining lease, some negotiation would be required to put together an agreement to test these possibilities. I intend to pursue this matter with the appropriate lease-owners.

Very truly yours,

Tom Bolack





# United States Department of the Interior

GEOLOGICAL SURVEY  
Conservation Division  
P. O. Box 26124  
Albuquerque, New Mexico 87125

APR 06 1979

Mr. Tom Bolack  
South Route 3  
Box 47  
Bloomfield Highway  
Farmington, New Mexico 87401

Dear Mr. Bolack:

Your letter of March 13, 1979 indicated that additional time was necessary in order to contact other lessees who might have interest in the drainage protection of Federal lease NM-02707.

An extension of thirty days is hereby granted. Accordingly, please advise us by no later than April 13, 1979 regarding your plans for protecting the subject Federal lease from drainage.

If at that time, it is decided that no offset protection is necessary, detailed engineering, geologic and economic data should be furnished to justify your position.

Sincerely yours,

GENE F. DANTRI

Asst. Oil and Gas Supervisor, SRMA



August 5, 1979

Mr. Gene F. Daniel  
Asst. Oil & Gas Supervisor  
U.S. Geological Survey  
P.O. Box 26124  
Albuquerque, New Mexico 87125

Re: Federal Oil & Gas Lease NM-02707  
SW/4, Sec.1-T30N-R12W, N.M.P.M.  
San Juan Co., New Mexico

Dear Mr. Daniel,

The delay in my reply to your letter of May 4 on the above cited lease was occasioned by the need to await the data presented in Case No. 6533 held before the New Mexico Oil Conservation Commission on April 30 and the subsequent ruling on this case, which was not issued until May 22. The case, as you are probably aware, dealt with changes in the Commission's Orders No. R1670 and R1670-C, pertaining to spacing regulations for Dakota formation wells in the San Juan Basin. The application, made by El Paso Natural Gas, was a request to permit the optional drilling and production of a second well on proration units in the Basin-Dakota Pool, to establish well location requirements, and to provide that the deliverabilities of both wells on the unit would be additive for allowable purposes. The outcome of this case and the ruling arrived at by the Commission would materially affect my response to your letter stating that drilling operations must be commenced by August 2 on the subject lease to protect it from drainage or compensatory royalty would be assessed.

The testimony presented at the NMOCC hearing by the most active operators in the Basin indicated that, because of the lithologic nature of the gas-productive Dakota formation in the Basin, a single well would not efficiently and effectively drain a 320-acre proration unit. Data was presented by El Paso Natural Gas Co., Amoco Production Co., Tenneco Oil Co., Mesa Petroleum Co., Southland Royalty Co., Dugan Production Co. and others, all of whom control more than 75% of the Dakota drilling that has been conducted in the Basin, which showed by detailed engineering studies of production data and by geological evaluation that a single, typical Dakota well in the Basin will not drain the gas economically from a 320-acre drilling unit,

and, in many cases, will not effectively drain even a 160-acre unit. In light of this testimony I requested Mr. William R. Speer, a consulting geologist with 28 years experience in the San Juan Basin to evaluate the subject lease to determine if, in his opinion, the lease is being subjected to drainage.

As his attached report will show, he does not believe that the lease is being drained at all by the Texaco #1 Barton well and that the charging of compensatory royalty for this alleged draining would be unwarranted. His study also indicates that a well drilled on my lease for Dakota production only would not be an economical venture. I concur in his opinion and request that your office review this new information and relieve me of any requirement to drill an off-set well on the lease or to pay compensatory royalty as a result of production from the #1 Barton well. Should additional off-set wells to this lease be drilled in the future, I will, of course, re-evaluate the lease for possible drainage and act as required.

Very truly yours,

Tom Bolack

BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
EXHIBIT NO. <u>4</u>	
CASE NO. <u>6993</u>	

April 21, 1980

Southland Royalty Company  
Attn. Mr. Larry Van Ryan  
P.O. Drawer 570  
Farmington, New Mexico 87401

Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, California 90066

Re: Proposed Joint Dakota Drilling Unit,  
S/2 of Section 1, Township 30 North,  
Range 12 West, San Juan County, New Mexico

Gentlemen,

I propose that we pool our respective oil and gas leases in the south half of section 1, T30N-R12W, N.M.P.M., San Juan County, New Mexico, to form a Dakota drilling and proration unit, as required by state and federal law, and that we jointly drill a 6880 ft. Dakota formation test well in the southwest quarter southwest quarter of the section. I further propose to act as the Operator of such a unit.

I have been contacted by the U.S. Geological Survey regarding the drilling of such a well on my federal oil and gas lease number NM-02707 (consisting of the southwest quarter of section 1) in order to protect the lease from drainage as required by the lease provisions. The U.S.G.S. cites three off-setting productive Dakota wells as subjecting the lease to possible drainage. These wells are 1) the Texaco #1 Barton (NW/4, S12-T30N-R12W), 2) the Beta #1 State Gas Com Unit "A" (SW/4, S36-T31N-R12W), and 3) the Amoco #1 Scott Gas Unit (NE/4, S1-T30N-R12W).

While I do not believe these wells are actually draining the federal lease, and I have so notified the U.S.G.S., the production data from these wells does indicate that a south-half drilling unit in section 1 should be economically productive from the Dakota.

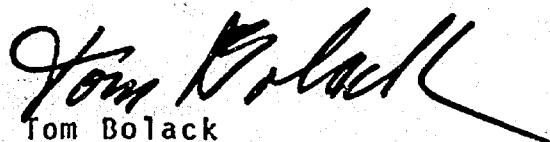
Because production possibilities also exist under the proposed location from both the Gallup formation and the Mesaverde formation, I propose to evaluate these possibilities for a dual completion of the Dakota with either of these formations when total depth for the proposed well is reached and electric logs are available. Since the Gallup formation would appear to offer the greater potentialities and would not require additional legal agreements, it would be given preferential consideration for a dual completion.

Should a dual completion be attempted, the Operator then would prorate the costs of the attempt on the basis of an A-B-C method of allocation in the manner illustrated by the two enclosed Well Cost Estimates, splitting the costs between the common costs, those attributable solely to the Dakota and those attributable entirely to the Gallup or Mesaverde. Each participant then would pay only his proportionate share of the costs allocated to his interests in the well. While this method of allocating well costs for a dual completion is somewhat more complex than for a single completion, it is necessary for a drilling block in which lease ownership is varied as to formational interests. It will also result in a lesser total cost for each participant with respect to his interest in comparison to those incurred in a single-zone completion. Should a dual Dakota/Mesaverde completion attempt appear warranted, it would be necessary to obtain additional communitization and operational agreements before conducting the attempt.

Your consideration of this proposal would be appreciated. If you do own the oil and gas leases as indicated on the enclosed proposed communitization agreement and if you are agreeable to joining in the drilling of a Dakota test well as proposed and under the terms of the enclosed proposed Operating Agreement, please have the appropriate person execute the Communitization and Operating Agreements and approve the proposed Well Cost Estimates by notarized signature, keeping one copy and returning the balance to me. As my information on the working and royalty interests on your respective leases as shown on Exhibit B of the communitization agreement may be incomplete or incorrect, please make any additions or corrections as necessary, initialing them.

If you have further questions or discussion with regard to my proposal, please contact me.

Very truly yours,

  
Tom Bolack

Enclosures:

- 1) 8 copies-Communitization Agreement
- 2) 8 copies-Operating Agreement
- 3) 2 copies-Well Cost Estimates



COMMUNITIZATION AGREEMENT

Contract No. \_\_\_\_\_

THIS AGREEMENT entered into as of the 21st day of April,  
1980, by and between the parties subscribing, ratifying or consenting hereto,  
such parties being hereinafter referred to as "parties hereto",

W I T N E S S E T H :

WHEREAS, the act of February 25, 1920 (41 Stat. 437) as amended and supplemented authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

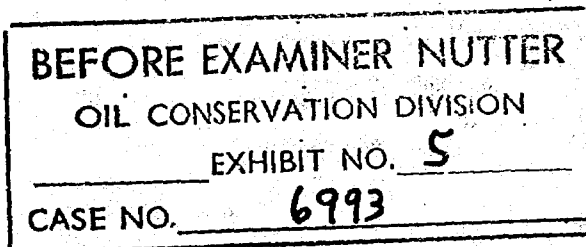
WHEREAS, the parties hereto own working, royalty, or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

Township 30 North, Range 12 West N.M.P.M.  
Section 1, South half (S/2)  
San Juan County, New Mexico



Containing 320 acres, more or less, and this agreement shall extend to and include only the Dakota formation underlying said lands and the dry gas and associated liquid hydrocarbons herein referred to as "communitized substances", producible from such formation.



2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit "B", designating the operator of the communitized area and showing the acreage, percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payment of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued. It is agreed that for any Federal lease bearing a sliding or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any non-communitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease plus any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement is effective April 21, 1980 upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or his duly authorized representative, and shall remain in force and effect for a period of two (2) years and for so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities; provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction. The two-year term of this agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination. In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

Tom Bolack

By: Tom Bolack

Date 4-21-80

Southland Royalty Co.

By: G. B. Babcock

G. B. BABCOCK  
ATTORNEY-IN-FACT

Dr. Eugene P. Mathias

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

Date \_\_\_\_\_

Approved by Southland  
Date 4-27-80

STATE OF NEW MEXICO) SS  
COUNTY OF SAN JUAN )

On this 21<sup>st</sup> day of April, 1980,

before me personally appeared Tom Bolack

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

Richard J. C. Tully  
NOTARY PUBLIC

My commission expires:

October 7, 1981

STATE OF COLORADO)  
COUNTY OF DENVER) SS

On this 27<sup>th</sup> day of May, 1980, before me, the undersigned, a Notary Public in and for said County and State, personally appeared Gary B. Babcock known to me to be the person whose name is subscribed to the foregoing instrument, who, being by me duly sworn, did say that he is the Attorney-in-Fact of Southland Royalty Company, and that said instrument was executed on behalf of said Corporation by authority of its Board of Directors, and said Gary B. Babcock acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of said Corporation, for the uses and purposes therein set forth.

Given under my hand and seal of office on the day and year first above written.

Donna M. Halton  
Notary Public

My Commission Expires: December 17, 1983

STATE  
COUNTY OF .

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_,

before me personally appeared Dr. Eugene P. Mathias  
to me known to be the person described in and who executed the foregoing  
instrument, and acknowledged that he executed the same as \_\_\_\_\_ free act  
and deed.

\_\_\_\_\_  
NOTARY PUBLIC

My commission expires:  
\_\_\_\_\_  
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EXHIBIT "A"

See Well Location and Acreage Dedication Plat for the communitized area of this agreement reproduced below:

T30N, R12W, N.M.P.M.

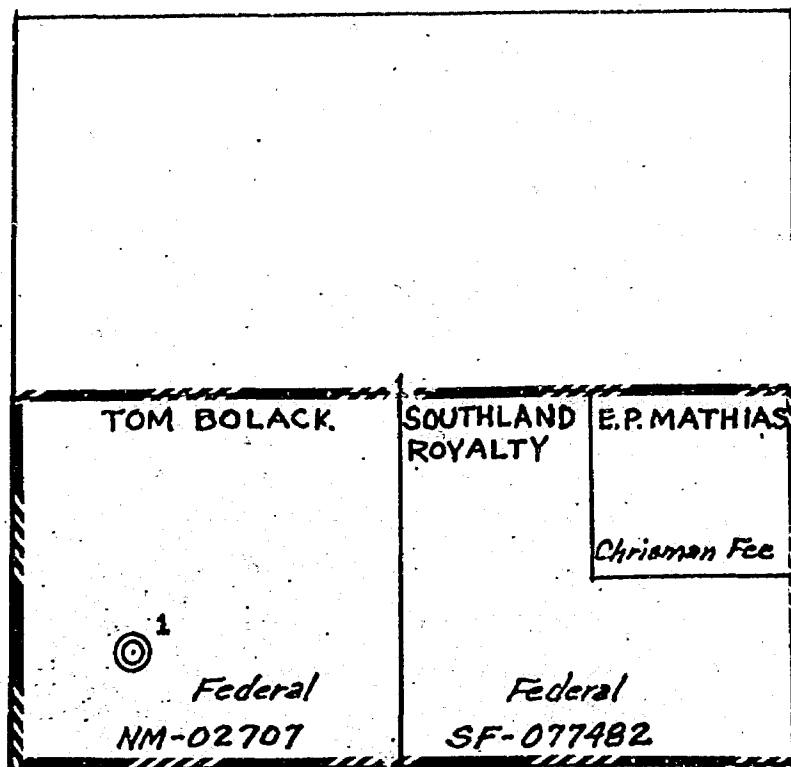




EXHIBIT "B"

To Communitization Agreement dated April 21, 1980,  
embracing:

the south half (S/2) of section 1, Township 30 North,  
Range 12 West, N.M.P.M., San Juan County, New Mexico

Operator of Comunitized Area: Tom Bolack

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lease Serial No. NM-02707

Lease Date: 5-1-52

Lease Term: 5 years (HBP)

Lessor: U.S. Government

Original Lessee: Tom Bolack

Present Lessee: Tom Bolack and El Paso Natural Gas Co.

Description of Lands Committed:

Township 30 North, Range 12 West, N.M.P.M.  
Section 1: SW/4

Number of Acres: 160.00

Name and Percent ORR Owners:

NONE.

Name and Percent WI Owners:

TOM BOLACK - 100% (Dakota formation)



EXHIBIT "B" (cont'd.)

To Communitization Agreement dated April 21, 1980,  
embracing:

the south half (S/2) of section 1, Township 30 North,  
Range 12 West, N.M.P.M., San Juan County, New Mexico

Operator of Comunitized Area: Tom Bolack

DESCRIPTION OF LEASES COMMITTED

Tract No. 2

Lease Serial No. SF077482  
Lease Date: 3-1-45  
Lease Term: 5 year (HBP)  
Lessor: U.S. Government  
Original Lessee: Juanita Holder  
Present Lessee: Southland Royalty Company

Description of Lands Committed:

Township 30 North, Range 12 West, N.M.P.M.  
Section 1: W/2 SE/4, SE/4 SE/4

Number of Acres: 120.00

Name and Percent ORRI Owners:

Name and Percent WI Owners:

EXHIBIT "B" (cont'd.)

To Communitization Agreement dated April 21, 1980,  
embracing:

the south half (S/2) of Section 1, Township 30 North,  
Range 12 West, N.M.P.M., San Juan County, New Mexico

Operator of Comunitized Area: Tom Bolack

DESCRIPTION OF LEASES COMMITTED

Tract No. 3

Lease Serial No.    Fee  
Lease Date:        7-3-50  
Lease Term:        10 year  
Lessor:            Wm. H. & Carlotta C. Chrisman  
Original Lessee:    N. Spatter  
Present Lessee:    Dr. Eugene P. Mathias

Description of Lands Committed:

Township 30 North, Range 12 West, N.M.P.M.  
Section 1: NE/4 SE/4

Number of Acres:    40.00

Name and Percent ORRI Owners:

Name and Percent WI Owners:

EXHIBIT "B" (cont'd)

Provision of Fee Lease Authorizing Pooling:

175

Lessor's herein agree to join and hereby authorize Lessee W. Gratter, or his assigns to join any unit or cooperative plan in order to obtain proper development, discovery and production of oil and /or gas, but no such unit shall exceed Three hundred and twenty (320) acres in area, and shall be in accordance with the laws of the State of New Mexico, or other lawful authority.

In Testimony Whereof We Sign, this the 8<sup>th</sup> day of July, 1956 (SEAL)

Witness.

William H. Gratterman (SEAL)  
Charlotte E. Gratterman (SEAL)

RECAPITULATION

Tract Number	Number of Acres Committed	Percentage of Interest in Communitized Area
1	160.00	50%
2	120.00	37½%
3	40.00	12½%
	Total 320.00acs.	100%

OPERATING AGREEMENT

Tom Bolack #1 Tommy Bolack Well

THIS AGREEMENT, made and entered into this 21st day of April, 1980, by and between TOM BOLACK, an individual, hereinafter referred to as "Bolack" or "Operator", whose mailing address is P.O. Box 255, Farmington, New Mexico 87401, and Southland Royalty Company, whose mailing address is 1600 First National Building, Fort Worth, Texas, 76102, and Dr. Eugene P. Mathias, an individual, whose mailing address is 12027 Venice Boulevard, Los Angeles, California 90066, hereinafter referred to as "Non-Operators":

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of certain Oil and Gas leases, which leases cover, among other lands, the following described land in San Juan County, New Mexico, to wit:

Township 30 North, Range 12 West, N.M.P.M.

Section 1: South half (S/2)

containing 320.00 acres, more or less; and

WHEREAS, it is the desire of the parties hereto to enter into an Operating Agreement covering the development and operation of the above-described tract in the Dakota formation as hereinafter set out:

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter contained to be kept and performed by the parties hereto, said parties do hereby agree as follows:

BEFORE EXAMINER NUTTER  
OIL CONSERVATION DIVISION  
EXHIBIT NO. 6  
CASE NO. 6993

## 1. FORMATION OF UNIT

For the purposes hereof, it is agreed that the aforementioned leases, insofar as they apply to the above-described lands, have been pooled to form a unit covering only the Dakota formation in and under the land described above, it being the intention of the parties hereto in forming said unit to pool all leases which they may now own or which they may hereafter acquire covering any interest in the unit.

## 2. OPERATOR

Tom Bolack is hereby designated and shall act as Operator of such unit in accordance with the terms and provisions of this agreement. Operator shall have full and complete management of the development and operation of the said unit for dry gas and associated liquid hydrocarbons producible from the Dakota formation as an entirety, but Operator agrees that no well shall be commenced upon said unit, except the well hereinafter provided for, without the consent of Non-Operators.

Bolack may resign as Operator at any time by giving notice to Non-Operators in writing sixty (60) days in advance of the effective date of such resignation and, in such event, the working interest owners of said unit shall immediately select a successor. In the event Bolack shall sell or otherwise dispose of all his interest in said unit, the right of operation herein conveyed shall not run with the transfer of assignment of such interest or inure to the benefit of Bolack's assignee but Non-Operators and Bolack's assignee shall immediately select a new Operator.

### 3. WELL

Operator shall commence or cause to be commenced drilling operations for the joint account of the parties hereto at a location in the SW/4 of the SW/4 of Section 1, Township 30 North, Range 12 West, San Juan County, New Mexico and shall thereafter drill said well to a depth sufficient to test the Dakota formation, unless salt, caprock, cavities, heaving shale, abnormal water flow or impenetrable substances are encountered in said well at a lesser depth. The parties hereto may also mutually agree to discontinue drilling operations at a lesser depth. Upon completion of said well, if it is capable of production, Operator shall notify Non-Operators of the date said well is connected to a gas gathering system, if it is so connected.

In the event a well capable of producing gas in paying quantities is shut-in, Operator shall immediately notify Non-Operators thereof; except that the Operator shall not be required to notify Non-Operators if the well should be shut-in for limited periods of time in order to balance production during peak load periods of time or for reasons of making mechanical repairs. All production obtained from the unit area and all material and equipment acquired hereunder for the joint account of the parties hereto shall be owned by the parties hereto in the proportions hereinafter specified in Article 4 of this Agreement.

### 4. COSTS AND EXPENSES

The entire costs and expenses involved in drilling, completing and operating said well, if said well is a commercial well, or in plugging and abandoning if said well is a dry hole or non-commercial well, shall be borne by the parties hereto as follows:



Tom Bolack	50.0%
Southland Royalty Company	37.5%
Dr. Eugene P. Mathias	12.5%

Unless Operator elects to require Non-Operators to advance their share of the costs and expenses, as hereinafter provided, Operator shall initially advance and pay all costs and expenses for the drilling of the well provided for in Article 3 hereof, as well as operation expenses of said unit, and shall charge Non-Operators with their pro rata part thereof on the basis of their proportionate interest in the unit as set out above.

All such costs, expenses, credits and related matter, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A" and made a part hereof for all purposes.

In the event of any conflict between the provisions contained in the body of this Agreement, and those contained in said Exhibit "A", the provisions of the Agreement shall govern to the extent of such conflict.

In the event that Operator elects to require Non-Operators to advance its proportionate share of the above-mentioned costs and expenses, Operator shall submit an itemized estimate of such costs and expenses for the succeeding calendar month to Non-Operators, showing therein the proportionate part of the estimated costs and expenses chargeable to the Non-Operators. Within fifteen (15) days after receipt of said estimate, Non-Operators shall pay to Operator their proportionate share of the estimated

costs and expenses. If payment of the estimated costs and expenses is not made when due, the unpaid balance thereof shall bear interest at the rate of twelve percent (12%) per annum from the due date until paid. Adjustments between estimated and actual costs and expenses shall be made by Operator at the close of each calendar month and the account of the respective parties adjusted accordingly.

The well to be drilled on the unit shall be drilled on a competitive contract basis at the usual rates prevailing in the field. However, Operator, if it so desires, may employ its own tools and equipment; in such event, the cost of drilling shall include, but shall not be limited to, the following charges: (a) all direct material and labor costs; (b) a proportionate amount of applicable departmental overhead and undistributed field costs; (c) rental charge on company equipment employed, all such charges to be determined in accordance with Operator's accounting practice; provided that in no event shall the total of such charges exceed the prevailing rate in the field, and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

Operator shall make no single expenditure in excess of Fifteen Thousand Dollars (\$15,000.00) without first obtaining the consent thereto of Non-Operators; provided, however, that nothing in this paragraph shall be deemed to prevent Operator from making an expenditure in excess of said amount if such expenditure becomes necessary because of a sudden emergency which may otherwise cause loss of life or extensive damage to property. In the event of such emergency expenditure, Unit Operator shall, within fifteen (15) days after making such expenditure, give written notice to Non-Operators. The approval

of the drilling of a well provided for hereinabove, however, shall include all expenditures for the drilling, completing, testing and equipping of such well.

5. RENTALS

Each party agrees to pay all rentals, minimum royalties and/or shut-in royalty which may become due under the lease or leases which such party is contributing to such unit hereunder, and Operator shall not have any obligation to pay any such rentals, minimum royalties and/or shut-in royalty except as to the lease(s) contributed by Operator. Each party further agrees to use its best efforts to keep and maintain in full force and effect the oil and gas lease(s) contributed by such party to said unit.

6. INSURANCE

As to all operations hereunder, the Operator shall carry for the benefit and protection of the parties hereto:

- (a) Workman's Compensation insurance in accordance with state, provincial, and federal laws, as applicable, and Employee's Liability insurance.
- (b) Comprehensive General Liability insurance, excluding products: A combined single limit of \$500,000 each accident for bodily injuries or death and property damage.
- (c) Comprehensive Automobile Liability insurance: A combined single limit of \$500,000 each accident for bodily injuries or death and Property damage.

Operator may elect to be a self-insurer provided Operator complies with applicable laws and in such event Operator shall

charge to the joint account, in lieu of any premiums for such insurance, a premium equivalent limited to amounts determined by applying manual insurance rates. The Operator shall not be required to carry any other insurance for the joint account. Operator shall require all third party contractor performing work in or on the premises covered hereby to carry such insurance and in such amounts as Operator shall deem necessary.

#### 7. DISPOSAL OF PRODUCTION

Each of the Parties hereto shall own and have the right, at its own expense, to take in kind or separately dispose of its proportionate part of all gas and associated liquid hydrocarbons produced and saved from the acreage covered hereby, exclusive of the production which may be used by Operator in developing and continuing operations on the said tract referred to in Paragraph 1 above, and of the production unavoidably lost, provided that each of the parties hereto shall pay or secure the payment of the royalty interest, overriding royalty interests, payments out of production and other similar interests, if any, from its proportionate part of said production. If at any time or times Non-Operators shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, Operator shall have the right, revocable by Non-Operators at will, to sell part of such production at the same price which Operator received for its own portion of the production, or to take such gas for its own use for resale; should gas be delivered by either party during any period that such other party or parties have failed or refused to take or sell its or their gas, then the party receiving or taking delivery of the gas agrees to account to the other party or parties for its or their proportionate part of the gas so delivered (1) if sold by the receiving party,

at the market price at the wellhead for said gas, or at the price received at the wellhead by such party, whichever is greater, or (2) if taken for its own use or transported for resale by the receiving party, at the highest price it is paying others in the area at the wellhead for gas of similar quality and pressure, not to exceed, however, the applicable just and reasonable area ceiling rate or the initial guideline area rate level, if appropriate, for such gas as prescribed by the Federal Power Commission or any successor governmental authority having jurisdiction therein, or (3) if no such purchases are being made by the receiving party, then at the market price at the wellhead. Any sales by Operator of Non-Operator's production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such sale be for a period in excess of one (1) year.

8. DURATION OF AGREEMENT

This Agreement shall become effective as of the date hereof upon execution by the parties hereto, notwithstanding the date of execution, and shall remain in full force and effect for a period of one (1) year and so long thereafter as dry gas and associated liquid hydrocarbons are or can be produced from any part of said unit in paying quantities, provided that prior to production in paying quantities from said unit and upon fulfillment of all the requirements of the Oil Conservation Commission of the State of New Mexico, with respect to any dry hole or abandoned well, this Agreement may be terminated at any time by the mutual agreement of the parties hereto. This Agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the unit are commenced and are thereafter conducted with reasonable diligence during the period of non-production.

#### 9. ROYALTY INTERESTS

It is agreed and understood that the burden of any royalty payable shall be borne and paid by each party in accordance with their leasehold interest in each lease in the subject formation.

#### 10. TAXES

Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this Agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws of the State of New Mexico, or which may be made subject to taxation under future laws, and shall pay for the benefit of the joint account all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill Non-Operators for their proportionate share of such tax payments provided by the Accounting Procedure attached hereto as Exhibit "A". All taxes (other than income-type taxes) upon or directly measured by the value of the production from the subject lands, which are not payable by the purchaser thereof, shall be paid by the Operator and apportioned among the Working Interest Owners in the same proportions as the assessed value of their respective portions of produced substances bears to the whole.

#### 11. TAXATION

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. Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. In making this election, each party hereto states that income derived by it from operations under this agreement can be adequately determined without computation of partnership taxable income. If the income tax of the state or states in which the property covered



hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised, and should the income tax laws of such state or states require evidence of such election the operator is authorized and directed to execute same on behalf of each party hereto. Beginning with the first taxable year of the operation each party agrees that the deemed election provided by Federal Regulations Section 1.761-2(b)(2)(ii) will apply and no party will file an application under Federal Regulations Section 1.761-2(b)(3)(i) to revoke said election.

12. ACCESS TO PREMISES, LOGS AND REPORTS

Operator shall keep accurate logs of the well drilled on said unit, which logs shall be available at all reasonable times for inspection by Non-Operators. Upon request of Non-Operators, Operator shall furnish to Non-Operators a copy of said logs, samples of cores and cuttings of formations encountered, and electrical surveys relative to the development and operation of said unit, together with any other information which may be reasonably requested pertaining to such well. Non-Operators shall have access to said unit and to all books and records pertaining to operations hereunder for the purposes of inspection at all reasonable times.

13. SURRENDER EXPIRATION, ABANDONMENT OR RELEASE OF LEASE

No lease or leases subject to this Agreement shall be surrendered, let to expire, abandoned or released, in whole or in part, unless the parties mutually consent thereto in writing. In the event that less than all parties hereto should elect to surrender, let expire, abandon or release

all or any part of a lease or leases subject to this Agreement and the other party or parties do not consent or agree, the party so electing shall notify the other party or parties not less than sixty (60) days in advance of such surrender, expiration, abandonment or release, and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party all of its rights, title and interest in and to said lease or leases, the well or wells located thereon, and the casing and other physical equipment in or on said well or wells. If the party or parties not so electing fail(s) to request an assignment within such sixty (60) day period, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases, or any part thereof. In the event such assignment is so requested, the party or parties to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the salvable casing and other physical equipment in or on the unit. After the delivery of any such assignment, the party making the assignment shall be released discharged from all the duties and obligations thereafter accruing or arising hereunder, in connection with the operation and development of the unit, with respect to the assigned lease or leases.

#### 14. LOSS OR FAILURE OF TITLE

In the event of the loss or failure of the title, in whole or in part, of any party hereto to any lease, or any interest therein, covered hereby, the interest of such party in and to the production obtained from the lease acreage shall be reduced in proportion to such loss or failure of title as of the date such loss or failure of title is finally determined; provided that such revision of ownership interest shall not be retroactive as to operating costs and expenses

incurred or as to revenue or production obtained prior to such date; and provided, further that each party hereto whose title has been lost or has failed, as aforesaid, shall indemnify the other parties hereto against, and shall hold such other parties harmless from all loss, cost, damage and expense which may result from, or in any manner arise because of, the delivery to such party of production obtained hereunder from the lease acreage covered hereby or the payment to such party of proceeds derived from the sale of any such production, prior to the date said loss or failure of title is finally determined; and provided, further, that in the event of the loss or failure of the title, in whole or in part, to the leasehold estate upon which the unit well or wells are located, then the party or parties contributing such leasehold estate to the lease acreage shall indemnify the other parties hereto for and shall hold the other parties harmless from all loss, costs, damages or expenses which may result from payment by such other parties of costs and expenses incurred in connection with the drilling, equipping and completing said unit well prior to the date said loss or failure of title is finally determined.

15. ABANDONMENT OF WELL

No well on the unit which is capable of producing dry gas and associated liquid hydrocarbons from the formation covered by this Agreement shall be abandoned without the mutual consent of the parties hereto. If any of the parties desire to abandon such well, such party or parties shall so notify the other party or parties in writing and the latter shall have thirty (30) days after receipt of such notice in which to elect whether to agree to such abandonment. If all parties hereto agree to such abandonment, such well shall be abandoned and plugged by the Operator at the expense of the joint account, and as much as possible of the casing

and other physical equipment in and on said well shall be salvaged for the benefit of the joint account. If any party or parties do not agree to said abandonment, such party or parties shall purchase the interest(s) of the party or parties desiring to abandon said well and the physical equipment therein and thereon; and within twenty-five (25) days after receipt of notice by the party or parties not electing to abandon the party or parties desiring to abandon shall execute and deliver to the other party or parties an assignment, without warranty of title, of all of its or their interest in said well and physical equipment, and in the working interest and gas leasehold estate insofar as it covers the formation covered by this Agreement in said unit. In exchange for said assignment, the purchasing party or parties shall pay to the assigning party or parties the salvage value of the latter's interest in the salvable casing and other physical equipment in and on said well, such value to be determined in accordance with the provisions of the Accounting Procedure attached hereto as Exhibit "A."

16. LAWS AND REGULATIONS

This Agreement shall be subject to all valid and applicable State and Federal laws, rules, regulations and orders, and the operations conducted hereunder shall be performed in accordance with said laws, rules, regulations and orders. In the event this Agreement or any provision hereof is, or the operations contemplated hereby are, found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this Agreement shall be regarded as modified accordingly, and as so modified, shall continue in full force and effect.

17. FORCE MAJEURE

No party to this Agreement shall be liable to any other party for any delay or default in performance under this Agreement due to any cause beyond its control and without its fault or negligence, including but not restricted to acts of God or the public enemy, acts or requests of the Federal or State Government or of any Federal or State officer purporting to act under duly constituted authority, floods, fires, wars, storms, strikes, interruption of transportation, freight embargoes or failure, exhaustion or unavailability or delays in delivery of any material, equipment or service necessary to the performance of any provision hereof, or the loss of holes, blow-outs or happening of any unforeseen accident, misfortune or casualty whereby performance hereunder is delayed or prevented.

18. OPERATOR'S LIEN

Operator is hereby granted a lien upon the working interest and leasehold estate of Non-Operators covered hereby and upon such Non-Operator's interest in the well or wells located on the lease acreage covered hereby, in the production obtained from said well or wells and in the physical equipment used, had and obtained in connection with the operation of said well or wells to secure the payment of said Non-Operator's proportionate share of said costs and expenses and of said estimated costs and expenses, together with interest thereon at the rate of twelve percent (12%) per annum. Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by a Non-Operator in payment of chargeable costs and expenses, Operator shall have the right to collect and receive from the purchaser or purchasers Non-Operator's proceeds from the production from the lease acreage covered

hereby until the amount owed of such indebtedness by such Non-Operator, plus interest as aforesaid, has been paid. By execution hereof, each subscribing party hereto agrees that each such purchaser should be entitled to rely upon Operator's statement concerning the existence and amount of any such default.

**19. NOTICES**

All notices, reports and other correspondence required or made necessary by the terms of this Agreement shall be deemed to have been properly served and addressed if sent by mail or telegram as follows:

Tom Bolack  
P.O. Box 255  
Farmington, N.M. 87401

Southland Royalty Company  
1600 First National Building  
Fort Worth, Texas 76102

Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, California 90066

**20. OPERATIONS BY LESS THAN ALL PARTIES**

If subsequent to the completion or abandonment of the well provided for in Paragraph 3, all of the parties hereto cannot mutually agree upon the reworking, deepening or plugging back of such well and such well is not then producing in paying quantities, any party or parties wishing to rework, deepen or plug back such well may give the other parties written notice of the proposed operation, specifying the work to be performed, the proposed depth, objective formation and the estimated cost of the operation. The parties receiving



such notice shall have thirty (30) days (except as to re-working, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday or any legal holiday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Paragraph 4 bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug

and abandon the well at their sole cost, risk and expense. If any well reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities from the Dakota formation, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- A. 300% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 300% of each such Non-Consenting Party's share of the cost of operation of the well commencing with the first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and

- B. 300% of that portion of the costs and expenses of reworking, deepening or plugging back, testing and completing, and 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operations, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Party with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which

would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchases, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

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

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the formation specified in Paragraph 3, if it is, or thereafter shall prove to be, a dry hole or non-commercial well.

21. HEIRS, SUCCESSORS AND ASSIGNS

All of the provisions of this Agreement shall extend to and be binding upon the parties hereto, their heirs, successors and assigns, and such provisions shall be deemed to be covenants running with the land covered hereby.

22. COUNTERPART EXECUTION

This instrument shall be binding on each party hereto who executes either the original hereof or a copy or counterpart hereof.

Signature Page attached to and made a part of that Operating Agreement dated April 21, 1980, between Tom Bolack, Southland Royalty Company and Dr. Eugene P. Mathias, covering the S/2 Section 1, T30N, R12W, San Juan County, New Mexico.

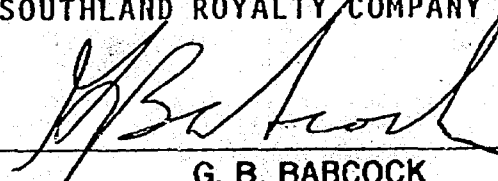
IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

TOM BOLACK

  
Tom Bolack

SOUTHLAND ROYALTY COMPANY

by

  
G. B. BABCOCK  
ATTORNEY-IN-FACT

DR. EUGENE P. MATHIAS

  
Eugene P. Mathias

STATE OF NEW MEXICO }  
COUNTY OF SAN JUAN } ss.

The foregoing instrument was acknowledged before me  
this 21<sup>st</sup> day of April, 1980, by  
Tom Bolock.

WITNESS my hand and official seal.

Richard J.C. Tully

Notary Public

My commission expires:

October 7, 1981

STATE OF Colorado }  
COUNTY OF Denver } ss.

This foregoing instrument was acknowledged before me  
this 21<sup>st</sup> day of May, 1980, by  
G. B. BABCOCK  
ATTORNEY-IN-FACT  
as Attorney-in-Fact on behalf of SOUTHLAND ROYALTY COMPANY.

WITNESS my hand and official seal.

Denna M. Halton

Notary Public

My commission expires:

My Commission expires December 17, 1983

STATE OF \_\_\_\_\_ }  
COUNTY OF \_\_\_\_\_ } ss.

The foregoing instrument was acknowledged before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 1980, by  
\_\_\_\_\_.

WITNESS my hand and official seal.

\_\_\_\_\_  
Notary Public

My commission expires:



## EXHIBIT " A "

Attached to and made a part of Operating Agreement Dated  
April 21, 1980 for the #1 Tommy Bolack; S/2  
Section 1, Township 30N, Range 12W, N.M.P.M.  
San Juan County, New Mexico

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

### 2. Statement and Billings

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

### 3. Advances and Payments by Non-Operators

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

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

### 4. Adjustments

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

### 5. Audits

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

### 6. Approval by Non-Operators

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

**II. DIRECT CHARGES**

Modified

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-three per cent (23%).

**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 twelve percent (12%) 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 (see section VI. Miscellaneous)

- 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 \$ 1045.00

Producing Well Rate \$ 200.00

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

##### (a) Drilling Well Rate

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

##### (b) Producing Well Rates

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

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

**B. Overhead - Percentage Basis**

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

(a) Development

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

(b) Operating

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

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

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

~~**B. 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.

**VI. MISCELLANEOUS**

The overhead costs stated in Article III will be adjusted annually on January 1 of each year to reflect an inflation adjustment factor. The inflation adjustment factor shall be the sum of factor equal to 1/100th of the quarterly percent change in the GNP implicit price deflator plus a correction factor of 1.02. The term "GNP implicit price deflator" means the preliminary estimate of the implicit price deflator, seasonally adjusted, for the Gross National Product, as computed and published by the Department of Commerce for the calendar quarter involved. The term "quarterly percentage change in GNP implicit price deflator" means the quarterly percentage change in the GNP implicit price deflator computed and published as an annual rate by the Department of Commerce for the most recent calendar quarter for which such quarterly percentage change has been so published at least 8 days before the beginning of January 1 of each year.

## BEFORE EXAMINER REVIEW

OIL CONSERVATION DIVISION

shall actual well cost subject to Operating Agreement

PARTNER'S APPROVAL

WELL COST ESTIMATE

OR FINAL COST NO. 7

CASE NO. 6993

TOM BOLACK

LEASE NAME Tommy Bolack	WELL NO. 1	FIELD Basin DK Flora Vista-G
LOCATION SW/4 SW/4, Sec.1, T30N, R12W	COUNTY San Juan	STATE New Mexico
FORMATION Gallup/Dakota	TOTAL DEPTH 5970/6880	TOTAL DAYS

Prorated Costs On A-B-C Method  
Items

Totals

A-Common

B- GAL

C- DK

## TUBULAR GOODS:

Surface Casing 8.5/Inch 2500 @ \$8.00/Ft.	\$ 2,000	\$ 2,000	\$	\$
Int. Casing 5 1/2 Inch 7000 @ 6.75/Ft.	47,250	47,250		
Prod. Casing 5 1/2 Inch 7000 @ 2.80/Ft.	19,600			19,600
Liner 2 3/8 Inch 7000 @ 2.05/Ft.	12,300		12,300	
Tubing 1 1/2 Inch 6000 @ 2.05/Ft.	12,300			

## WELLHEAD EQUIPMENT

19,500 7,000 12,500

## OTHER EQUIPMENT:

Surface Production Equipment	32,000		15,000	17,000
Liner Hangers and Production Packers & setng	3,500		3,500	
Tubing Accessories	2,000		1,000	1,000

## DRILLING COSTS:

Footage 6880 @ \$16.00 S/Ft.	110,080	110,080		
Day Work 3days @ 4,850 S/Day	14,550	14,550		
Day Work S/Day				
Day Work S/Day				
Service Unit 8days @ 1,500 S/Day	12,000		6,000	6,000
Rig Rental Tools Csg. CREW	2,000	2,000		
Rig Moving Costs (cat)	1,000	1,000		

## CEMENTING: (Cement, Pump Trucks and Drayage)

Surface	2,500	2,500		
Intermediate				
Production	19,000	19,000		
Liner				
Liner				
Displacement charges (Nowco)	6,000		3,000	3,000

## Sq. Jobs

FORMATION TREATMENT: NO.	69,000		16,000	53,000
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## Acidizing total stimulation costs

Fracturing - Equipment	4,200		1,200	3,000
Fluid Wtr Gel.	3,000		3,000	
Fluid Additives Pkr & bridge plug				
Propping Agent Lbs.	3,700		700	3,000
Tank Rental				

## SPECIAL SERVICES (Surveys and Tests)

Perforating	9,000		2,000	7,000
Mud Logging				
Electric and Radioactive Logging	14,000	14,000		

## Drill Stem Tests

Cores				
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## MATERIALS:

Drilling Mud and Chemicals (mod. j.c.)	40,000	40,000		
Drilling Gas or Air				
Water all trucked	7,000	7,000		
Bits				
Fuel	3,000	3,000		
Hauling				
Tubular Inspection	5,000		2,000	3,000
Miscellaneous	8,000	8,000		

## ACCESS AND LOCATION AND CLEANUP

SUPERVISION, LEGAL, ETC.	8,000	8,000		
	479,180	278,380	72,700	128,100

Plus 5% Contingency  
TOTAL COST

\$ 503,140 \$ 292,300 \$ 76,335 \$ 134,505

+134,505

426,805= Dk only

GAL = 1/2 A+B = \$222,485

DK = 1/2 A+C = \$280,655

## MATIAS PRO-RATA COSTS:

1) GAL: DK DUAL - \$35,082

2) DK ONLY - \$53,350



May 30, 1980

Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, California 90066

Re: Proposed Joint Dakota Test Well,  
SW/4 SW/4, S1-T30N-R12W,  
San Juan Co., New Mexico

Dear Dr. Mathias,

One month ago I wrote to you proposing that you join with me and Southland Royalty Company in pooling our respective oil and gas leases in the south half of section 1 Township 30 North, Range 12 West, N.M.P.M. in San Juan County, New Mexico to form a 320 acre drilling unit on which we would then drill a 6880 ft. Dakota test well. The letter included a communitization agreement, a proposed operating agreement and a well cost estimate, all for your approval. I have since received a favorable response from Southland Royalty, but have not heard from you to date. Would you please respond to my inquiry as soon as possible, indicating whether or not you will join in the drilling of this proposed well? The increase in drilling activity has created both scarcity of available drilling rigs and a slow-down in governmental clearances and, as it is my intention to drill this well at least by fall and certainly during 1980, I urgently request that you inform me as to whether or not you elect to join the proposed well. Thank you.

Very truly yours,

  
Tom Bolack

laj

cc: Southland Royalty Co.

BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	8
CASE NO.	6993

EUGENE P. MATHIAS, M.D., INC.  
PHYSICIAN AND SURGEON  
12027 VENICE BOULEVARD  
LOS ANGELES 66, CALIFORNIA

June 13, 1980

Tom Bolack  
S. Route 3 Box 47  
Farmington, New Mexico 87401

Dear Mr. Bolack,

The lease you are referring to consists of 40 acres. An equal portion (40 acres) adjoining on the north was communitized some years ago for the drilling of the Scott 1A now being operated by Amoco.

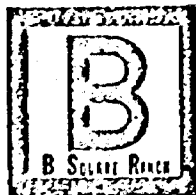
I am willing to consider a reasonable buy offer for the total 80 acres.

Yours truly

EP Mathias, M.D.

KEEPING OUR LAND PRODUCTIVE . . . BUILDING NEW MEXICO

EXPERIMENTAL FARM



AGRICULTURAL RESEARCH

TOM BOLACK, OWNER

RT. 3 SOUTH, BOX 47  
FARMINGTON, NEW MEXICO 87401

June 17, 1980

Eugene P. Mathias, M.D. Inc.  
12027 Venice Boulevard  
Los Angeles, California 90066

Re: Proposed Joint Dakota Test Well,  
SW/4 SW/4, S1-T30N-R12W,  
San Juan Co., New Mexico

Dear Dr. Mathias,

With regard to your June 13 letter offering to sell your 40 acres in the above proposed drilling block, my preference is still that you join in the drilling of the proposed well. I was hopeful that you would have signed and returned the communitization and operating agreements and well cost estimate sent to you over two months ago by now so that I could proceed with the drilling of the well.

I am reluctant to make an offer for your acreage primarily because it is burdened with what I think is an excessive overriding royalty, if the information that I have is correct that there is 30% in outstanding royalties against the lease. Also I would be interested only in the southern 40 acres, as the adjoining 40 acres to the north that you mention as being communitized for the Amoco #1-A Scott well, would appear to be committed already to a relatively weak well showing declining production. If this 40 acres is also burdened with high overriding royalties, it would be even less attractive.

However in the interests possibly of speeding the drilling of the well, I am willing to make an offer to purchase your acreage, if you will act promptly on the offer. If your net revenue interest in the NE/4 SE/4 of section 1, T30N-R12W, is indeed 70% and you represent that you own this oil and gas interest, I will pay you \$2,000 for that interest. If you require selling a package of the full 80 acres, I would need to know all of the commitments attached

Page 2

to the northern 40 acres, including information on the royalties, overrides, terms of the Amoco operating agreement, etc. But if the net revenue interest is the same as the southern 40 acres and if the Amoco operating agreement is of a standard nature, I would be willing to add an additional \$1,000 for this interest for a total of \$3,000 for the 80 acres. This offer would be conditioned upon your providing me with the complete documentation of your ownership and the terms and provisions of your obligations.

I'm sure that you are aware that the state of New Mexico has forced-pooling provisions in its regulation of oil and gas operations. These rulings provide that if a leaseholder in a drilling block will not agree to join with the other leaseholders, who are desirous of drilling the block, then the other leaseholders may request a hearing with the Oil and Gas Conservation Division for remedy to proceed with the drilling. Because there has been a considerable time since I made my original drilling proposal to you without response on your part, and because our other partner, Southland Royalty Co., has executed the required agreements and is also eager to commence the drilling of the proposed well, I earnestly request that you give prompt consideration first to joining us in the drilling of the well by executing the agreements previously sent to you, or failing that, to inform me soon if my offer to purchase your interests is acceptable.

If I do not hear from you before the first of this coming month, it will be necessary for me to ask for a hearing before the Oil and Gas Conservation Division to request that your acreage in the south half of section 1 be force-pooled for the proposed Dakota test. Please let me hear from you soon.

Very truly yours,



Tom Bolack

1aj

EUGENE P. MATHIAS, M.D., INC.  
PHYSICIAN AND SURGEON  
12027 VENICE BOULEVARD  
LOS ANGELES 66, CALIFORNIA

June 19, 1980

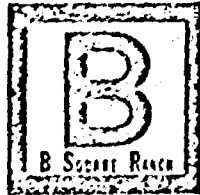
Tom Black  
Rt 3 South, Box 47  
Farmington, New Mexico 87401

Dear M. Black,  
Your letter of June 17<sup>th</sup> received. My offer to  
you to purchase the necessary acreage for your  
communitization should have indicated a  
reluctance on my part to become financially  
involved in any more drilling. In 1960  
I did pay \$12,500. for the total 80 acres.  
My attorneys are interested in knowing more  
about New Mexico's ruling forcing a lease holder  
to join with others against his will.  
Please send documentation or references so that  
we may read this ruling in its entirety.

Yours Truly  
E. Mathias.

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EXPERIMENTAL FARM



AGRICULTURAL RESEARCH

TOM BOLACK, OWNER

RT. 3 SOUTH, BOX 47  
FARMINGTON, NEW MEXICO 87401

June 24, 1980

Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, CA 90066

Re: Proposed Joint Dakota Test Well,  
SW/4 SW/4, S1-T30N-R12W,  
San Juan Co., New Mexico

Dear Dr. Mathias,

In response to your request for documentation on the State of New Mexico's regulations on compulsory pooling, I am enclosing (1) a copy of the act pertaining to statutory unitization, (2) a copy of the draft form showing the type of information considered by the Oil Conservation Division in a compulsory pooling hearing and (3) a copy of a recent docket for the O.C.D. showing four cases involving compulsory or forced-pooling requests by various operators.

As stated in my last letter of June 17, I am still hopeful that you will give serious consideration to joining Southland Royalty and me in the drilling of this proposed well. My evaluation of the economics involved indicates that, even with your owning only a 70% net revenue and also having excessive lease acquisition costs, you could still make a reasonable profit from joining in our well. I believe an independent evaluation by competent technical help would verify this.

However, I also recognize your reluctance to join because you have already paid what, in my opinion, was an exorbitant price for this acreage by either 1960 or 1980 standards, that you have an unusually heavy royalty burden for a fee lease and that your joining in the Amoco well apparently resulted in a something less-than-satisfactory experience for you. These same considerations are reflected in the amount of my offer to you for your acreage, but it is an offer I believe to be fair and valid for the circumstances as I understand them. You did not indicate in your letter if my assumptions about

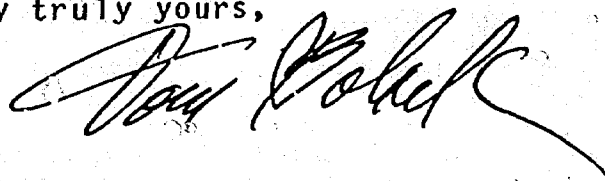


Dr. Eugene P. Mathias  
June 24, 1980  
Page 2

your interest are correct. If they are incorrect I would appreciate knowing it and I could then perhaps revise my offer.

Because going to the Oil Conservation Division for a compulsory pooling order would take both additional time and expense, I am willing to increase my previous offer for your acreage by an additional \$1,000, if you still will not contemplate joining the well. This offer is again contingent upon your providing documentation to verify my assumptions as to your ownership and obligations on the 80 acres. This offer amounts to a total of \$4,000 for the 80 acres. Again a quick decision on your part is necessary, as I am obliged to proceed with a request for a compulsory pooling hearing very soon due to the time constraints. Please let me hear from you.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Tom Bolack", with a stylized, flowing script.

Tom Bolack

laj

Enclosure

ECONOMIC EVALUATION OF DR. E.P. MATHIAS INTEREST  
IN THE BOLACK #1 TOMMY BOLACK WELL

I. Dakota well=\$426,805 (from AFE); Mathias portion (1/8)=\$53,350;

Assuming Dakota gas production

A. July, 1980, HGPA Section 103 price=\$2.255/MM Btu

1. Btu adjustment (assume 1100 Btu)=2.481/MCF

2. Pressure base adjustment (to 15.025 psi.)=2.53/MCF

3. Taxes @ 7%=\$0.177

4. Royalties @ 30%=0.759

Net price=\$1.594/MCF

B. To recover \$53,350@ \$1.594/MCF net will require  
32,469MCF production to Mathias int., or  
267,754MCF production from the well.

C. To produce 267MMCF from the Texaco#1 Barton took approx. 18+ yrs.  
from the Amoco#1 Scott took approx. 11.0 yrs.  
from the Consol.#1 Clayton took approx. 11.7 yrs.  
from the Beta#1 St.GasCom.A took approx. 15+ yrs.

D. Assuming an 11 yr. recovery (the best) and further assuming  
a 12% interest rate (current prime plus 1%) compounded semi-  
annually  
then \$53,350 has an undeferred value of \$181,367;  
a present worth factor of 0.2330; and  
a compound amount factor of 4.29

E. If a 9% per year inflation rate is added,  
Then the 11 year recovery results in  
an undeferred value of \$478,877;  
a present worth factor of 0.1114; and  
a compound amount factor of 8.98

II. Dakota/Gallup dual well=\$503,140 (from AFE);  
Mathias portion=\$35,082

A. Again assuming Dakota gas production only (Mathias does  
not share in Gallup production) to bring net price of \$1.594/MCF, then

B. To recover \$35,082@ \$1.594/MCF net will require  
22,009MCF production to Mathias int., or  
176,070MCF production from the well

C. To produce 176MMCF from the Texaco#1 Barton took approx. 13.3 yrs.  
from the Amoco#1 Scott took approx. 5.6 yrs.  
from the Consol.#1 Clayton took approx. 5.8 yrs.  
from the Beta#1 St.GasCom.A took approx. 14.7 yrs.

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

EXHIBIT NO. 9

CASE NO. 6993

- D. Assuming a 10 yr. recovery (an average), and further assuming a 12% interest rate compounded semi-annually, then \$35,082 has an undeferred value of \$119,263; a present worth factor of 0.2942; and a compound amount factor of 3.40; or
- E. Assuming a 5.6 year recovery (the best) then \$35,082 has an undeferred value of \$63,563; a present worth factor of 0.5519; and a compound amount factor of 1.81.
- F. If a 9% per year inflation rate is added, then the 5.6 year recovery results in an undeferred value of \$107,224; a present worth factor of 0.3272; and a compound amount factor of 3.06.

July, 1980

July 1980

DAKOTA OIL & GAS PRODUCTION HISTORY  
SELECTED WELLS ADJACENT TO FEDERAL LEASE NM-02797  
SAN JUAN CO., NEW MEXICO

YEAR	TEXACO #1 BARTON SE NW 12-30N-12W	ANOCO #1 SCOTT GU NE NE 1-30N-12W	SOUTHLAND ROY #1 ZACHARY SE NE 2-30N-12W	CONSOLID. #1 CLAYTON SW NE 2-30N-12W	BETA #1 ST. GAS COM A SE SW 36-31N-12W
	MCF	MCF	MCF	MCF	MCF
	BBL'S	BBL'S	BBL'S	BBL'S	BBL'S
	CUM MNGF	CUM MNGF	CUM MNGF	CUM MNGF	CUM MNGF
	(6 mos.)	(8 mos.)	(5 mos.)	(12 mos)	(6 mos)
1962	16,505	58,992	4,249	54,527	29,543
1963	12,005	41,625	1,717	40,009	28,351
1964	6,345	1,265	604	27,540	18,955
1965	10,808	68	222	23,444	11,088
1966	7,286	1	(5 mos.)	18,369	29,543
1967	9,823	0	(1 yr.)	19,104	18,955
1968	12,670	0		16,924	484
1969	12,056	0		15,058	269
1970	13,358	0		13,953	11,088
1971	16,056	0		13,149	4,211
1972	14,663	0		15,893	5,373
1973	14,996	0		12,322	16,820
1974	16,285	77		11,474	13,342
1975	15,147	0		12,424	5,241
1976	13,867	0		11,376	6,709
1977	13,352	0		12,004	13,500
1978	11,234	0		11,146	7,427
1979	12,289	0		5,636	5,369
1980	6,345	0			2,601
	(18 yrs)	(16 1/2 yrs)			6,406
					4,336
					1,232
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					11,088
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					18,955
					29,543
					1,232
					926
					484
					269
					11,088
					18,955

July 1980

DAKOTA OIL & GAS PRODUCTION HISTORY  
SELECTED WELLS ADJACENT TO FEDERAL LEASE NM-02707  
SAN JUAN CO., NEW MEXICO

YEAR	TEXACO #1 BARTON SE NW 12-30N-12W			AMOCO #1 SCOTT GU NE NE 1-30N-12W			SOUTHLAND ROY #1 ZACHARY SE NE 2-30N-12W			CONSOLID. #1 CLAYTON SW NE 2-30N-12W			BETA #1 ST. GAS COM A SE SW 36-31N-12W		
	HCF	BBLs	CUH MMCF	HCF	BBLs	CUH MMCF	HCF	BBLs	CUH MMCF	HCF	BBLs	CUH MMCF	HCF	BBLs	CUH MMCF
1962	16,505	682	(6 mos.)							54,527	1,418	(12 mos)			
1963	12,005	989	28.5							40,009	573	94.5			
1964	6,345	640	34.9	58,992	1,265	(8 mos.)				27,540	285	122.1			
1965	10,808	654	45.7	41,625	68	100.6	4,249	604	(5 mos.)	23,444	243	145.5	29,543	1,232	(6 mos)
1966	7,286	457	52.9	29,018	1	129.6	1,717	222	5.9	18,369	186	163.9	28,351	926	57.9
1967	9,823	415	62.8	26,877	0	156.5			(1 yr.)	19,104	191	183.0	18,955	484	76.9
1968	12,670	378	75.4	21,478	0	178.0				16,924	144	200.0	11,080	269	37.9
1969	12,056	364	87.5	6,262	0	104.3				15,060	190	215.0	4,211	160	92.2
1970	13,359	292	100.9	22,900	0	207.2				13,953	55	229.0	5,373	139	97.5
1971	16,056	265	116.0	12,334	0	219.5				13,149	194	242.1	16,820	341	114.3
1972	14,663	287	131.6	11,881	0	231.4				15,893	396	258.0	13,342	187	127.7
1973	14,996	292	146.6	14,545	0	245.9				12,322	64	270.3	5,241	144	132.9
1974	16,285	192	162.9	13,763	77	259.7				11,474	0	281.8	6,709	0	139.6
1975	15,147	66	178.0	24,389	0	284.1				12,424	0	294.2	13,500	129	153.1
1976	13,867	96	191.9	23,176	0	307.2				11,376	0	305.6	7,427	43	160.6
1977	13,352	133	205.2	11,377	0	318.6				12,348	0	317.9	5,369	50	165.9
1978	11,234		216.5	13,779	0	332.4				12,004	0	329.9	2,601	0	168.5
1979	12,289		228.7	12,680	0	345.1				11,146	0	341.1	6,406	0	174.9
1st 1/2 '80	6,345		236.6 (18 yrs)	5,026		343.4 (16 1/2 yrs)				5,636		346.7 (18 1/2 yrs)	4,336		179.3 (15 yrs)

JAMES B. COONEY, P.A.

ATTORNEYS AT LAW

511 WEST APACHE

P. O. BOX 268

FARMINGTON, NEW MEXICO 87401

[505] 327-3388

JAMES B. COONEY (1908-1979)  
RICHARD T. C. TULLY

DIRECTORS:  
KENDALL O. SCHLENKER  
JOHN R. COONEY

July 10, 1980

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

Re: Application for Compulsory Pooling  
San Juan County, New Mexico

Dear Mr. Ramey:

Enclosed are the following instruments concerning the Application for Compulsory Pooling by Tom Bolack for a proposed Dakota well to be located in the S/2 of Section 1, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico:

1. Three copies of the Application.
2. Three copies of a Certificate of Mailing stating that Dr. Eugene P. Mathias, all other working interest owners in the Dakota Formation in the S/2 of the above-described Section 1, the United States Geological Survey, and the Supervisor of the District III Office of the New Mexico Oil Conservation Division have been notified of this Application.

It would be appreciated if you would place this Application for hearing on or after August 6, 1980.

Thank you in advance for your assistance and cooperation in this matter. Please advise if you need further information.

Sincerely,

*Richard T. C. Tully*

Richard T. C. Tully

RTCT:cb


Enclosures

BEFORE EXAMINER NUTTER	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	1
CASE NO.	6993



# DISTRIBUTION

1. Frank Chavez, Supervisor  
District III Office  
Energy and Minerals Department  
New Mexico Oil Conservation Division  
1000 Rio Brazos Road  
Aztec, New Mexico 87410
2. Jim Sims, District Engineer  
U. S. Geological Survey  
Post Office Box 959  
Farmington, New Mexico 87401
3. Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, California 90066
4. Larry Van Ryan  
Production Superintendent  
Southland Royalty Company  
Post Office Box 570  
Farmington, New Mexico 87401
5. Tommy Bolack and Terry Bolack,  
Co-Personal Representatives of the  
Estate of Alice N. Bolack, Deceased  
Route 3 South, Box 47  
Farmington, New Mexico 87401
6. ✓ William R. Speer  
Consulting Geologist  
Post Office Box 255  
Farmington, New Mexico 87401

REGISTERED NO. 7000		POSTMARK OF																								
Reg. Fee \$ 3.50	Special Delivery \$																									
Handling Charge \$	Return Receipt \$																									
Postage \$ 54	Restricted Delivery \$																									
RECEIVED BY <i>Diane</i>																										
		MAILING OFFICE																								
FULL VALUE \$ NV																										
<table border="1"> <tr> <td rowspan="4">CUSTOMER COMPLETION (Please Print)</td> <td>FROM</td> <td colspan="2"><i>Tom Bolack</i></td> </tr> <tr> <td></td> <td colspan="2"><i>Rt # 3 Box 47</i></td> </tr> <tr> <td></td> <td colspan="2"><i>Farmington, NM</i></td> </tr> <tr> <td></td> <td colspan="2"><i>Dr. Eugene P. Mathias</i></td> </tr> <tr> <td rowspan="3">TO</td> <td></td> <td colspan="2"><i>12027 Venice Blvd.</i></td> </tr> <tr> <td></td> <td colspan="2"><i>Los Angeles, CA</i></td> </tr> <tr> <td></td> <td colspan="2"><i>90066</i></td> </tr> </table>				CUSTOMER COMPLETION (Please Print)	FROM	<i>Tom Bolack</i>			<i>Rt # 3 Box 47</i>			<i>Farmington, NM</i>			<i>Dr. Eugene P. Mathias</i>		TO		<i>12027 Venice Blvd.</i>			<i>Los Angeles, CA</i>			<i>90066</i>	
CUSTOMER COMPLETION (Please Print)	FROM	<i>Tom Bolack</i>																								
		<i>Rt # 3 Box 47</i>																								
		<i>Farmington, NM</i>																								
		<i>Dr. Eugene P. Mathias</i>																								
TO		<i>12027 Venice Blvd.</i>																								
		<i>Los Angeles, CA</i>																								
		<i>90066</i>																								
PS FORM 3806 Oct. 1978 RECEIPT FOR REGISTERED MAIL (Customer Copy)																										

All Entries MUST be in Ball Point Pen or Typed

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION  
OF TOM BOLACK FOR COMPULSORY POOL-  
ING, SAN JUAN COUNTY, NEW MEXICO

CASE NO. \_\_\_\_\_

APPLICATION

COMES NOW Tom Bolack, by his attorney, Richard T. C. Tully, and, as provided by Section 70-2-17(C), NMSA 1978 Compilation, hereby makes application for an Order pooling all of the mineral interests in and under the S/2 of Section 1, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico, and in support thereof further states:

1. Applicant proposes to dedicate the S/2 of the above-mentioned Section 1 to a well to be drilled to test the Dakota Formation within the boundary of the proposed pooled unit.
2. Applicant is the owner of 50% of the working interest in and under the S/2 of the above-mentioned Section 1, and Applicant has the right to drill thereon.
3. Applicant has sought and at the time of filing this Application has been unable to obtain the voluntary agreement or consent to join in the drilling of the well from the following operators:

<u>Name</u>	<u>Interest</u>
Dr. Eugene P. Mathias	12.50% Working Interest

4. To the best of the Applicant's information and belief, the address for Dr. Eugene P. Mathias is 12027 Venice Boulevard, Los Angeles, California 90066.

5. The pooling of the above interest and the completion of this well will avoid the drilling of unnecessary wells, it will further protect correlative rights, and it will prevent waste.

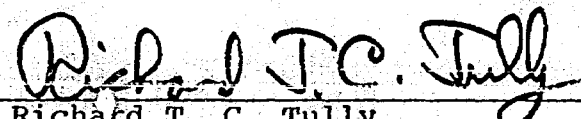
6. In order to permit the Applicant to obtain his just and fair share of the oil and gas underlying the subject lands, the mineral interests should be pooled and the Applicant should be designated as the Operator of the well to be drilled.

WHEREFORE, Applicant prays that this Application be set for hearing before the Division or the Division's duly-appointed examiner, and that after notice and hearing as required by law the Division enter its Order pooling all of the mineral interests of the Dakota Formation underlying the S/2 of Section 1, Township 30 North, Range 12 West, NMPM. Applicant further prays that he be named Operator of the well, and that the Order make provision for the Applicant to recover out of production his costs of drilling, completing, equipping, and operating the subject well, including costs of supervision and overhead charges, and a risk factor in the amount of 200% for the risk assumed by the Applicant in drilling, completing, and equipping the well, and such other and further relief as may be proper.

Respectfully submitted,

TOM BOLACK

By:

  
Richard T. C. Tully  
Attorney for Applicant  
JAMES B. COONEY, P.A.  
P. O. Box 268  
Farmington, New Mexico 87401  
505-327-3388

CERTIFICATE OF MAILING

I hereby certify that I mailed a copy of the foregoing Application to Dr. Eugene P. Mathias at 12027 Venice Boulevard, Los Angeles, California 90066 by "Certified Mail - Return Receipt Requested" and

by First Class Mail, pre-addressed and postage pre-paid, to all other working interest owners in the Dakota Formation in the S/2 of the above-described Section 1, the United States Geological Survey, and the Supervisor of the District III Office of the New Mexico Oil Conservation Division on the 11<sup>th</sup> day of July, 1980.

*Richard T. C. Tully*  
Richard T. C. Tully  
Attorney for Applicant

RECEIVED JUL 17 1980

UNITED STATES POSTAL SERVICE  
OFFICIAL BUSINESS

SENDER INSTRUCTIONS  
Pay your name, address, and ZIP CODE in the space below.  
• Complete items 1, 2, and 3 on the reverse.  
• Modest gummed ends and attach to front of article if space permits. Otherwise attach to back of article.  
• Enclose article "Return Receipt Requested" adjacent to number.

RETURN TO

Richard T. C. Tully - Attorney at Law  
(Name of Sender)

P. O. Box 268  
(Street or P.O. Box)

Farmington, New Mexico 87401  
(City, State, and ZIP Code)

RE: Tommy Bolack #1 Well

PS Form 3811, Apr. 1977 RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

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

1. The following service is requested (check one).  
☒ Show to whom and date delivered..... 45¢  
☐ Show to whom, date, and address of delivery.....  
☐ RESTRICTED DELIVERY Show to whom and date delivered.....  
☐ RESTRICTED DELIVERY Show to whom, date, and address of delivery.....  
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:  
 Dr. Eugene Mathias  
 12027 Venice Boulevard  
 Los Angeles, California 90066

3. ARTICLE DESCRIPTION:  
 REGISTERED NO. 738982 CERTIFIED NO. INSURED NO.  
 (Always obtain signature of addressee or agent)

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

4. DATE OF DELIVERY 7/14 POSTMARK JUL 14 1980

5. ADDRESS (Complete only if requested)

6. UNABLE TO DELIVER BECAUSE

★GPO: 1977-0-249-595

EXHIBIT NO. 2  
CASE NO. Texaco 6993

EXHIBIT NO. 2

CASE NO. Texaco 6993







United States Department of the Interior

GEOLOGICAL SURVEY  
Conservation Division  
P. O. Box 26124  
Albuquerque, N. M. 87125

FEB 06 1979

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

FEB 13 1979

El Paso Natural Gas Company  
P. O. Box 990  
Farmington, New Mexico 87401

Gentlemen:

According to our records, you are the operator of Federal oil and gas lease NM-02707. This lease is subject to drainage by the wells listed on the attached sheet. Land within the lease subject to drainage is the SW $\frac{1}{4}$  sec. 1, T. 30 N., R. 12 W., N.M.P.M.

Both the terms of your lease and the oil and gas operating regulations require protection of the leased lands from drainage. Accordingly, please advise us by no later than thirty days from receipt of this letter regarding your plans for protecting the subject Federal lease from drainage.

If at that time, it is decided that no offset protection is necessary, detailed engineering, geologic and economic data should be furnished to justify your position.

Sincerely yours,

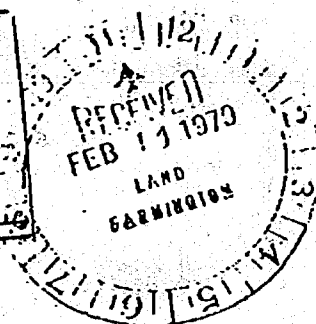
*Gene F. Daniel*

GENE F. DANIEL  
Asst. Oil and Gas Supervisor, SRMA

Enclosure



BEFORE EXAMINER NUTTER  
OIL CONSERVATION DIVISION  
EXHIBIT NO. 3  
CASE NO. 6993





TEXAS

- 1) L. M. Barton Well No. 1, in the SE $\frac{1}{4}$ NW $\frac{1}{4}$  sec. 12, T. 30 N., R. 12 W., N.M.P.M. This well was reported as completed on September 15, 1961 in the Dakota formation with an initial potential of 2,305 MCF per day. - AOF (IP = 216,211 MCF) *Don't know* ID 1813 MCF, 2013 MCF AOF
- 2) State Gas Com Unit "A" Well No. 1, in the SE $\frac{1}{4}$ SW $\frac{1}{4}$  sec. 36, T. 31 N., R. 12 W., N.M.P.M. This well was reported as completed on March 9, 1965 in the Dakota formation with an initial potential of 2,486 MCF per day.
- 3) Scott Gas Unit Well No. 1, in the NE $\frac{1}{4}$ NE $\frac{1}{4}$  sec. 1, T. 30 N., R. 12 W., N.M.P.M. This well was reported as completed on June 9, 1962 in the Dakota formation with an initial potential of 2,541 MCF per day.

1) 1978 Prod. = 11,224 MCF (31 MCFDD in 365.3 days produced) '75 SIPT 677"  
 Cumul. thro' '77 = 205,222 MCF (13,352 MCF in '77) WHFP 243"  
 216,456 MCF thro' 1978  
 (16.5 yrs.) *Key 1976 Prod.* 37,108  
 Cumul. thro' '77 = 763,335 MCF  
 800,223 MCF

2) 1978 Prod. = 2,601 MCF (7 MCFDD in 365.3 days produced)  
 Cumul. thro' '77 = 172,985 MCF (5,369 MCF in '77)  
 175,586 MCF thro' 1978 (13.5 yrs.)

3) 1978 Prod. = 13,773 MCF (38 MCFDD in 365.3 days produced)  
 Cumul. thro' '77 = 311,571 MCF (11,377 MCF in '77)  
 325,350 MCF thro' 1978 (14.34 yrs.)

4) Aztec

**El Paso** NATURAL GAS  
COMPANY

P. O. BOX 990  
FARMINGTON, NEW MEXICO 87401  
PHONE. 505 325 2841

February 15, 1979

UNITED STATES GEOLOGICAL SURVEY  
Attention: Mr. Gene F. Daniel  
Post Office Box 26124  
Albuquerque, New Mexico 87125

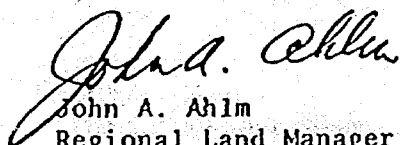
Re: Your Letter Dated February 6, 1979  
Regarding Possible Drainage to  
Federal Oil & Gas Lease NM-02707  
San Juan County, New Mexico

Gentlemen:

We have received the captioned letter regarding possible drainage to the SW $\frac{1}{4}$  Section 1, T30N, R12W, in the Dakota formation.

Please be advised that the Dakota rights in this lease are owned by Mr. Tom Bolack and not El Paso Natural Gas Company. Therefore, we are forwarding your letter to Mr. Bolack for his reply.

Yours very truly,



John A. Ahlm  
Regional Land Manager  
Energy Resource Development

JAA:DMP:ld

cc: ~~Gene F. Daniel~~ Tom Bolack

March 13, 1979

Mr. Gene F. Daniel,  
Ass't. Oil and Gas Supervisor  
U.S. Geological Survey, Conservation Div.  
P.O. Box 26124  
Albuquerque, New Mexico 87125

Re: Federal Oil and Gas Lease NM-02707  
SW/4, Section 1, T30N, R12W,  
San Juan County, New Mexico

Dear Mr. Daniel,

By letter dated February 6, you informed El Paso Natural Gas Company as operator of the above lease that the lease was subject to drainage by off-setting wells. Since the wells noted in your letter produce from the Dakota formation and El Paso has oil and gas rights only to the base of the Mesaverde formation, they forwarded the letter to me as the owner of the Dakota rights for a reply.

As you are aware state regulations require the dedication of 320 acres to a Dakota well and as my lease covers only 160 acres (the southwest quarter), it would be necessary to communitize the lease with that of the owners of the southeast quarter in order to drill such a well. (State records indicate that the north half of the section is dedicated to the Amoco #1 Scott Gas Unit well in the NE/4 NE/4 of the same section). I am uncertain as to the ownership of oil and gas rights under the southeast quarter as it appears from my records to be divided among several lessees, but I will undertake to determine this and will contact the owners to determine whether or not they would be interested in joining such a test, as an initial requirement.

With respect to whether the drilling of such a Dakota test is an economical endeavor, it is open to question. The production records on surrounding Dakota wells listed in your letter show cumulative productions through the end of 1978 to range from 175.6 MMCF to a maximum of 325.4 MMCF. These wells have been producing from 13½ to 16½ years. Reservoir engineering studies indicate that ultimate recoveries from the Dakota in this area might result in total production of ½ BCF to a maximum of 2 BCF in something like a 40-year time span. A well location in the southwest quarter would probably result in production in the lower half of this range. Given the current well costs for a Dakota test (approximately \$275,000), the royalty and tax rates attributable

Page 2

to the lease and the difficulties in obtaining appropriate governmental clearance to drill such a well, it is doubtful that a Dakota well on my lease is economically feasible at this time.

If production from other formations could be obtained and produced concurrently from a Dakota well on the subject lease, a consideration which appears possible from my studies, then the economics could be more favorable. Since the formation rights on my lease vary, and may also on the adjoining lease, some negotiation would be required to put together an agreement to test these possibilities. I intend to pursue this matter with the appropriate lease-owners.

Very truly yours,

Tom Bolack



## United States Department of the Interior

GEOLOGICAL SURVEY  
Conservation Division  
P. O. Box 26124  
Albuquerque, New Mexico 87125

APR 06 1979

Mr. Tom Bolack  
South Route 3  
Box 47  
Bloomfield Highway  
Farmington, New Mexico 87401

Dear Mr. Bolack:

Your letter of March 13, 1979 indicated that additional time was necessary in order to contact other lessees who might have interest in the drainage protection of Federal lease NM-02707.

An extension of thirty days is hereby granted. Accordingly, please advise us by no later than April 13, 1979 regarding your plans for protecting the subject Federal lease from drainage.

If at that time, it is decided that no offset protection is necessary, detailed engineering, geologic and economic data should be furnished to justify your position.

Sincerely yours,

GENE F. DANIEL

Asst. Oil and Gas Supervisor, SRMA



August 5, 1979

Mr. Gene F. Daniel  
Asst. Oil & Gas Supervisor  
U.S. Geological Survey  
P.O. Box 26124  
Albuquerque, New Mexico 87125

Re: Federal Oil & Gas Lease NM-02707  
SW/4, Sec.1-T30N-R14W, N.M.P.M.  
San Juan Co., New Mexico

Dear Mr. Daniel,

The delay in my reply to your letter of May 4 on the above cited lease was occasioned by the need to await the data presented in Case No. 6533 held before the New Mexico Oil Conservation Commission on April 30 and the subsequent ruling on this case, which was not issued until May 22. The case, as you are probably aware, dealt with changes in the Commission's Orders No. R1670 and R1670-C, pertaining to spacing regulations for Dakota formation wells in the San Juan Basin. The application, made by El Paso Natural Gas, was a request to permit the optional drilling and production of a second well on proration units in the Basin-Dakota Pool, to establish well location requirements, and to provide that the deliverabilities of both wells on the unit would be additive for allowable purposes. The outcome of this case and the ruling arrived at by the Commission would materially affect my response to your letter stating that drilling operations must be commenced by August 2 on the subject lease to protect it from drainage or compensatory royalty would be assessed.

The testimony presented at the NMCCC hearing by the most active operators in the Basin indicated that, because of the lithologic nature of the gas-productive Dakota formation in the Basin, a single well would not efficiently and effectively drain a 320-acre proration unit. Data was presented by El Paso Natural Gas Co., Amoco Production Co., Tenneco Oil Co., Mesa Petroleum Co., Southland Royalty Co., Dugan Production Co. and others, all of whom control more than 75% of the Dakota drilling that has been conducted in the Basin, which showed by detailed engineering studies of production data and by geological evaluation that a single, typical Dakota well in the Basin will not drain the gas economically from a 320-acre drilling unit,



and, in many cases, will not effectively drain even a 160-acre unit. In light of this testimony I requested Mr. William R. Speer, a consulting geologist with 28 years experience in the San Juan Basin to evaluate the subject lease to determine if, in his opinion, the lease is being subjected to drainage.

As his attached report will show, he does not believe that the lease is being drained at all by the Texaco #1 Barton well and that the charging of compensatory royalty for this alleged draining would be unwarranted. His study also indicates that a well drilled on my lease for Dakota production only would not be an economical venture. I concur in his opinion and request that your office review this new information and relieve me of any requirement to drill an off-set well on the lease or to pay compensatory royalty as a result of production from the #1 Barton well. Should additional off-set wells to this lease be drilled in the future, I will, of course, re-evaluate the lease for possible drainage and act as required.

Very truly yours,

Tom Bolack

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

EXHIBIT NO. 4 April 21, 1980

CASE NO. 6993

Southland Royalty Company  
Attn. Mr. Larry Van Ryan  
P.O. Drawer 570  
Farmington, New Mexico 87401

Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, California 90066

Re: Proposed Joint Dakota Drilling Unit,  
S/2 of Section 1, Township 30 North,  
Range 12 West, San Juan County, New Mexico

Gentlemen,

I propose that we pool our respective oil and gas leases in the south half of section 1, T30N-R12W, N.M.P.M., San Juan County, New Mexico, to form a Dakota drilling and proration unit, as required by state and federal law, and that we jointly drill a 6880 ft. Dakota formation test well in the southwest quarter southwest quarter of the section. I further propose to act as the Operator of such a unit.

I have been contacted by the U.S. Geological Survey regarding the drilling of such a well on my federal oil and gas lease number NM-02707 (consisting of the southwest quarter of section 1) in order to protect the lease from drainage as required by the lease provisions. The U.S.G.S. cites three off-setting productive Dakota wells as subjecting the lease to possible drainage. These wells are 1) the Texaco #1 Barton (NW/4, S12-T30N-R12W), 2) the Beta #1 State Gas Com Unit "A" (SW/4, S36-T31N-R12W), and 3) the Amoco #1 Scott Gas Unit (NE/4, S1-T30N-R12W).

While I do not believe these wells are actually draining the federal lease, and I have so notified the U.S.G.S., the production data from these wells does indicate that a south-half drilling unit in section 1 should be economically productive from the Dakota.

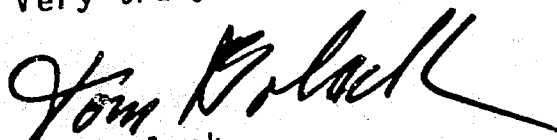
Because production possibilities also exist under the proposed location from both the Gallup formation and the Mesaverde formation, I propose to evaluate these possibilities for a dual completion of the Dakota with either of these formations when total depth for the proposed well is reached and electric logs are available. Since the Gallup formation would appear to offer the greater potentialities and would not require additional legal agreements, it would be given preferential consideration for a dual completion.

Should a dual completion be attempted, the Operator then would prorate the costs of the attempt on the basis of an A-B-C method of allocation in the manner illustrated by the two enclosed Well Cost Estimates, splitting the costs between the common costs, those attributable solely to the Dakota and those attributable entirely to the Gallup or Mesaverde. Each participant then would pay only his proportionate share of the costs allocated to his interests in the well. While this method of allocating well costs for a dual completion is somewhat more complex than for a single completion, it is necessary for a drilling block in which lease ownership is varied as to formation interests. It will also result in a lesser total cost for each participant with respect to his interest in comparison to those incurred in a single-zone completion. Should a dual Dakota/Mesaverde completion attempt appear warranted, it would be necessary to obtain additional communitization and operational agreements before conducting the attempt.

Your consideration of this proposal would be appreciated. If you do own the oil and gas leases as indicated on the enclosed proposed communitization agreement and if you are agreeable to joining in the drilling of a Dakota test well as proposed and under the terms of the enclosed proposed Operating Agreement, please have the appropriate person execute the Communitization and Operating Agreements and approve the proposed Well Cost Estimates by notarized signature, keeping one copy and returning the balance to me. As my information on the working and royalty interests on your respective leases as shown on Exhibit B of the communitization agreement may be incomplete or incorrect, please make any additions or corrections as necessary, initialing them.

If you have further questions or discussion with regard to my proposal, please contact me.

Very truly yours,

  
Tom Bolack

Enclosures:

- 1) 8 copies-Communitization Agreement
- 2) 8 copies-Operating Agreement
- 3) 2 copies-Well Cost Estimates

COMMUNITIZATION AGREEMENT

Contract No. \_\_\_\_\_

THIS AGREEMENT entered into as of the 21st day of April, 1980, by and between the parties subscribing, ratifying or consenting hereto, such parties being hereinafter referred to as "parties hereto",

W I T N E S S E T H :

WHEREAS, the act of February 25, 1920 (41 Stat. 437) as amended and supplemented authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty, or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

Township 30 North, Range 12 West N.M.P.M.  
Section 1, South half (S/2)  
San Juan County, New Mexico

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

EXHIBIT NO. 5

CASE NO. 6993

Containing 320 acres, more or less, and this agreement shall extend to and include only the Dakota formation underlying said lands and the dry gas and associated liquid hydrocarbons herein referred to as "communitized substances", producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit "B", designating the operator of the communitized area and showing the acreage, percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and four (4) executed copies of a designation of successor operator shall be filed with the Area Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payment of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued. It is agreed that for any Federal lease bearing a sliding-or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any non-communitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease plus any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.



10. This agreement is effective April 21, 1980 upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or his duly authorized representative, and shall remain in force and effect for a period of two (2) years and for so long thereafter as communitized substances are, or can be, produced from the communitized area in paying quantities; provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction. The two-year term of this agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors, and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination. In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), as amended which are hereby incorporated by reference in this agreement.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

Tom Babcock

By: Tom Babcock

Date: 4-21-80

Southland Royalty Co.

By: G. B. Babcock

Date: \_\_\_\_\_

G. B. BABCOCK  
ATTORNEY-IN-FACT

Dr. Eugene P. Mathias

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

Date: \_\_\_\_\_



STATE OF NEW MEXICO)  
COUNTY OF SAN JUAN ) SS

On this 21<sup>st</sup> day of April, 1980,

before me personally appeared Tom Bolack

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

Richard J. C. Tully  
NOTARY PUBLIC

My commission expires:

October 7, 1981

STATE OF COLORADO )  
COUNTY OF DENVER ) SS

On this 27<sup>th</sup> day of May, 1980, before me, the undersigned, a Notary Public in and for said County and State, personally appeared Gary B. Babcock known to me to be the person whose name is subscribed to the foregoing instrument, who, being by me duly sworn, did say that he is the Attorney-in-Fact of Southland Royalty Company, and that said instrument was executed on behalf of said Corporation by authority of its Board of Directors, and said Gary B. Babcock acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of said Corporation, for the uses and purposes therein set forth.

Given under my hand and seal of office on the day and year first above written.

Donna M. Patton  
Notary Public

My Commission Expires: December 17, 1983

STATE  
COUNTY OF

On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

before me personally appeared Dr. Eugene P. Mathias  
to me known to be the person described in and who executed the foregoing  
instrument, and acknowledged that he executed the same as \_\_\_\_\_ free act  
and deed.

\_\_\_\_\_  
NOTARY PUBLIC

My commission expires:  
\_\_\_\_\_

EXHIBIT "A"

See Well Location and Acreage Dedication Plat for the communicated  
area of this agreement reproduced below:

T30N, R12W, N.M.P.M.

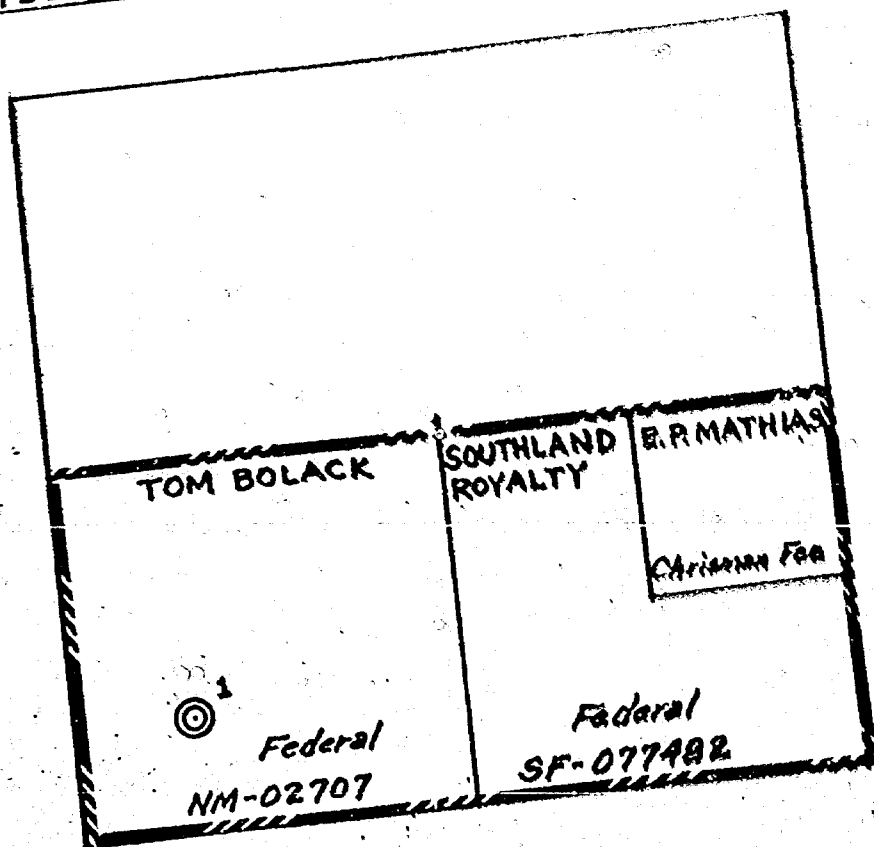


EXHIBIT "B"

To Communitization Agreement dated April 21, 1980,  
embracing:

the south half (S/2) of section 1, Township 30 North,  
Range 12 West, N.M.P.M., San Juan County, New Mexico

Operator of Comunitized Area: Tom Bolack

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lease Serial No. NM-02707

Lease Date: 5-1-52

Lease Term: 5 years (HBP)

Lessor: U.S. Government

Original Lessee: Tom Bolack

Present Lessee: Tom Bolack and El Paso Natural Gas Co.

Description of Lands Committed:

Township 30 North, Range 12 West, N.M.P.M.  
Section 1: SW/4

Number of Acres: 160.00

Name and Percent ORRI Owners:  
NONE.

Name and Percent WI Owners:

TOM BOLACK - 100% (Dakota formation)

EXHIBIT "B" (cont'd.)

To Communitization Agreement dated April 21, 1980,  
embracing:

the south half (S/2) of section 1, Township 30 North,  
Range 12 West, N.M.P.M., San Juan County, New Mexico

Operator of Communitized Area: Tom Bolack

DESCRIPTION OF LEASES COMMITTED

Tract No. 2

Lease Serial No. SF077482

Lease Date: 3-1-45

Lease Term: 5 year (HBP)

Lessor: U.S. Government

Original Lessee: Juanita Holder

Present Lessee: Southland Royalty Company

Description of Lands Committed:

Township 30 North, Range 12 West, N.M.P.M.  
Section 1: W/2 SE/4, SE/4 SE/4

Number of Acres: 120.00

Name and Percent ORRI Owners:

Name and Percent WI Owners:

EXHIBIT "B" (cont'd.)

To Communitization Agreement dated April 21, 1980,  
embracing:

the south half (S/2) of Section 1, Township 30 North,  
Range 12 West, N.M.P.M., San Juan County, New Mexico

Operator of Comunitized Area: Tom Bolack

DESCRIPTION OF LEASES COMMITTED

Tract No. 3

Lease Serial No. Fee

Lease Date: 7-3-50

Lease Term: 10 year

Lessor: Wm. H. & Carlotta C. Chrisman

Original Lessee: N. Spatter

Present Lessee: Dr. Eugene P. Mathias

Description of Lands Committed:

Township 30 North, Range 12 West, N.M.P.M.  
Section 1: NE/4 SE/4

Number of Acres: 40.00

Name and Percent ORRI Owners:

Name and Percent WI Owners:



EXHIBIT "B" (cont'd)

Provision of Fee Lease Authorizing Pooling:

175

lessor's herein agree to join and hereby authorize Lessee H. G. Patton, or his assigns to join any unit or cooperative plan in order to obtain proper development, discovery and production of oil and /or gas, but no such unit shall exceed three hundred and twenty (320) acres in area, and shall be in accordance with the laws of the State of New Mexico, or other lawful authority.

In Testimony Whereof We Sign, this the 9<sup>th</sup> day of July, 19 50

Witness

William H. Chrisman (SEAL)  
Barbara B. Chrisman (SEAL)

RECAPITULATION

Tract Number	Number of Acres Committed	Percentage of Interest in Communitized Area
1	160.00	50%
2	120.00	37½%
3	40.00	12½%
Total 320.00acs.		100%

OPERATING AGREEMENT

Tom Bolack #1 Tommy Bolack Well

THIS AGREEMENT, made and entered into this 21st day of April, 1980, by and between TOM BOLACK, an individual, hereinafter referred to as "Bolack" or "Operator", whose mailing address is P.O. Box 255, Farmington, New Mexico 87401, and Southland Royalty Company, whose mailing address is 1600 First National Building, Fort Worth, Texas, 76102, and Dr. Eugene P. Mathias, an individual, whose mailing address is 12027 Venice Boulevard, Los Angeles, California 90066, hereinafter referred to as "Non-Operators":

W I T N E S S E T H:

WHEREAS, the parties hereto are the owners of certain Oil and Gas leases, which leases cover, among other lands, the following described land in San Juan County, New Mexico, to wit:

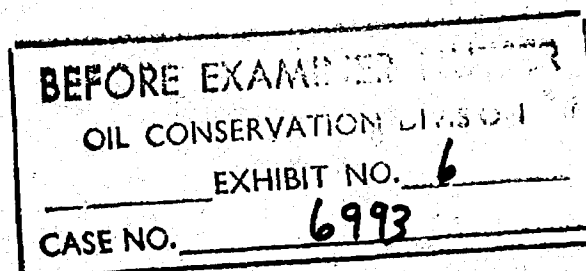
Township 30 North, Range 12 West, N.M.P.M.

Section 1: South half (S/2)

containing 320.00 acres, more or less; and

WHEREAS, it is the desire of the parties hereto to enter into an Operating Agreement covering the development and operation of the above-described tract in the Dakota formation as hereinafter set out:

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter contained to be kept and performed by the parties hereto, said parties do hereby agree as follows:



## 1. FORMATION OF UNIT

For the purposes hereof, it is agreed that the aforementioned leases, insofar as they apply to the above-described lands, have been pooled to form a unit covering only the Dakota formation in and under the land described above, it being the intention of the parties hereto in forming said unit to pool all leases which they may now own or which they may hereafter acquire covering any interest in the unit.

## 2. OPERATOR

Tom Bolack is hereby designated and shall act as Operator of such unit in accordance with the terms and provisions of this agreement. Operator shall have full and complete management of the development and operation of the said unit for dry gas and associated liquid hydrocarbons producible from the Dakota formation as an entirety, but Operator agrees that no well shall be commenced upon said unit, except the well hereinafter provided for, without the consent of Non-Operators.

Bolack may resign as Operator at any time by giving notice to Non-Operators in writing sixty (60) days in advance of the effective date of such resignation and, in such event, the working interest owners of said unit shall immediately select a successor. In the event Bolack shall sell or otherwise dispose of all his interest in said unit, the right of operation herein conveyed shall not run with the transfer of assignment of such interest or inure to the benefit of Bolack's assignee but Non-Operators and Bolack's assignee shall immediately select a new Operator.

### 3. WELL

Operator shall commence or cause to be commenced drilling operations for the joint account of the parties hereto at a location in the SW/4 of the SW/4 of Section 1, Township 30 North, Range 12 West, San Juan County, New Mexico and shall thereafter drill said well to a depth sufficient to test the Dakota formation, unless salt, caprock, cavities, heaving shale, abnormal water flow or impenetrable substances are encountered in said well at a lesser depth. The parties hereto may also mutually agree to discontinue drilling operations at a lesser depth. Upon completion of said well, if it is capable of production, Operator shall notify Non-Operators of the date said well is connected to a gas gathering system, if it is so connected.

In the event a well capable of producing gas in paying quantities is shut-in, Operator shall immediately notify Non-Operators thereof; except that the Operator shall not be required to notify Non-Operators if the well should be shut-in for limited periods of time in order to balance production during peak load periods of time or for reasons of making mechanical repairs. All production obtained from the unit area and all material and equipment acquired hereunder for the joint account of the parties hereto shall be owned by the parties hereto in the proportions hereinafter specified in Article 4 of this Agreement.

### 4. COSTS AND EXPENSES

The entire costs and expenses involved in drilling, completing and operating said well, if said well is a commercial well, or in plugging and abandoning if said well is a dry hole or non-commercial well, shall be borne by the parties hereto as follows:

Tom Bolack	50.0%
Southland Royalty Company	37.5%
Dr. Eugene P. Mathias	12.5%

Unless Operator elects to require Non-Operators to advance their share of the costs and expenses, as hereinafter provided, Operator shall initially advance and pay all costs and expenses for the drilling of the well provided for in Article 3 hereof, as well as operation expenses of said unit, and shall charge Non-Operators with their pro rata part thereof on the basis of their proportionate interest in the unit as set out above.

All such costs, expenses, credits and related matter, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A" and made a part hereof for all purposes.

In the event of any conflict between the provisions contained in the body of this Agreement, and those contained in said Exhibit "A", the provisions of the Agreement shall govern to the extent of such conflict.

In the event that Operator elects to require Non-Operators to advance its proportionate share of the above-mentioned costs and expenses, Operator shall submit an itemized estimate of such costs and expenses for the succeeding calendar month to Non-Operators, showing therein the proportionate part of the estimated costs and expenses chargeable to the Non-Operators. Within fifteen (15) days after receipt of said estimate, Non-Operators shall pay to Operator their proportionate share of the estimated

costs and expenses. If payment of the estimated costs and expenses is not made when due, the unpaid balance thereof shall bear interest at the rate of twelve percent (12%) per annum from the due date until paid. Adjustments between estimated and actual costs and expenses shall be made by Operator at the close of each calendar month and the account of the respective parties adjusted accordingly.

The well to be drilled on the unit shall be drilled on a competitive contract basis at the usual rates prevailing in the field. However, Operator, if it so desires, may employ its own tools and equipment; in such event, the cost of drilling shall include, but shall not be limited to, the following charges: (a) all direct material and labor costs; (b) a proportionate amount of applicable departmental overhead and undistributed field costs; (c) rental charge on company equipment employed, all such charges to be determined in accordance with Operator's accounting practice; provided that in no event shall the total of such charges exceed the prevailing rate in the field, and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

Operator shall make no single expenditure in excess of Fifteen Thousand Dollars (\$15,000.00) without first obtaining the consent thereto of Non-Operators; provided, however, that nothing in this paragraph shall be deemed to prevent Operator from making an expenditure in excess of said amount if such expenditure becomes necessary because of a sudden emergency which may otherwise cause loss of life or extensive damage to property. In the event of such emergency expenditure, Unit Operator shall, within fifteen (15) days after making such expenditure, give written notice to Non-Operators. The approval



of the drilling of a well provided for hereinabove, however, shall include all expenditures for the drilling, completing, testing and equipping of such well.

5. RENTALS

Each party agrees to pay all rentals, minimum royalties and/or shut-in royalty which may become due under the lease or leases which such party is contributing to such unit hereunder, and Operator shall not have any obligation to pay any such rentals, minimum royalties and/or shut-in royalty except as to the lease(s) contributed by Operator. Each party further agrees to use its best efforts to keep and maintain in full force and effect the oil and gas lease(s) contributed by such party to said unit.

6. INSURANCE

As to all operations hereunder, the Operator shall carry for the benefit and protection of the parties hereto:

- (a) Workman's Compensation insurance in accordance with state, provincial, and federal laws, as applicable, and Employee's Liability insurance.
- (b) Comprehensive General Liability insurance, excluding products: A combined single limit of \$500,000 each accident for bodily injuries or death and property damage.
- (c) Comprehensive Automobile Liability insurance: A combined single limit of \$500,000 each accident for bodily injuries or death and Property damage.

Operator may elect to be a self-insurer provided Operator complies with applicable laws and in such event Operator shall

charge to the joint account, in lieu of any premiums for such insurance, a premium equivalent limited to amounts determined by applying manual insurance rates. The Operator shall not be required to carry any other insurance for the joint account. Operator shall require all third party contractor performing work in or on the premises covered hereby to carry such insurance and in such amounts as Operator shall deem necessary.

#### 7. DISPOSAL OF PRODUCTION

Each of the Parties hereto shall own and have the right, at its own expense, to take in kind or separately dispose of its proportionate part of all gas and associated liquid hydrocarbons produced and saved from the acreage covered hereby, exclusive of the production which may be used by Operator in developing and continuing operations on the said tract referred to in Paragraph 1 above, and of the production unavoidably lost, provided that each of the parties hereto shall pay or secure the payment of the royalty interest, overriding royalty interests, payments out of production and other similar interests, if any, from its proportionate part of said production. If at any time or times Non-Operators shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, Operator shall have the right, revocable by Non-Operators at will, to sell part of such production at the same price which Operator received for its own portion of the production, or to take such gas for its own use for resale; should gas be delivered by either party during any period that such other party or parties have failed or refused to take or sell its or their gas, then the party receiving or taking delivery of the gas agrees to account to the other party or parties for its or their proportionate part of the gas so delivered (1) if sold by the receiving party,

at the market price at the wellhead for said gas, or at the price received at the wellhead by such party, whichever is greater, or (2) if taken for its own use or transported for resale by the receiving party, at the highest price it is paying others in the area at the wellhead for gas of similar quality and pressure, not to exceed, however, the applicable just and reasonable area ceiling rate or the initial guideline area rate level, if appropriate, for such gas as prescribed by the Federal Power Commission or any successor governmental authority having jurisdiction therein, or (3) if no such purchases are being made by the receiving party, then at the market price at the wellhead. Any sales by Operator of Non-Operator's production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such sale be for a period in excess of one (1) year.

#### 8. DURATION OF AGREEMENT

This Agreement shall become effective as of the date hereof upon execution by the parties hereto, notwithstanding the date of execution, and shall remain in full force and effect for a period of one (1) year and so long thereafter as dry gas and associated liquid hydrocarbons are or can be produced from any part of said unit in paying quantities, provided that prior to production in paying quantities from said unit and upon fulfillment of all the requirements of the Oil Conservation Commission of the State of New Mexico, with respect to any dry hole or abandoned well, this Agreement may be terminated at any time by the mutual agreement of the parties hereto. This Agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the unit are commenced and are thereafter conducted with reasonable diligence during the period of non-production.

#### 9. ROYALTY INTERESTS

It is agreed and understood that the burden of any royalty payable shall be borne and paid by each party in accordance with their leasehold interest in each lease in the subject formation.

#### 10. TAXES

Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this Agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws of the State of New Mexico, or which may be made subject to taxation under future laws, and shall pay for the benefit of the joint account all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill Non-Operators for their proportionate share of such tax payments provided by the Accounting Procedure attached hereto as Exhibit "A". All taxes (other than income-type taxes) upon or directly measured by the value of the production from the subject lands, which are not payable by the purchaser thereof, shall be paid by the Operator and apportioned among the Working Interest Owners in the same proportions as the assessed value of their respective portions of produced substances bears to the whole.

#### 11. TAXATION

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. Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. In making this election, each party hereto states that income derived by it from operations under this agreement can be adequately determined without computation of partnership taxable income. If the income tax of the state or states in which the property covered

hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised, and should the income tax laws of such state or states require evidence of such election the operator is authorized and directed to execute same on behalf of each party hereto. Beginning with the first taxable year of the operation each party agrees that the deemed election provided by Federal Regulations Section 1.761-2(b)(2)(ii) will apply and no party will file an application under Federal Regulations Section 1.761-2(b)(3)(i) to revoke said election.

12. ACCESS TO PREMISES, LOGS AND REPORTS

Operator shall keep accurate logs of the well drilled on said unit, which logs shall be available at all reasonable times for inspection by Non-Operators. Upon request of Non-Operators, Operator shall furnish to Non-Operators a copy of said logs, samples of cores and cuttings of formations encountered, and electrical surveys relative to the development and operation of said unit, together with any other information which may be reasonably requested pertaining to such well. Non-Operators shall have access to said unit and to all books and records pertaining to operations hereunder for the purposes of inspection at all reasonable times.

13. SURRENDER EXPIRATION, ABANDONMENT OR RELEASE OF LEASE

No lease or leases subject to this Agreement shall be surrendered, let to expire, abandoned or released, in whole or in part, unless the parties mutually consent thereto in writing. In the event that less than all parties hereto should elect to surrender, let expire, abandon or release

all or any part of a lease or leases subject to this Agreement and the other party or parties do not consent or agree, the party so electing shall notify the other party or parties not less than sixty (60) days in advance of such surrender, expiration, abandonment or release, and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party all of its rights, title and interest in and to said lease or leases, the well or wells located thereon, and the casing and other physical equipment in or on said well or wells. If the party or parties not so electing fail(s) to request an assignment within such sixty (60) day period, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases, or any part thereof. In the event such assignment is so requested, the party or parties to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the salvable casing and other physical equipment in or on the unit. After the delivery of any such assignment, the party making the assignment shall be released discharged from all the duties and obligations thereafter accruing or arising hereunder, in connection with the operation and development of the unit, with respect to the assigned lease or leases.

14. LOSS OR FAILURE OF TITLE

In the event of the loss or failure of the title, in whole or in part, of any party hereto to any lease, or any interest therein, covered hereby, the interest of such party in and to the production obtained from the lease acreage shall be reduced in proportion to such loss or failure of title as of the date such loss or failure of title is finally determined; provided that such revision of ownership interest shall not be retroactive as to operating costs and expenses



incurred or as to revenue or production obtained prior to such date; and provided, further that each party hereto whose title has been lost or has failed, as aforesaid, shall indemnify the other parties hereto against, and shall hold such other parties harmless from all loss, cost, damage and expense which may result from, or in any manner arise because of, the delivery to such party of production obtained hereunder from the lease acreage covered hereby or the payment to such party of proceeds derived from the sale of any such production, prior to the date said loss or failure of title is finally determined; and provided, further, that in the event of the loss or failure of the title, in whole or in part, to the leasehold estate upon which the unit well or wells are located, then the party or parties contributing such leasehold estate to the lease acreage shall indemnify the other parties hereto for and shall hold the other parties harmless from all loss, costs, damages or expenses which may result from payment by such other parties of costs and expenses incurred in connection with the drilling, equipping and completing said unit well prior to the date said loss or failure of title is finally determined.

15. ABANDONMENT OF WELL

No well on the unit which is capable of producing dry gas and associated liquid hydrocarbons from the formation covered by this Agreement shall be abandoned without the mutual consent of the parties hereto. If any of the parties desire to abandon such well, such party or parties shall so notify the other party or parties in writing and the latter shall have thirty (30) days after receipt of such notice in which to elect whether to agree to such abandonment. If all parties hereto agree to such abandonment, such well shall be abandoned and plugged by the Operator at the expense of the joint account, and as much as possible of the casing

and other physical equipment in and on said well shall be salvaged for the benefit of the joint account. If any party or parties do not agree to said abandonment, such party or parties shall purchase the interest(s) of the party or parties desiring to abandon said well and the physical equipment therein and thereon; and within twenty-five (25) days after receipt of notice by the party or parties not electing to abandon the party or parties desiring to abandon shall execute and deliver to the other party or parties an assignment, without warranty of title, of all of its or their interest in said well and physical equipment, and in the working interest and gas leasehold estate insofar as it covers the formation covered by this Agreement in said unit. In exchange for said assignment, the purchasing party or parties shall pay to the assigning party or parties the salvage value of the latter's interest in the salvable casing and other physical equipment in and on said well, such value to be determined in accordance with the provisions of the Accounting Procedure attached hereto as Exhibit "A."

#### 16. LAWS AND REGULATIONS

This Agreement shall be subject to all valid and applicable State and Federal laws, rules, regulations and orders, and the operations conducted hereunder shall be performed in accordance with said laws, rules, regulations and orders. In the event this Agreement or any provision hereof is, or the operations contemplated hereby are, found to be inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this Agreement shall be regarded as modified accordingly, and as so modified, shall continue in full force and effect.

17. FORCE MAJEURE

No party to this Agreement shall be liable to any other party for any delay or default in performance under this Agreement due to any cause beyond its control and without its fault or negligence, including but not restricted to acts of God or the public enemy, acts or requests of the Federal or State Government or of any Federal or State officer purporting to act under duly constituted authority, floods, fires, wars, storms, strikes, interruption of transportation, freight embargoes or failure, exhaustion or unavailability or delays in delivery of any material, equipment or service necessary to the performance of any provision hereof, or the loss of holes, blow-outs or happening of any unforeseen accident, misfortune or casualty whereby performance hereunder is delayed or prevented.

18. OPERATOR'S LIEN

Operator is hereby granted a lien upon the working interest and leasehold estate of Non-Operators covered hereby and upon such Non-Operator's interest in the well or wells located on the lease acreage covered hereby, in the production obtained from said well or wells and in the physical equipment used, had and obtained in connection with the operation of said well or wells to secure the payment of said Non-Operator's proportionate share of said costs and expenses and of said estimated costs and expenses, together with interest thereon at the rate of twelve percent (12%) per annum. Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by a Non-Operator in payment of chargeable costs and expenses, Operator shall have the right to collect and receive from the purchaser or purchasers Non-Operator's proceeds from the production from the lease acreage covered

hereby until the amount owed of such indebtedness by such Non-Operator, plus interest as aforesaid, has been paid. By execution hereof, each subscribing party hereto agrees that each such purchaser should be entitled to rely upon Operator's statement concerning the existence and amount of any such default.

**19. NOTICES**

All notices, reports and other correspondence required or made necessary by the terms of this Agreement shall be deemed to have been properly served and addressed if sent by mail or telegram as follows:

Tom Bolack  
P.O. Box 255  
Farmington, N.M. 87401

Southland Royalty Company  
1600 First National Building  
Fort Worth, Texas 76102

Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, California 90066

**20. OPERATIONS BY LESS THAN ALL PARTIES**

If subsequent to the completion or abandonment of the well provided for in Paragraph 3, all of the parties hereto cannot mutually agree upon the reworking, deepening or plugging back of such well and such well is not then producing in paying quantities, any party or parties wishing to rework, deepen or plug back such well may give the other parties written notice of the proposed operation, specifying the work to be performed, the proposed depth, objective formation and the estimated cost of the operation. The parties receiving

such notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday or any legal holiday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Paragraph 4 bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug

and abandon the well at their sole cost, risk and expense. If any well reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities from the Dakota formation, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

- A. 300% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 300% of each such Non-Consenting Party's share of the cost of operation of the well commencing with the first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and



- B. 300% of that portion of the costs and expenses of reworking, deepening or plugging back, testing and completing, and 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operations, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Party with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which

would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchases, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

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

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the formation specified in Paragraph 3, if it is, or thereafter shall prove to be, a dry hole or non-commercial well.

21. HEIRS, SUCCESSORS AND ASSIGNS

All of the provisions of this Agreement shall extend to and be binding upon the parties hereto, their heirs, successors and assigns, and such provisions shall be deemed to be covenants running with the land covered hereby.

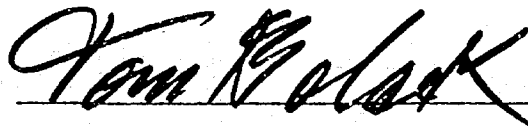
22. COUNTERPART EXECUTION

This instrument shall be binding on each party hereto who executes either the original hereof or a copy or counterpart hereof.

Signature Page attached to and made a part of that Operating Agreement dated April 21, 1980, between Tom Bolack, Southland Royalty Company and Dr. Eugene P. Mathias, covering the S/2 Section 1, T30N, R12W, San Juan County, New Mexico.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

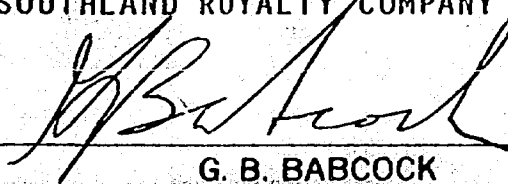
TOM BOLACK



Tom Bolack

SOUTHLAND ROYALTY COMPANY

by



G. B. BABCOCK  
ATTORNEY-IN-FACT

DR. EUGENE P. MATHIAS

Eugene P. Mathias

STATE OF NEW MEXICO )  
COUNTY OF SAN JUAN } ss.

The foregoing instrument was acknowledged before me  
this 21<sup>st</sup> day of April, 1980, by  
Tom Bolock.

WITNESS my hand and official seal.

Richard T.C. Tully

Notary Public

My commission expires:

October 7, 1981

STATE OF Colorado )  
COUNTY OF Denver } ss.

This foregoing instrument was acknowledged before me  
this 27<sup>th</sup> day of May, 1980, by  
G. B. BABCOCK  
ATTORNEY IN FACT,  
as Attorney-in-Fact on behalf of SOUTHLAND ROYALTY COMPANY.

WITNESS my hand and official seal.

Lenna M. Halton

Notary Public

My commission expires:

My Commission expires December 17, 1983

STATE OF )  
COUNTY OF } ss.

The foregoing instrument was acknowledged before me  
this \_\_\_\_ day of \_\_\_\_\_, 1980, by  
\_\_\_\_\_.

WITNESS my hand and official seal.

\_\_\_\_\_  
Notary Public

My commission expires:

## EXHIBIT " A "

Attached to and made a part of Operating Agreement Dated  
April 21, 1980 for the #1 Tommy Bolack; S/2  
Section 1, Township 30N, Range 12W, N.M.P.M.  
San Juan County, New Mexico

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

### 2. Statement and Billings

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

### 3. Advances and Payments by Non-Operators

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

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

### 4. Adjustments

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

### 5. Audits

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

### 6. Approval by Non-Operators

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



**II. DIRECT CHARGES**

Modified

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-three per cent (23%).

**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 twelve percent (12%) 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 (see section VI. Miscellaneous)

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

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

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

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

#### A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 1045.00

Producing Well Rate \$ 200.00

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

##### (a) Drilling Well Rate

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

##### (b) Producing Well Rates

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

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

**B. Overhead - Percentage Basis**

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

(a) Development

\_\_\_\_\_ Percent ( %) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

(b) Operating

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

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

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

~~2. Overhead - Major Construction~~

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

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

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

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

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

**3. Amendment of Rates**

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

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

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

**1. Purchases**

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

**2. Transfers and Dispositions**

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

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

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

(2) Line Pipe

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

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

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

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

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

## VI. MISCELLANEOUS

The overhead costs stated in Article III will be adjusted annually on January 1 of each year to reflect an inflation adjustment factor. The inflation adjustment factor shall be the sum of factor equal to 1/100th of the quarterly percent change in the GNP implicit price deflator plus a correction factor of 1.02. The term "GNP implicit price deflator" means the preliminary estimate of the implicit price deflator, seasonally adjusted, for the Gross National Product, as computed and published by the Department of Commerce for the calendar quarter involved. The term "quarterly percentage change in GNP implicit price deflator" means the quarterly percentage change in the GNP implicit price deflator computed and published as an annual rate by the Department of Commerce for the most recent calendar quarter for which such quarterly percentage change has been so published at least 8 days before the beginning of January 1 of each year.

BEFORE EXAMINER NOTTER

OIL CONSERVATION DIVISION

OR FINAL COST EXHIBIT NO. 7

CASE NO.

6993

PARTNER'S APPROVAL

WELL COST ESTIMATE ☒

TOM BOLACK

CASE NAME Tommy Bolack

LOCATION SW/4 SW/4, Sec.1, T30N, R12W

FORMATION Gallup/Dakota

WELL NO.

1

COUNTY

San Juan

TOTAL DEPTH

5970/6880

FIELD Basin DK  
Flora Vista-G

STATE New Mexico

TOTAL DAYS

Prorated Costs On A-B-C Method  
Items

Totals

A-Common

B- GAL

C- DK

TUBULAR GOODS:

Surface Casing 8.5/8ch. 2500 @ \$8.00/Ft.  
Int. Casing 5 1/2 Inch 7000 @ \$6.75/Ft.  
Prod. Casing 5 1/2 Inch 7000 @ \$6.75/Ft.  
Liner 5 1/2 Inch 7000 @ \$6.75/Ft.  
Liner 5 1/2 Inch 7000 @ \$6.75/Ft.  
Tubing 2 3/8 Inch 7000 @ \$2.80/Ft.  
Tubing 1 1/2 Inch 6000 @ \$2.05/Ft.

\$ 2,000	\$ 2,000	\$	\$
47,250	47,250		
19,600			19,600
12,300		12,300	

WELLHEAD EQUIPMENT

19,500		7,000	12,500
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OTHER EQUIPMENT:

Surface Production Equipment  
Liner Hangers and Production Packers & Seting  
Tubing Accessories

32,000		15,000	17,000
3,500		3,500	
2,000		1,000	1,000

DRILLING COSTS:

Footage 6880 @ \$16.00 S/Ft.  
Day Work 3days @ 4,850 S/Day  
Day Work S/Day  
Day Work S/Day  
Service Unit 8days @ 1,500 S/Day  
Rig Rental Tools CSG. CREW  
Rig Moving Costs (cat)

110,080	110,080		
14,550	14,550		
12,000		6,000	6,000
2,000	2,000		
1,000	1,000		

CEMENTING: (Cement, Pump Trucks and Drayage)

Surface  
Intermediate  
Production  
Liner  
Liner  
Displacement charges (Nowsco)  
Sq. Jobs

2,500	2,500		
19,000	19,000		
6,000		3,000	3,000

FORMATION TREATMENT: NO.

Acidizing total stimulation costs  
Fracturing - Equipment  
Fluid Wt. Gal.  
Fluid Additives Pkr & bridge plug  
Prepping Agent Lbs.  
Tank Rental

69,000		16,000	53,000
4,200		1,200	3,000
3,000		3,000	
3,700		700	3,000

SPECIAL SERVICES (Surveys and Tests)

Perforating  
Mud Logging  
Electric and Radioactive Logging  
Drill Stem Tests  
Cores

9,000		2,000	7,000
14,000	14,000		

MATERIALS:

Drilling Mud and Chemicals (mod. l.c.)  
Drilling Gas or Air  
Water all trucked  
Bits  
Fuel  
Hauling  
Tubular Inspection  
Miscellaneous

40,000	40,000		
7,000	7,000		
3,000	3,000		
5,000		2,000	3,000
8,000	8,000		

ACCESS AND LOCATION AND CLEANUP

SUPERVISION, LEGAL, ETC.

479,180	278,380	72,700	128,100
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Plus 5 % Contingency  
TOTAL COST

\$ 503,140	\$ 292,300	\$ 76,335	\$ 134,505
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+134,505

426,805= Dk only

GAL = 1/2 A+B = \$222,485

DK = 1/2 A+C = \$280,655

MATHIAS PRO-RATA COSTS:

1) GAL-DK. DUAL - \$35,082

2) DK ONLY - \$53,350



May 30, 1980

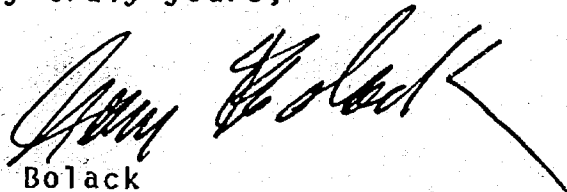
Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, California 90066

Re: Proposed Joint Dakota Test Well,  
SW/4 SW/4, S1-T30N-R12W,  
San Juan Co., New Mexico

Dear Dr. Mathias,

One month ago I wrote to you proposing that you join with me and Southland Royalty Company in pooling our respective oil and gas leases in the south half of section 1 Township 30 North, Range 12 West, N.M.P.M. in San Juan County, New Mexico to form a 320 acre drilling unit on which we would then drill a 6880 ft. Dakota test well. The letter included a communitization agreement, a proposed operating agreement and a well cost estimate, all for your approval. I have since received a favorable response from Southland Royalty, but have not heard from you to date. Would you please respond to my inquiry as soon as possible, indicating whether or not you will join in the drilling of this proposed well? The increase in drilling activity has created both scarcity of available drilling rigs and a slow-down in governmental clearances and, as it is my intention to drill this well at least by fall and certainly during 1980, I urgently request that you inform me as to whether or not you elect to join the proposed well. Thank you.

Very truly yours,

  
Tom Bolack

1aj

cc: Southland Royalty Co.

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

EXHIBIT NO. 8  
CASE NO. 6993

EUGENE P. MATHIAS, M.D., INC.  
PHYSICIAN AND SURGEON  
12027 VENICE BOULEVARD  
LOS ANGELES 66, CALIFORNIA

June 13, 1980

Tom Bolack  
S. Route 3 Box 47  
Farmington, New Mexico 87401

Dear Mr. Bolack,

The lease you are referring to consists of 40 acres. an equal portion (40 acres) adjoining on the north was communitized some years ago for the drilling of the Scott 1A now being operated by Amoco.

I am willing to consider a reasonable buy offer for the total 80 acres.

yours truly

E P Mathias, M.D.



KEEPING OUR LAND PRODUCTIVE . . . BUILDING NEW MEXICO

EXPERIMENTAL FARM



AGRICULTURAL RESEARCH

TOM BOLACK, OWNER

RT. 3 SOUTH, BOX 47  
FARMINGTON, NEW MEXICO 87401

June 17, 1980

Eugene P. Mathias, M.D. Inc.  
12027 Venice Boulevard  
Los Angeles, California 90066

Re: Proposed Joint Dakota Test Well,  
SW/4 SW/4, S1-T30N-R12W,  
San Juan Co., New Mexico

Dear Dr. Mathias,

With regard to your June 13 letter offering to sell your 40 acres in the above proposed drilling block, my preference is still that you join in the drilling of the proposed well. I was hopeful that you would have signed and returned the communitization and operating agreements and well cost estimate sent to you over two months ago by now so that I could proceed with the drilling of the well.

I am reluctant to make an offer for your acreage primarily because it is burdened with what I think is an excessive overriding royalty, if the information that I have is correct that there is 30% in outstanding royalties against the lease. Also I would be interested only in the southern 40 acres, as the adjoining 40 acres to the north that you mention as being communitized for the Amoco #1-A Scott well, would appear to be committed already to a relatively weak well showing declining production. If this 40 acres is also burdened with high overriding royalties, it would be even less attractive.

However in the interests possibly of speeding the drilling of the well, I am willing to make an offer to purchase your acreage, if you will act promptly on the offer. If your net revenue interest in the NE/4 SE/4 of section 1, T30N-R12W, is indeed 70% and you represent that you own this oil and gas interest, I will pay you \$2,000 for that interest. If you require selling a package of the full 80 acres, I would need to know all of the commitments attached

Page 2

to the northern 40 acres, including information on the royalties, overrides, terms of the Amoco operating agreement, etc. But if the net revenue interest is the same as the southern 40 acres and if the Amoco operating agreement is of a standard nature, I would be willing to add an additional \$1,000 for this interest for a total of \$3,000 for the 80 acres. This offer would be conditioned upon your providing me with the complete documentation of your ownership and the terms and provisions of your obligations.

I'm sure that you are aware that the state of New Mexico has forced-pooling provisions in its regulation of oil and gas operations. These rulings provide that if a leaseholder in a drilling block will not agree to join with the other leaseholders, who are desirous of drilling the block, then the other leaseholders may request a hearing with the Oil and Gas Conservation Division for remedy to proceed with the drilling. Because there has been a considerable time since I made my original drilling proposal to you without response on your part, and because our other partner, Southland Royalty Co., has executed the required agreements and is also eager to commence the drilling of the proposed well, I earnestly request that you give prompt consideration first to joining us in the drilling of the well by executing the agreements previously sent to you, or failing that, to inform me soon if my offer to purchase your interests is acceptable.

If I do not hear from you before the first of this coming month, it will be necessary for me to ask for a hearing before the Oil and Gas Conservation Division to request that your acreage in the south half of section 1 be force-pooled for the proposed Dakota test. Please let me hear from you soon.

Very truly yours,

  
Tom Bolack

1aj

EUGENE P. MATHIAS, M.D., INC.  
PHYSICIAN AND SURGEON  
12027 VENICE BOULEVARD  
LOS ANGELES 66, CALIFORNIA

June 19, 1980

Tom Bolack  
Rt 3 South, Box 47  
Farmington, New Mexico 87401

Dear M. Bolack,  
Your letter of June 17<sup>th</sup> received. My offer to  
you to purchase the necessary acreage for your  
communitization should have indicated a  
reluctance on my part to become financially  
involved in any more drilling. In 1960  
I did pay \$12,500. for the total 80 acres.

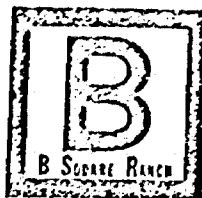
My attorneys are interested in knowing more  
about New Mexico's ruling forcing a lease holder  
to join with others against his will.

Please send documentation or references so that  
we may read this ruling in its entirety.

Yours truly  
E. Mathias

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EXPERIMENTAL FARM



AGRICULTURAL RESEARCH

TOM BOLACK, OWNER

RT. 2 SOUTH, BOX 47  
FARMINGTON, NEW MEXICO 87401

June 24, 1980

Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, CA 90066

Re: Proposed Joint Dakota Test Well,  
SW/4 SW/4, S1-T30N-R12W,  
San Juan Co., New Mexico

Dear Dr. Mathias,

In response to your request for documentation on the State of New Mexico's regulations on compulsory pooling, I am enclosing (1) a copy of the act pertaining to statutory unitization, (2) a copy of the draft form showing the type of information considered by the Oil Conservation Division in a compulsory pooling hearing and (3) a copy of a recent docket for the O.C.D. showing four cases involving compulsory or forced-pooling requests by various operators.

As stated in my last letter of June 17, I am still hopeful that you will give serious consideration to joining Southland Royalty and me in the drilling of this proposed well. My evaluation of the economics involved indicates that, even with your owning only a 70% net revenue and also having excessive lease acquisition costs, you could still make a reasonable profit from joining in our well. I believe an independent evaluation by competent technical help would verify this.

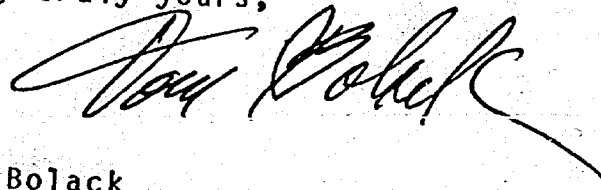
However, I also recognize your reluctance to join because you have already paid what, in my opinion, was an exorbitant price for this acreage by either 1960 or 1980 standards, that you have an unusually heavy royalty burden for a fee lease and that your joining in the Amoco well apparently resulted in a something less-than-satisfactory experience for you. These same considerations are reflected in the amount of my offer to you for your acreage, but it is an offer I believe to be fair and valid for the circumstances as I understand them. You did not indicate in your letter if my assumptions about

Dr. Eugene P. Mathias  
June 24, 1980  
Page 2

your interest are correct. If they are incorrect I would appreciate knowing it and I could then perhaps revise my offer.

Because going to the Oil Conservation Division for a compulsory pooling order would take both additional time and expense, I am willing to increase my previous offer for your acreage by an additional \$1,000, if you still will not contemplate joining the well. This offer is again contingent upon your providing documentation to verify my assumptions as to your ownership and obligations on the 80 acres. This offer amounts to a total of \$4,000 for the 80 acres. Again a quick decision on your part is necessary, as I am obliged to proceed with a request for a compulsory pooling hearing very soon due to the time constraints. Please let me hear from you.

Very truly yours,



Tom Bolack

1aj

Enclosure



ECONOMIC EVALUATION OF DR. E.P. MATHIAS INTEREST  
IN THE BOLACK #1 TOMMY BOLACK WELL

- I. Dakota well=\$426,805 (from AFE); Mathias portion (1/8)=\$53,350;  
Assuming Dakota gas production
  - A. July, 1980, NGPA Section 103 price=\$2.255/MM Btu
    1. Btu adjustment (assume 1100 Btu)=2.481/MCF
    2. Pressure base adjustment (to 15.025 psi.)=2.53/MCF
    3. Taxes @ 7%=\$0.177
    4. Royalties @ 30%=0.759
  - Net price=\$1.594/MCF
  - B. To recover \$53,350@1.594/MCF net will require  
32,469MCF production to Mathias int., or  
267,754MCF production from the well.
  - C. To produce 267MMCF from the Texaco#1 Barton took approx. 18+ yrs.  
from the Amoco#1 Scott took approx. 11.0 yrs.  
from the Consol.#1 Clayton took approx. 11.7 yrs.  
from the Beta#1 St.GasCom.A took approx. 15+ yrs.
  - D. Assuming an 11 yr. recovery (the best) and further assuming  
a 12% interest rate (current prime plus 1%) compounded semi-  
annually  
then \$53,350 has an undeferred value of \$181,367;  
a present worth factor of 0.2330; and  
a compound amount factor of 4.29
  - E. If a 9% per year inflation rate is added,  
Then the 11 year recovery results in  
an undeferred value of \$478,877;  
a present worth factor of 0.1114; and  
a compound amount factor of 8.98
- II. Dakota/Gallup dual well=\$503,140 (from AFE);  
Mathias portion=\$35,082
  - A. Again assuming Dakota gas production only (Mathias does  
not share in Gallup production) to bring net price of \$1.594/MCF, then
  - B. To recover \$35,082@1.594/MCF net will require  
22,009MCF production to Mathias int., or  
176,070MCF production from the well
  - C. To produce 176MMCF from the Texaco#1 Barton took approx. 13.3 yrs.  
from the Amoco#1 Scott took approx. 5.6 yrs.  
from the Consol.#1 Clayton took approx. 5.8 yrs.  
from the Beta#1 St.GasCom.A took approx. 14.7 yrs.

BEFORE EXAMINER NUTTER

OIL CONSERVATION DIVISION

EXHIBIT NO. 9

CASE NO. 6993



- D. Assuming a 10 yr. recovery (an average), and further assuming a 12% interest rate compounded semi-annually, then \$35,082 has an undeferred value of \$119,263; a present worth factor of 0.2942; and a compound amount factor of 3.40; or
- E. Assuming a 5.6 year recovery (the best) then \$35,082 has an undeferred value of \$63,563; a present worth factor of 0.5519; and a compound amount factor of 1.81.
- F. If a 9% per year inflation rate is added, then the 5.6 year recovery results in an undeferred value of \$107,224; a present worth factor of 0.3272; and a compound amount factor of 3.06.

July, 1980

July 1980

DAKOTA OIL & GAS PRODUCTION HISTORY  
SELECTED WELLS ADJACENT TO FEDERAL LEASE HH-02707  
SAN JUAN CO., NEW MEXICO

YEAR	TEXACO #1 BARTON SE 1/4 12-30N-12W			AHOCO #1 SCOTT GU NE 1/4 1-30N-12W			SOUTHLAND ROY #1 ZACHARY SE 1/4 2-30N-12W			CONSOLID. #1 CLAYTON SW 1/4 2-30N-12W			BETA #1 ST. GAS COM A SE 1/4 36-31N-12W		
	HCF	BBLs	CUH MHCF	HCF	BBLs	CUH MHCF	HCF	BBLs	CUH MHCF	HCF	BBLs	CUH MHCF	HCF	BBLs	CUH MHCF
1962	16,505	682	(6 mos.)							54,527	1,418	(12 mos)			
1963	12,005	989	28.5							40,009	573	94.5			
1964	6,345	640	34.9	58,992	1,255	(8 mos.)				27,540	285	122.1			
1965	10,308	654	45.7	41,625	68	100.6	4,249	604	(5 mos.)	23,444	243	145.5	29,543	1,232	(6 mos)
1966	7,286	457	52.9	29,018	1	129.6	1,717	222	5.9	18,369	186	163.9	28,351	926	57.9
1967	9,823	415	62.8	26,877	0	156.5			(1 yr.)	19,104	191	183.0	18,955	484	76.9
1968	12,670	378	75.4	21,478	0	178.0				16,924	144	200.0	11,088	269	87.9
1969	12,056	364	87.5	6,262	0	184.3				15,068	190	215.0	4,211	160	92.2
1970	13,353	292	100.9	22,908	0	207.2				13,953	55	229.0	5,373	139	97.5
1971	16,056	265	116.0	12,334	0	219.5				13,149	194	242.1	16,820	341	114.3
1972	14,663	287	131.6	11,881	0	231.4				15,893	396	258.0	13,342	187	127.7
1973	14,996	292	146.6	14,545	0	245.9				12,322	64	270.3	5,241	144	132.9
1974	16,285	192	162.9	13,763	77	259.7				11,474	0	281.8	6,709	0	139.6
1975	15,147	66	170.0	24,309	0	284.1				12,424	0	294.2	13,500	129	153.1
1976	13,867	96	191.9	23,176	0	307.2				11,376	0	305.6	7,427	43	160.6
1977	13,352	133	205.2	11,377	0	318.6				12,348	0	317.9	5,369	50	165.9
1978	11,234		216.5	13,779	0	332.4				12,004	0	329.9	2,601	0	168.5
1979	12,289		228.7	12,680	0	345.1				11,146	0	341.1	6,406	0	174.9
1st 1/2 '80	6,345		236.6 (18 yrs)	5,026		343.4 (16 1/2 yrs)				5,636		346.7 (18 1/2 yrs)	4,336		179.3 (15 yrs)

CASE 6992: Application of Amoco Production Company for an NGPA determination, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for its Anderson 3 Com. Well No. 1 in Unit R of Section 3, Township 16 South, Range 32 East.

CASE 6956: (Continued from July 9, 1980, Examiner Hearing)

Application of Amoco Production Company for an NGPA determination, Lea County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for its State "CH" Well No. 1 located in Unit F of Section 21, Township 16 South, Range 35 East.

CASE 6957: (Continued from July 9, 1980, Examiner Hearing)

Application of Amoco Production Company for an NGPA determination, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks a new onshore reservoir determination in the Morrow formation for its State HK Com Well No. 1 located in Unit L of Section 6, Township 24 South, Range 25 East.

CASE 6993: Application of Tom Bolack for compulsory pooling, San Juan County, New Mexico.

Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Dakota formation underlying the S/2 of Section 1, Township 30 North, Range 12 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6994: Application of Enserch Exploration, Inc. for compulsory pooling, Lea County, New Mexico.

Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp thru Siluro-Devonian formations underlying the N/2 of Section 14, Township 25 South, Range 34 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6995: Application of Petro-Lewis Corporation for downhole commingling, Lea County, New Mexico.

Applicant, in the above-styled cause, seeks approval for the downhole commingling of Penrose Skelly, Blinebry, and Drinkard production in the wellbore of its L. G. Warlick Well No. 2 located in Unit B of Section 19, Township 21 South, Range 37 East.

CASE 6996: Application of John E. Schalk for compulsory pooling, Rio Arriba County, New Mexico.

Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Blanco Mesaverde Pool underlying the NE/4 of Section 8, Township 25 North, Range 3 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for risk involved in drilling said well.

CASE 6982: (Continued from July 23, 1980, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Aminoil USA to appear and show cause why its 1980 Plan of Operation/Development for its Willow Lake Unit Area, Eddy County, New Mexico, should not be disapproved.

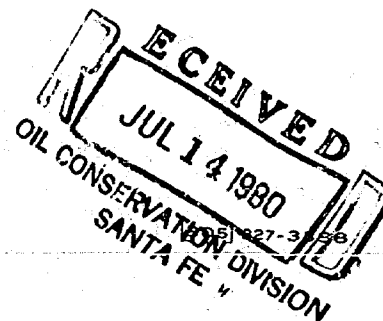
CASE 6997: Application of Benson-Montin-Greer Drilling Corporation for amendment of pool rules, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the amendment of the Special Rules and Regulations for the West Puerto Chiquito-Mancos Oil Pool, as promulgated by Order No. R-2565-B, which currently prescribe 320-acre spacing for pool.

Applicant proposes that said rules be amended to provide for 640-acre spacing units with wells to be located within 165 feet of the center of a governmental quarter section.

Applicant further seeks approval for the following non-standard spacing units in Township 24 North, Range 1 East: two 640-acre units being the E/2 of Section 7 and W/2 of 8, and the W/2 of Section 17 and E/2 of 18; and two 480-acre units being the N/2 of Section 19 and NW/4 of 20, and the S/2 of Section 19 and SW/4 of 20; in Township 24 North, Range 1 West: a 320-acre unit being the N/2 of Section 1 and two 640-acre units being the N/2 of Sections 23 and 24, and the S/2 of Sections 23 and 24; also the following eight 640-acre units: the W/2 of Section 29 and E/2 of 30, Township 25 North, Range 1 East; the E/2 of Section 19 and W/2 of 20, Township 26 North, Range 1 East; the E/2 of Sections 5 and 8; the W/2 of Sections 5 and 8; the E/2 of Sections 17 and 20; and the W/2 of Sections 17 and 20, all in Township 26 North, Range 1 West; the W/2 of Sections 1 and 12, and the W/2 of Sections 13 and 24, all in Township 27 North, Range 1 West; also three 600-acre units being the W/2 of Section 25 and all of 26; all of Section 27 and the E/2 of 28; and the W/2 of Section 28 and all of 29, Township 27 North, Range 1 West; and one 400-acre unit in the same township comprising all of Section 30.

JAMES B. COONEY (1908-1979)  
RICHARD T. C. TULLY  
DIRECTORS:  
KENDALL O. SCHLENKER  
JOHN R. COONEY

JAMES B. COONEY, P.A.  
ATTORNEYS AT LAW  
811 WEST APACHE  
P. O. BOX 288  
FARMINGTON, NEW MEXICO 87401



July 10, 1980

*Case 6993*

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

Re: Application for Compulsory Pooling  
San Juan County, New Mexico

Dear Mr. Ramey:

Enclosed are the following instruments concerning the Application for Compulsory Pooling by Tom Bolack for a proposed Dakota well to be located in the S/2 of Section 1, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico:

1. Three copies of the Application.
2. Three copies of a Certificate of Mailing stating that Dr. Eugene P. Mathias, all other working interest owners in the Dakota Formation in the S/2 of the above-described Section 1, the United States Geological Survey, and the Supervisor of the District III Office of the New Mexico Oil Conservation Division have been notified of this Application.

It would be appreciated if you would place this Application for hearing on or after August 6, 1980.

Thank you in advance for your assistance and cooperation in this matter. Please advise if you need further information.

Sincerely,

*Richard T. C. Tully*  
Richard T. C. Tully

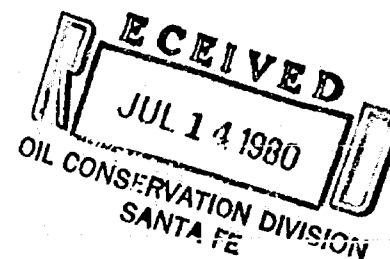
RTCT:cb

Enclosures

DISTRIBUTION

1. Frank Chavez, Supervisor  
District III Office  
Energy and Minerals Department  
New Mexico Oil Conservation Division  
1000 Rio Brazos Road  
Aztec, New Mexico 87410
2. Jim Sims, District Engineer  
U. S. Geological Survey  
Post Office Box 959  
Farmington, New Mexico 87401
3. Dr. Eugene P. Mathias  
12027 Venice Boulevard  
Los Angeles, California 90066
4. Larry Van Ryan  
Production Superintendent  
Southland Royalty Company  
Post Office Box 570  
Farmington, New Mexico 87401
5. Tommy Bolack and Terry Bolack,  
Co-Personal Representatives of the  
Estate of Alice N. Bolack, Deceased  
Route 3 South, Box 47  
Farmington, New Mexico 87401

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION



IN THE MATTER OF THE APPLICATION  
OF TOM BOLACK FOR COMPULSORY POOL-  
ING, SAN JUAN COUNTY, NEW MEXICO

CASE NO. 6993

APPLICATION

COMES NOW Tom Bolack, by his attorney, Richard T. C. Tully, and, as provided by Section 70-2-17(C), NMSA 1978 Compilation, hereby makes application for an Order pooling all of the mineral interests in and under the S/2 of Section 1, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico, and in support thereof further states:

1. Applicant proposes to dedicate the S/2 of the above-mentioned Section 1 to a well to be drilled to test the Dakota Formation within the boundary of the proposed pooled unit.
2. Applicant is the owner of 50% of the working interest in and under the S/2 of the above-mentioned Section 1, and Applicant has the right to drill thereon.
3. Applicant has sought and at the time of filing this Application has been unable to obtain the voluntary agreement or consent to join in the drilling of the well from the following operators:

<u>Name</u>	<u>Interest</u>
Dr. Eugene P. Mathias	12.50% Working Interest

4. To the best of the Applicant's information and belief, the address for Dr. Eugene P. Mathias is 12027 Venice Boulevard, Los Angeles, California 90066.

5. The pooling of the above interest and the completion of this well will avoid the drilling of unnecessary wells, it will further protect correlative rights, and it will prevent waste.



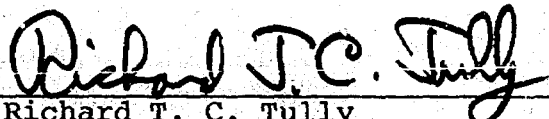
6. In order to permit the Applicant to obtain his just and fair share of the oil and gas underlying the subject lands, the mineral interests should be pooled and the Applicant should be designated as the Operator of the well to be drilled.

WHEREFORE, Applicant prays that this Application be set for hearing before the Division or the Division's duly-appointed examiner, and that after notice and hearing as required by law the Division enter its Order pooling all of the mineral interests of the Dakota Formation underlying the S/2 of Section 1, Township 30 North, Range 12 West, NMPM. Applicant further prays that he be named Operator of the well, and that the Order make provision for the Applicant to recover out of production his costs of drilling, completing, equipping, and operating the subject well, including costs of supervision and overhead charges, and a risk factor in the amount of 200% for the risk assumed by the Applicant in drilling, completing, and equipping the well, and such other and further relief as may be proper.

Respectfully submitted,

TOM BOLACK

By:

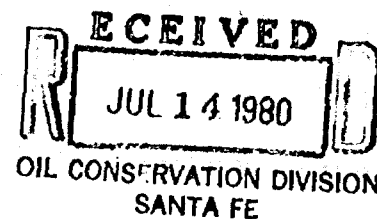
  
Richard T. C. Tully  
Attorney for Applicant  
JAMES B. COONEY, P.A.  
P. O. Box 268  
Farmington, New Mexico 87401  
505-327-3388

CERTIFICATE OF MAILING

I hereby certify that I mailed a copy of the foregoing Application to Dr. Eugene P. Mathias at 12027 Venice Boulevard, Los Angeles, California 90066 by "Certified Mail - Return Receipt Requested" and

by First Class Mail, pre-addressed and postage pre-paid, to all other working interest owners in the Dakota Formation in the S/2 of the above-described Section 1, the United States Geological Survey, and the Supervisor of the District III Office of the New Mexico Oil Conservation Division on the 11<sup>th</sup> day of July, 1980.

Richard T. C. Tully  
Richard T. C. Tully  
Attorney for Applicant



STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION  
OF TOM BOLACK FOR COMPULSORY POOL-  
ING, SAN JUAN COUNTY, NEW MEXICO

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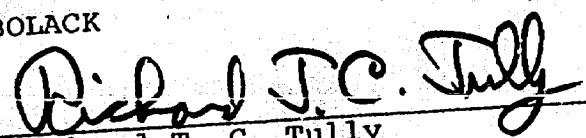
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Respectfully submitted,

TOM BOLACK

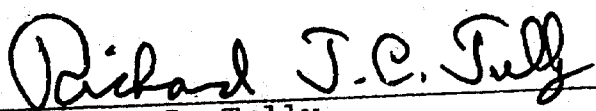
By:

  
Richard T. C. Tully  
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JAMES B. COONEY, P.A.  
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Richard T. C. Tully  
Attorney for Applicant

RECEIVED  
JUL 14 1980  
OIL CONSERVATION DIVISION  
SANTA FE

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION  
OF TOM BOLACK FOR COMPULSORY POOL-  
ING, SAN JUAN COUNTY, NEW MEXICO

CASE NO. 6993

APPLICATION

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2. Applicant is the owner of 50% of the working interest  
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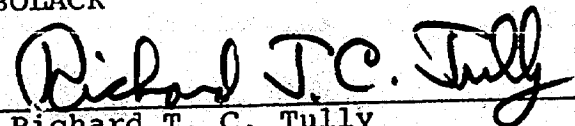
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WHEREFORE, Applicant prays that this Application be set for hearing before the Division or the Division's duly-appointed examiner, and that after notice and hearing as required by law the Division enter its Order pooling all of the mineral interests of the Dakota Formation underlying the S/2 of Section 1, Township 30 North, Range 12 West, NMPM. Applicant further prays that he be named Operator of the well, and that the Order make provision for the Applicant to recover out of production his costs of drilling, completing, equipping, and operating the subject well, including costs of supervision and overhead charges, and a risk factor in the amount of 200% for the risk assumed by the Applicant in drilling, completing, and equipping the well, and such other and further relief as may be proper.

Respectfully submitted,

TOM BOLACK

By:



Richard T. C. Tully  
Attorney for Applicant  
JAMES B. COONEY, P.A.  
P. O. Box 268  
Farmington, New Mexico 87401  
505-327-3388

CERTIFICATE OF MAILING

I hereby certify that I mailed a copy of the foregoing Application to Dr. Eugene P. Mathias at 12027 Venice Boulevard, Los Angeles, California 90066 by "Certified Mail - Return Receipt Requested" and

by First Class Mail, pre-addressed and postage pre-paid, to all other working interest owners in the Dakota Formation in the S/2 of the above-described Section 1, the United States Geological Survey, and the Supervisor of the District III Office of the New Mexico Oil Conservation Division on the 11<sup>th</sup> day of July, 1980.

  
Richard T. C. Tully  
Attorney for Applicant

DRAFT

dr/

STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

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

CASE NO. 6993

Order No. R- 6455

APPLICATION OF TOM BOLACK FOR  
COMPULSORY POOLING, SAN JUAN  
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on August 6,  
19 80, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.  
NOW, on this \_\_\_\_\_ day of August, 1980, 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, Tom Bolack,  
seeks an order pooling all mineral interests in the Dakota  
formation underlying the S/2  
of Section 1, Township 30 North, Range 12 West  
NMPM, Basin-Dakota Pool, San Juan County, New  
Mexico.

Florence -  
Pls be sure &  
send a copy of this  
order to Dr. Mathias  
in Los Angeles  
JAN

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

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

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

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

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

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

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

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

(11) That \$ 1045.00 per month while drilling and \$ 200.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before December 1, 1980, 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 Dakota formation underlying the S/2 of Section 1, Township 30 North, Range 12 West, NMPM, Basin Dakota Pool, San Juan 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 a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the first day of December, 1980, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Dakota formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of December, 1980, 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 Tom Bolack is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 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 who 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 \$ 1045.00 per month while drilling and \$ 200.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

-6-  
Case  
Order No.

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

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's 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 San Juan 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.