CASE 7224: S & I OIL COMPANY FOR COM-PULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO

CASE NO.

7224

APPlication, Transcripts, Small Exhibits,

ETC.



STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

BRUCE KING GOVERNOR

LARRY KEHOE SECRETARY

May 1, 1981

POST OFFICE 80X 2088 STATE LAND OFFICE BUILDING SANTA FE, NEW MEXICO 87501 (505) 827-2434

Mr. Thomas Kellahin Kellahin & Kellahin Attorneys at Law Post Office Box 1769 Santa Fe, New Mexico	Re:	CASE NO. ORDER NO. R	-6668
		S & I Di	1 Company
Dear Sir:			orthological states and states an
Enclosed herewith are two conditions order recently enter			
Yours very truly, JOE D. RAMEY Director			
	A the second of		
JDR/fd			
Copy of order also sent to:			
Hobbs OCD x Artesia OCD x Aztec OCD x	The Police of the Section 201		The Continues of the Co
Other			

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
22 April 1981
EXAMINER HEARING

IN THE MATTER OF:

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21

Application of S & I Oil Company for compulsory pooling, an Juan County, New Mexico.

CASE 7224

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

APPEARANCES

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:

W. Thomas Kellahin, Esq. KELLAHIN & KELLAHIN 500 Don Gaspar Santa Fe, New Mexico 87501

For t

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1
                                                             3
 2
                           MR. NUTTER: We'll call next Case
 3
     Number 7224.
                           MR. PADILLA: Application of S & I Oil
     Company for compulsory pooling, San Juan County, New Mexico.
 7
                            (Witness sworn.)
                             E. V. ISBELL
10
    being called as a witness and being duly sworn upon his oath,
11
    testified as follows, to-wit:
12
13
                           DIRECT EXAMINATION
14
    BY MR. KELLAHIN:
15
                           Mr. Isbell, would you please state your
16
    name and occupation?
17
                           I'm E. V. Isbell, Farmington, New
18
    Mexico. I own Central Mobile Home Sales.
19
                           Mr. Isbell, what is your relationship
20
    :with S & I Oil Company?
21
                           I'm a partner in S & I Oil.
22
                           Have you previousay testified before
23
    the Oil Conservation Division, Mr. Isbell?
24
                           No, I haven't.
                           Would you describe briefly for the
                 Q.
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1
 2
    Examiner what your experience has been in the oil and gas in-
 3
    dustry in northwestern New Mexico?
                           I moved there in 1956 with the Halli-
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    burton Company and was employed there for sixteen years.
                           And what did you do for Halliburton
 6
7
    Company?
                           I was a combination operator, cementing,
                A.
9
    testing, fracturing.
10
                           Do you own interest in and operate other
                Q.
11
    wells in the San Juan Basin?
12
                           Yes, we do. We have five of them.
13
                           And what are your proposed drilling
14
    activities with regards to this compulsory pooling case?
15
                A.
                           Well, it's just a 40-acre tract; we in-
    tend to drill a Gallup well in that 40 acres.
16
17
                           All right, sir. Do you hold any type
18
    of professional degree in engineering or geology?
19
                           No, I don't.
                A.
20
                           You're a practical oil and gas operator,
                Q.
21
    then, are you not, Mr. Isbell?
22
                           MR. KELLAHIN: We tender Mr. Isbell as
23
    a practical oil and gas operator.
                           MR. NUTTER: Mr. Isbell is so qualified.
24
25
                           Mr. Isbell, I'd like to direct your
```

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1
                                                           5
    attention first of all, to your efforts to obtain leasing
    arrangements or other kind of contractual commitments from the
    ownership interests in this 40-acre tract.
                          If you'll first of all describe for me
    what percentage, or how many acres you now have under control
    in that 40-acre tract.
                A.
                          Okay, there's six royalty owners in this,
    all brothers and sisters. It was part of an estate and we
10
    have 32 acres signed up.
11
                          Is the entire 40-acre tract a fee tract?
12
                          Yes.
13
                          Fee interest? And the entire 40-acre
14
    tract is divided among six family members, is it?
15
                A.
                          Yes.
16
                          And you have four of the family members
17
    committed under lease to the proposed well?
18
                          Yes, I do.
19
                          What is the shortest expiration date
20
   you have for any of those leases, Mr. Isbell?
21
                          Well, we've got a six month lease from
22
   William Davie, which is the primary leaseholder. He has
23
    20 acres out of that, and his dated from January 23rd, so we
24
   have six months from January 23rd to drill on that.
                          MR. NUTTER: Now, let me, let's back up
```

//\

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6
 2
    just a minute, Mr. Isbell.
                           It's a 40-acre tract.
                           Yes, sir.
                           MR. NUTTER: And there are six royalty
6
    owners that own the royalty under this 40 acres.
                           Right.
                          MR. NUTTER: It's undivided.
9
                          No, it isn't.
10
                          MR. KELLAHIN: They are fee owners.
11
                           Yeah.
                          MR. NUTTER: Oh, they're fee owners?
12
13
                          MR. KELLAHIN: Yes, sir, this is fee
14
    acreage and the 40-acre tract is divided --
                          MP. NUTTER: Into all these various
15
16
    tracts.
17
                          Right.
18
                          MR. KELLAHIN: Right.
19
                          MR. NUTTER: Okay, I thought it was
20
    undivided among the ---
21
                          Okay.
22
                          HR. NUTTER: -- royalty owners. Okay.
    But you do have 32 acres --
                          32 acres signed.
24
                A.
```

. .

MR. NUTTER: You do have leases on them.

1	 	
1		7
2	A.	Yes, I do.
3	·	MR. NUTTER: That is committed now.
4	λ.	It's committed now
5	. Ω.	Let's go through those quickly, Mr.
6	Isbell. I have marke	ed as EXhibit Number One your proposed
7	lease form with Iona	Brimhall. Has that lease been executed?
8	A.	We gave it to her but she wouldn't sign
9	it.	
10	Q	Iona Brimhall is one of the parties to
11	be pooled?	
12	A.	Yes, she is.
13	Q	All right, we'll talk about her again
14	in a minute, then.	
15		let's turn to the second proposed lease.
16	That's Maxine Hatteme	er.
17	λ.	She was given her lease but she wouldn't
18	sign it, either.	
19	Q	All right, she is the other individual
20	to be pooled?	
21	A.	Right.
22	Q	Now, Exhibits Three, Four, Five, and
23	Six represent execute	d leases by the other family members?
24	А.	That's correct.
25	Q	Okay. Would you describe for me what

٠.

. 2

Exhibits Seven and Eight are, Mr. Isbell?

A. That's -- I called Mrs. Brimhall on the 13th and asked her if she was going to reconsider signing this thing. She said she wouldn't sign the lease, so I asked her if she would sign the letter stating why she wouldn't sign it. She said she would.

So I had my secretary type this thing up, took it out to her, and my partner and I gave it to her last Thursday, and she said that's exactly what happened and I still won't sign it.

Q. Let's backtrack a little bit. When were your first contacts with Mrs. Brimhall and Mrs. Hattemer concerning their interest in this unit?

A. It was last September at the settlement of their -- the Davie estate. This was done in an estate, this 40 acres was, and when they finished it, Iona Brimhall brought all her brothers and sisters to my office and we negotiated this lease.

Q. At that time did she give you any indication that she and Maxine would be willing to sign a lease for you?

Yes, they were all in agreement, except Bill Davie. He wanted a six month lease instead of the one year lease.

```
9
                Q.
                           And you went ahead and leased with Mr.
3
    Davie?
                           I leased with Mr. Davie.
                Q.
                          And with the other three, also?
                          Yes, sir.
7
                          And subsequently Ms. Brimhall and Ms.
8
    Hattermer refused to execute the leases?
                          That's correct.
10
                          What, if any, efforts subsequent to that
11
    initial meeting have you made to have them execute leases or
12
    otherwise join or participate in the well?
13
                          Well, I've leased , Iona Brimhall's 40
14
    acres which is directly west of this 40 acres, and I drilled
    a well on it two months ago. And this lease is exactly like
16
    the one that I leased her property with.
                          What were the reasons she gave you for
18
    not being willing to execute a lease for you for this acreage?
19
                          It's a family squabble. Her and Bill
20
    Davie, which are brothers and sisters, well, they really hate
21
    each other. She won't sign anything that Bill Davie's name
22
    is on.
23
                          MR. NUTTER: Well, I've got to back up
24
    again.
                          Okay.
```

All right.

25

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1,		11
2	Q.	Have you advised Ms. Brimhall and Ms.
3	Hattermer of the econo	omic consequences to them and their in-
4	terest if they are com	epulsory pooled by the Division?
5	А.	Yes, I did, and they suggested that I
6	go ahead and pool them	n. They really didn't need the money,
7	is what they said.	
8	Q	Let's go to Exhibit Number Nine, Mr.
9	Isbell, and have you i	dentify the plat for me.
10	A.	All right. I got this off of Red Walsh
11	there in Farmington.	Where this proposed well is, the Brimhall
12	well is directly west	of that.
13	Q	Just south of the road?
14	A.	Yeah, uh huh.
15	Q	Is that a road?
16	A.	Right, uh-huh, that's highway 550.
17	I also have drilled we	lls over here in the bottom of Section
18	11 and Section 12, sou	theast and southwest of Section 11 and
19	12.	
20	Ö.	This is an anticipated Gallup oil well?
21	Л.	Yes, sir.
22	Q.	Would you identify for us in the area
23	what other producing o	r dry hole wells are completed or for
24	which completions have	been attempted in the Gallup?
25	A.	The Brimhall in Section 11 is a dry hole

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1
                                                           12
     drilled in 1961.
                           In Section 12, the Faust (sic) Federal
     was drilled by El Paso Natural Gas in 1961. It was a dry
     hole.
                           The Great Western in Section 11, that
 7
     wasn't a Gallup test there. That was a shallow test.
                           The Donella Well is Section 3, which
     we offset with Brimhall's well is a producing well for nine
10
     years. It averaged 9 barrels per day for nine years.
11
                           Is it depleted now?
12
                           It had a casing collapse and they had
13
     to abandon it.
14
                           Okay. Going to the northwest, are there
15
     any Gallup wells in that direction?
16
                           Yes, there is, over in Section 33 and
17
    34.
18
                           Would you identify for us on the plat
19
     the closest producing Gallup well?
20
                           It would be in Section 34.
21
                           The No. 2 Well in the --
22
                           Right.
23
                           -- southeast of the southwest?
24
                           That's correct.
25
                           Do you have a recommendation for the
                 Q.
```

.

1 13 2 Examiner with regards to the risk involved in the drilling of 3 an economic well at this location? Well, we think it will be production, you know, but there's always a chance it might not be. We're prepared to take a chance; we think we can make a well. 7 All right, sir. The Commission, by 8 statute, has a statutory maximum penalty to be imposed upon non-consenting working interest owners of 200 percent risk 10 factor. That risk factor allows the operator to recover out 11 of production the proportionate share of the non-consenting 12 party's cost, plus an additional 200 percent. 13 In relation to that statutory maximum, 14 how would you -- what opinion do you have with regards to the 15 risk of drilling a Gallup well? 16 Oh, I take the maximum. 17 In your opinion is that a fair and 18 reasonable assessed risk factor for this well at this depth? 19 A. Yes, I do. 20 All right, sir, let's go to Exhibit 21 Number Ten and have you identify that. 22 That's an AFE we worked up on the last 23 well that we drilled up there. 24 This is the well to the immediate west

of this location?

18 1 2 VI

here.

A No, sir, that's the last well we drilled in Section 12. That was drilled in December and we were going to drill this one the same depth so we estimated the cost would just be a little bit higher, due to inflation.

MR. NUTTER: Is that the well that's shown as a dry hole in the southwest quarter of Section 12?

A. No, sir, it's not. This is a new well

MR. NUTTER: Where is the well that Exhibit Ten refers to then?

A. Okay, it's not marked on that map. It's in the southwest of the southwest of Section 12, in that general area.

MR. NUTTER: And is it a producing well?

Yes, it is.

Q What kind of production rates do you get from the well?

A. This one here that we just drilled in Section 12 is making about 30 barrels a day.

MR. NUTTER: So this proposed location that you've got here in the southwest of Two would be directly between your new well in Section 12 and the wells up in Section 34, right on a line with them.

That's what we plan on, yes, sir.

MR. NUTTER: And you mentioned that the one in 34 was the nearest well, actually it's no closer than the one in Section 12, is it?

A. About the same.

MR. NUTTER: Okay.

A. Right.

Now, between those two producing wells, Mr. Isbell, there are other dry holes in the Gallup formation.

A. Yes, there is.

All right. Now, with regards to Exhibit

Number Ten, although this is the AFE from that well in Section

12, in your opinion will, subject to inflation from December

of '80, would these represent reasonable and fair charges for

the estimated cost of the well?

A. Yes, sir.

Q All right, sir. Let's turn to Exhibit

Number Eleven and have you identify that.

This is -- one of the operators of the Bob-Blanche Well in Section 12 was Walter Kennedy, has 10 acres in there that he participated with us, and we charge him \$350 a month.

Q The overhead charges on the --

A. The overhead charges, right.

On the COPAS accounting instruction on

24

25

	1	
	2 page three?	
		16
	3 A.	
	4	Right.
	Q	
	5 charged?	And what was the drilling
	onarged?	And what was the drilling well rate
	6	
	Α,	\$3500.
	7 Q	
		In your opinion would those be reasonable
	8 charges to assess	s again would those be reasonable
	9 Overbone .	s against the working interest owners for
	9 overhead charges	in this walls
10	0 ; [-1170 MGTTS
	A.	Yes, sir.
11		
	Q	Mr. Isbell, were Exhibits One through
12	Eleven prepared by	were Exhibits One through
13	Larga By	You or compiled under your direction and
13	supervision?	your direction and
14		
	A.	Yes the
15		Yes, they were.
i.	ð	And in your opinion will approval of
16	this application	Your opinion will approval of
	prizedtion be	
17	prevention of wagt-	in the best interests of conservation,
18	- "daf6	, and the protection of
10	A.	, and the protection of correlative rights?
19		res.
		MR. KELLAVITA
20	of Exhibite a	MR. KELLAHIN: We move the introduction
	of Exhibits One thro	ugh Eleven.
21		tion to the control of
,		MR. NUTTER: Exhibits One through Eleven
2 W	vill be admitted in e	one through Eleven
3	TII 6	Vidence.
•		
1		in the state of th
5		
L		

1 17 CROSS EXAMINATION BY MR. NUTTER: Mr. Isbell, the application was for the pooling of oil and gas underlying the 40-acre tract to drill a well to test the formations underlying the tract, and it was consequently advertised for pooling all mineral interests in all formations underlying this. This could be amended to all formations 10 down to and including the Gallup, I presume. 11 A, Yes, sir. 12 You don't intend to go below the Gallup? Q. 13 No, Gallup is all we're interested in. 14 Okay. And S & I would be the sole Q. 15 working interest owner in this well. 16 Yes, we would. 17 With the exception of the poolees, they 18 would be working interest owners. 19 MR. NUTTER: Are there any further 20 questions of Mr. Isbell? 21 MR. KELLAHIN: No, sir. 22 Mr. Isbell, I've got one. How do you 23 spell your name? 24 I-S-B-E-L-L.

Okay, no "A"?

25

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18
                           No "A".
                           Okay.
                           MR. NUTTER: Are there any further
    questions of Mr. Isbell? He may be excused.
                           Do you have anything further, Mr. Kel-
     lahin?
                           MR. KELLAHIN: No, sir.
                           MR. NUTTER: Does anyone have anything
10
     they wish to offer in Case Number 7224?
11
                           We'll take the case under advisement.
12
13
                            (Hearing concluded.)
14
15
16
17
18
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20
21
22
23
24
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CERTIFICATE

I, SALLY W. BOYD, C.S.R., DO HEREPY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sorry W. Boyd CER

, Examiner

1 do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7224
heard by me on 4/22 19.8/.

Oll Conservation Division

STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION STATE LAND OFFICE BLDG. SANTA FE, NEW MEXICO 22 April 1981 EXAMINER HEARING 5 IN THE MATTER OF: Application of S & I Cil Company for compulsory pooling, San Juan County, CASE 7224 8 New Mexico. 9 BEFORE: Daniel S. Nutter 10 11 12 TRANSCRIPT OF HEARING 13 14 APPEARANCES 15 16 Ernest L. Padilla, Esq. For the Oil Conservation Legal Counsel to the Division 17 Division: State Land Office Bldg. Santa Fe, New Mexico 87501 18 19 W. Thomas Kellahin, Esq. For the Applicant: 20 KELLAHIN & KELLAHIN 500 Don Gaspar 21 Santa Fe, New Mexico 87501

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                                  All right, sir. Do you hold any type
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                                    You're a practical oil and gas operator,
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R

A. That's -- I called Mrs. Brimhall on the 13th and asked her if she was going to reconsider signing this thing. She said she wouldn't sign the lease, so I asked her if she would sign the letter stating why she wouldn't sign it. She said she would.

So I had my secretary type this thing up, took it out to her, and my partner and I gave it to her last Thursday, and she said that's exactly what happened and I still won't sign it.

Q. Let's backtrack a little bit. When were your first contacts with Mrs. Brimhall and Mrs. Hattemer concerning their interest in this unit?

A. It was last September at the settlement of their -- the Davie estate. This was done in an estate, this 40 acres was, and when they finished it, Iona Brimhall brought all her brothers and sisters to my office and we negotiated this lease.

Q. At that time did she give you any indication that she and Maxine would be willing to sign a lease for you?

A Yes, they were all in agreement, except Bill Davie. He wanted a six month lease instead of the one year lease.

> \

```
And you went ahead and leased with Mr.
                Q.
2
    Davie?
                           I leased with Mr. Davie.
3
                A.
                           And with the other three, also?
                 Q.
5
                           Yes, sir.
                           And subsequently Ms. Brimhall and Ms.
                 Ā.
 6
                 Q.
 7
     Hattermer refused to execute the leases?
 8
                            That's correct.
                            What, if any, efforts subsequent to that
                  A.
  9
      initial meeting have you made to have them execute leases or
 10
      otherwise join or participate in the well?
 11
                            Well, I've leased Iona Brimhall's 40
  12
       acres which is directly west of this 40 acres, and I drilled
  13
       a well on it two months ago. And this lease is exactly like
  14
   15
        the one that I leased her property with.
                              What were the reasons she gave you for
   16
        not being willing to execute a lease for you for this acreage?
   17
                               It's a family squabble. Her and Bill
    18
         Davie, which are brothers and sisters, well, they really hate
    19
         each other. She won't sign anything that Bill Davie's name
    20
     21
                                 FIR. NUTTER: Well, I've got to back up
     22
          is on.
     23
          again.
      24
                                  okay.
                       A.
      25
```

1 10 MR. NUTTER: I thought it was an undivided 3 interest awhile ago because it's family members. Are they the heirs to someone? Right, uh-huh. A. MR. NUTTER: And then when these brothers and sisters inherited it, instead of having an undivided interest, they went ahead and physically divided it and each took --10 Λ. They divided it up. 11 MR. NUTTER: -- a tract here and a tract 12 there. 13 That's correct. A. 14 MR. NUTTER: So it became an undivided 15 bunch of blots. That's what it amounted to; 3.89 acres. 17 MR. NUTTER: That was a standard division 18 and then one of the brothers there, he got --19 One of the brothers had already bought 20 16 acres from the estate. 21 MR. NUTTER: And he got his 3.89 acres 22 plus the 16 that he had already bought, is that correct? 23 Yes, that's correct. 24 MR. NUTTER: So -- okay, I'm clear now: 25 All right.

*

```
11
                           Have you advised Ms. Brimhall and Ms.
3
    Hattermer of the economic consequences to them and their in-
    terest if they are compulsory pooled by the Division?
                          Yes, I did, and they suggested that I
    go ahead and pool them. They really didn't need the money,
    is what they said.
                           Let's go to Exhibit Number Nine, Mr.
    Isbell, and have you identify the plat for me.
10
                          All right. I got this off of Red Walsh
11
    there in Farmington. Where this proposed well is, the Brimhall
12
    well is directly west of that.
13
                           Just south of the road?
                Q.
14
                          Yeah, uh huh.
15
                           Is that a road?
                           Right, uh-huh, that's highway 550.
16
17
    I also have drilled wells over here in the bottom of Section
18
    11 and Section 12, southeast and southwest of Section 11 and
19
    12.
20
                           This is an anticipated Gallup oil well?
21
                          Yes, sir.
22
                           Would you identify for us in the area
    what other producing or dry hole wells are completed or for
24
    which completions have been attempted in the Gallup?
                           The Brimhall in Section 11 is a dry hole
                 A.
```

~

```
drilled in 1961.
                                                                   12
        3
                                   In Section 12, the Faust (sic) Federal
            was drilled by El Paso Natural Gas in 1961. It was a dry
           hole.
                                 The Great Western in Section 11, that
       7
          wasn't a Gallup test there. That was a shallow test.
                                 The Donella Well is Section 3, which
         we offset with Brimhall's well is a producing well for nine
         years. It averaged 9 barrels per day for nine years.
     10
    11
                                Is it depleted now?
    12
                               It had a casing collapse and they had
    13
        to abandon it.
   14
                               Okay. Going to the northwest, are there
   15
        any Gallup wells in that direction?
   16
                              Yes, there is, over in Section 33 and
  17
       34.
  18
                             Would you identify for us on the plat
 19
      the closest producing Gallup well?
 20
                             It would be in Section 34.
 21
                  Q.
                            The No. 2 Well in the --
22
                            Right.
23
                 Q.
                            -- southeast of the southwest?
24
                 A.
                           That's correct.
                 Q.
                           Do you have a recommendation for the
```

1	13
2	Examiner with regards to the risk involved in the drilling of
3	an economic well at this location?
4	A. Well, we think it will be production,
5	you know, but there's always a chance it might not be. We're
6	prepared to take a chance; we think we can make a well.
7	Q All right, sir. The Commission, by
8	statute, has a statutory maximum penalty to be imposed upon
9	non-consenting working interest owners of 200 percent risk
10	factor. That risk factor allows the operator to recover out
11	of production the proportionate share of the non-consenting
12	party's cost, plus an additional 200 percent.
13	In relation to that statutory maximum,
14	how would you ~~ what opinion do you have with regards to the
15	risk of drilling a Gallup well?
16	A. Oh, I take the maximum.
17	Q In your opinion is that a fair and
18	reasonable assessed risk factor for this well at this depth?
19	A. Yes, I do.
20	Q All right, sir, let's go to Exhibit
21	Number Ten and have you identify that.
22	A. That's an AFE we worked up on the last
23	well that we drilled up there.
24	Q. This is the well to the immediate west
25	of this location?

```
2
                                                                 14
                                No, sir, that's the last well we drilled
          in Section 12. That was drilled in December and we were going
      3
         to drill this one the same depth so we estimated the cost
         would just be a little bit higher, due to inflation.
                              MR. NUTTER: Is that the well that's
         shown as a dry hole in the southwest quarter of Section 12?
                              No, sir, it's not. This is a new well
        here.
   10
                              MR. NUTTER: Where is the well that
   11
        Exhibit Ten refers to then?
   12
                             Okay, it's not marked on that map.
       in the southwest of the southwest of Section 12, in that
   13
  14
       general area.
  15
                            MR. NUTTER: And is it a producing well?
  16
                            Yes, it is.
 17
                            What kind of production rates do you
 18
      get from the well?
 19
                           This one here that we just drilled in
 20
     Section 12 is making about 30 barrels a day.
21
                           MR. NUTTER: So this proposed location
     that you've got here in the southwest of Two would be
22
23
     directly between your new well in Section 12 and the wells up
24
     in Section 34, right on a line with them.
25
                          That's what we plan on, yes, sir.
```

٠,

· ***

```
1
                                                            16
 2
    page three?
                            Right,
                            And what was the drilling well rate
                 Q.
    charged?
                            $3500.
7
                            In your opinion would those be reasonable
8
    charges to assess against the working interest owners for
9
    overhead charges in this well?
10
                            Yes, sir.
11
                           Mr. Isbell, were Exhibits One through
12
    Eleven prepared by you or compiled under your direction and
13
    supervision?
14
                            Yes, they were.
                           And in your opinion will approval of
15
    this application be in the best interests of conservation,
16
    prevention of waste, and the protection of correlative rights?
17
18
                            Yes.
19
                           MR. KELLAHIN: We move the introduction
20
    of Exhibits One through Eleven.
                            MR, NUTTER: Exhibits One through Eleven
21
22
    will be admitted in evidence.
23
24
25
```

*****~

17 CROSS EXAMINATION BY MR. NUTTER: Mr. Isbell, the application was for the 3 pooling of oil and gas underlying the 40-acre tract to drill a well to test the formations underlying the tract, and it was consequently advertised for pooling all mineral interests in all formations underlying this. This could be amended to all formations 10 down to and including the Gallup, I presume. 11 Yes, sir. 12 You don't intend to go below the Gallup? 13 No, Gallup is all we're interested in. 14 Okay. And S & I would be the sole 15 working interest owner in this well. 16 Yes, we would, A. 17 With the exception of the poolees, they 18 would be working interest owners. 19 MR. NUTTER: Are there any further 20 questions of Mr. Isbell? 21 MR. KELLAHIN: No, sir, 22 Mr. Isbell, I've got one. How do you 23 spell your name? 24 I-S-B-E-L-L, 25 Okay, no "A"? Q.

1 18 No "A", Q. Okay. MR. NUTTER: Are there any further questions of Mr. Isbell? He may be excused. Do you have anything further, Mr. Kellahin? MR. KELLAHIN: No, sir. MR. NUTTER: Does anyone have anything 10 they wish to offer in Case Number 7224? 11 We'll take the case under advisement. 12 13 (Hearing concluded.) 14 15 16 17 18 19 20 21 22 23 24 25

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CERTIFICATE

I, SALLY W. BOYD, C.S.R., DO HEREPY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 72246 heard by me on 4/22 1981.

Oil Conservation Division

KELLAHIN AND KELLAHIN

Attorneys at Law

El Patio - 117 North Guadalupe Post Office Box 2265 Senta Fe, New Mexico 87501 Telephone 982-4285 Area Code 505

W. Thomas Kellabin Karen Aubrey James B. Grant

Jason Kellabin

October 19, 1982

Mr. E. V. Isbell

Mr. Troy R. Strickland

S & I OIL COMPANY

413 West Main

Farmington, New Mexico

37401

MON O T JARS

Re:

NMOCD Case 7224 Order R-6668

Gentlemen:

On April 22, 1981, I represented you before the New Mexico Oil Conservation Division to obtain the referenced compulsory pooling order for the SW/4SW/4 of Section 2, T29N, R15W, San Juan County, New Mexico.

Yesterday, Mr. Dan Nutter of the Oil Conservation Division called me to say that you had not complied with that portion of the pooling order which required you to furnish the Commission and each of the pooled interests with a copy of the actual well costs within 90 days of completion of the well.

Mr. Nutter's call was apparently prompted by a complaint they had received from Mrs. Evelyn B. Nielson, the heir of Iona D. Brimhall.

Even though 90 days have passed, I recommend that you immediately send to Dan Nutter and Mrs. Nielson the required actual itemized schedule of well costs.

Please call me if you have any questions.

W. Thomas Kellahin

WTK:rb

also find enclosed well costs on the Barbara#1

DAVIE #1

VENDOR	DESCRIPTION		AMOUNT
	INTANGIBLE DRILLING COSTS		
Baker Service Tools	Rental of tubing bailer		\$ 1,708.73
Big A Well Service	Swab well	-	1,053.62
Big Red Tool, Inc.	Charge to cut casing	·	203.22
Bouren's Well Logging Ser.	Logging		2,800.00
Chaco Construction Co.	Work on location		5,835.46
Chaco Construction Co.	Build chain link fence		2,670.30
Chaco Construction Co.	Work on tanks		1,497.60
Chaco Construction Co.	Work on separator		1,913.01
Chaco Construction Co.	Install culvert		142.83
Chaco Construction Co.	Hauling from town to location		1,246.96
Chaco Construction Co.	Truck, lowboy & driver		253.57
Chaco Construction Co.	Dig pit & process water		227.33
Chaco Construction Co.	Hook up chemical pot		124.20
Bill Davie	Location & right of way		1,000.00
Dawn Trucking Co.	Trucking		1,049.76
Desert American Insurance	Bond		71.50
Donham 011 Tool Co.	Rental companion flange		388.96
Dowell	Chemicals		8,335.50
Farmington Well Service	Swab well		1,681.87
Flint Engineering	Completion rig	•	13,857.40
Groendyke Transport Co.	Trucking	:	200.42
Ronnie Hoover	Hauling		100.00
Jetronics	Jet perforate	•	3,344.00
Justis Supply Co., Inc.	Weld Bell Nipple		20.80
Kerr Land Surveying, Inc.	Location, elevation & vicinity map		188.10
S & I Oil Company	Drilling supervision		2,000.00
S & I Oil Company	Completion supervision		2,000.00
SSS Warehousing, Inc.	KCL		891.00
San Juan Casing Service	Run casing	NOV 0 1 1982	1,657.14
San Juan Concrete Co.	Concrete	4010111900	116.14
Schlumberger Well Serv.	Open hole logging	(A.c.	12,382.77
Shiprock Transport Co.	Hauling		6,481.68
Shiprock Transport Co.	Pull pits		355.04
T. Strickland-E.V. Isbell	Lease		4,000.00
Sun land Mud	Chemicals	•	14,271.35
Shorty Thompson	Pumped pit		36.40
Sunco	Pulling pits		450.85
Trio Construction Co.	Dig post holes		207.00
C. R. Wagner	G.O.R. test		197.28
Walsh Engineering	Request permits & file notices		166.40
The Western Co.	Acidizing & frac well		20,596.62
Woodco Cementing	Cementing surface		2,733.81
YW Drilling Co.	Daywork & footage for drilling		70,879.51

DAVIE #1

VENDOR	DESCRIPTION	AMOUNT
•	TANGIBLE DRILLING COSTS	
ABC Industry, Inc. American Tank & Steel Corp. American Tank & Steel Corp. Arco Materials, Inc. Big A Well Service Big Red Tool, Inc. Chaco Construction Co. Donham Oil Tool Co. Dowell Line Masters Pipe Line Masters Pipe Line Masters Pipe Mo-Te, Inc. Oil & Gas Equipment Corp. Olman Heath Olman Heath Superior Supply Co.	700' of 6' Chain link, dble, gate & walk gate 20' 12" CMP 2 Tanks, walkway, stairway, & retainer bands Gravel Swab cups Equipment for hook-up Injection pot Ring gasket Casing hardware 291' 8 5/8" Casing 4,433' 4 1/2" Tubing 4,626' 4 1/2" Casing 2 Sets anchors Time clock exchange Separator Valve 2 8'x6' Fiberglass tanks	\$ 3,021.20 103.50 8,396.42 129.94 28.30 9,649.44 110.74 11.02 2,776.66 3,337.26 15,556.69 27,133.66 466.88 22.92 9,553.44 249.74 1,040.00
	Total	\$81,588.81

NOV 0 1 1982

BARBARA #1

VENDOR	DESCRIPTION	AMOUNT
	TANGIBLE DRILLING COSTS	•
American Tank and Steel Atomic Sign Company Bovaird Supply Bovaird Supply Big Red Tool Chaco Oilfield Services Dowell Fluor Oil Field Supply Line Masters Pipe Line Masters Pipe Line Masters Pipe Olman Heath W & C Contracting	Tank and steps Well sign Gauges Casing Connections and valves 4 1/2 X 2 3/8 tubing anchor 1/2" needle valve and 2" bull plug Pup joint, bull plugs, seating nipple Larkin 8 5/8 head and connectors 4 1/2" gauge Chain link fence and gate posts Tools Valve balls and connection 297.73 feet of 8 5/8 casing 4766.66 feet, 36 joints, 2 3/8 seamless 4710 feet of 4 1/2 casing Separator Pipe and fittings	\$ 8,107.7 27.1 53.9 394.1 1,005.3 1,157.8 77.1 236.7 965.6 112.8 3,181.4 2,612.4 4,298.6 2,669.9 12,685.8 22,722.8 9,044.4 1,067.6
	Tota	\$70,421.7
DISTRIBUTION:		
George Naeter Merle Baker Mayne Brashear William Latimer W.W. Blackmon W.R. Blackmon Fred Isbell E.V. Isbell Froy Strickland	25.000 6.250 6.250 6.250 6.250 6.250 6.250 12.500 25.000	17,605.44 4,401.36 4,401.36 4,401.36 4,401.36 4,401.36 8,802.72 17,605.43
	NOV 0 1 198?	\$70,421.7

BARBARA #1

ENDOR	DESCRIPTION	AMOUNT
	INTANGIBLE DRILLING COSTS	
aker Service Tool	Rental and service of Tubing Bailer	1,947.
ig Red Tool	Set Larkin Slips and cut casing	174.
ouren's Well Logging	7 days logging	2,450.
haco Construction Company	Install 24" CMP - load and haul gravel	2,441.
haco Construction Company	Haul gravel	3,201.
haco Construction Company	Load and haul gravel	3,512.
haco Construction Company	Load and haul gravel and dig reserve pit	3,079.
naco Construction Company	Haul backhoe to yard	186.
aco Construction Company	Clean-up of location	1,796.
aco Construction Company	Haul base course plate road to location	581.
naco Oilfield Services	Work on fence	3,532.
B. Cooney	Legal fees	1,002.
sert American Insurance	Bond	.50.
bug Foutz	Fill dirt	547.
well		10,941.
	Cementing 4 1/2	59.
inttEngineering	BOP from location to yard	14,388
int Engineering	Completion work	
uor Oilfield Supply	Sample Bags	110
mco	Rental of 2 7/8" Midco sand pump	145
mes W. Maness	Drill surface hole and run casing	10,263.
tronics	Correlation Gamma Ray C.C.L.	2,479.
stis Supply	Weld bell nipple	52.
nai Drilling	Drilling	66,204.
nai Drilling	Daywork	4,778.
nd and Marine	Rental	75.
A.D. Tankers	Pull burn and production pit	162.
A.D. Tankers	Pull reserve pit	572
A.D. Tankers	Haul drilling water	2,358
-te, Inc.	Set Anchors	415.
narch Corporation	Haul sand pump and head from Homco	208.
narch Corporation	Haul sand pump and head from location	80
& I 011 Company	Drilling supervision	1,500
& I Oil Company	Completion supervision	1,500.
S Warehousing	CMC NOVC1	1,053
S Warehousing	KCL	1,610
n Juan County Abstract	Abstract on T29N, R15W, Sec 12	956
hlumberger Well Service	Logs	11,458
iprock Transport	Haul water, remove mud	2,929
iprock Transport	Transfer oil from frac tank to storage tank	79.
uthwest Mud & Chemicals	Gel, chemicals, cedar fiber, shurplug	10,399
nco Trucking	Haul rig to location	273.
nce Trucking	Haul casing to location	762
& C Contracting Co.	Prepare location for separator	5,686
1sh Engineering	Prepare & file Sundry Notice for Casing & Request Allowabl	
1sh Engineering	Prepare & file Notice for Frac & request Production Unit #	
1sh Engineering	Prepare NMOCC Log Completion & C-104	67
ish Engineering	Discussion with TRS & prepare logs for preforating	209

VENDOR		DESCRIPTION		AMOUNT
Western Company Western Company Western Company Woodco Cementing Kennedy Estate E.V. Isbell	Acidizing Cementing surf	and right of way		585.57 15,875.19 2,193.27 3,013.26 2,000.00 5,460.00
DISTRIBUTION:			Total	\$205,368.79
George Naeter Merle Baker Wayne Brashear William Latimer W.W. Blackmon J.R. Blackmon Fred Isbell Toy Strickland	25.000 6.250 6.250 6.250 6.250 6.250 6.250 12.500 25.000			\$ 51,342.20 12,835.55 12,835.55 12,835.55 12,835.55 12,835.55 12,835.55 25,671.09 51,342.20

Memo

Trom

D. S. NUTTER
CHIEF ENGINEER

To File _

Discussed this maller of Tom Kellahim (Ally for S&I O'cl Co) 10/18/82 Advised him we had knied him we had knied schodule of actual well costs (apparently Eurlyn B. Milsen hasn't either) and asked him to contact S&I en this. He will.

Bvelyn B. Nielsen
P. O. Box 1014
Springfield, Virginia 22151

October 12, 1982

State of New Mexico
Energy and Minerals Department
Oil Conservation Division
Santa Fe, New Mexico 87503

nuttor

OIL CONSERVATION DIVISION SANTA FE

Re: Davie No. 1 Well
Township 29 North, Range 15 West, N.M.P.M.
Section 2: SW/4 SW/4
Containing 40 acres, more or less
San Juan County, New Mexico

Dear Sirs:

I have enclosed my letter to the S. & I. Oil Company in Farmington, New Mexico for your information and use. The enclosed documents show my legal entitlement to the information that I have requested from the S. & I. Oil Company. Please retain this copy for your files related to the Davie No. 1 well.

As state in my letter, the S. & I. Oil Company has not provided me the costs for annual operations as provided by in your NMOCD Order No. R-6668 issued in Case No. 7224 on April 30, 1981. If the S. & I. Oil Company continues not to comply with my request for this information, I will solicit your assistance

in this matter.

Your cooperation will be appreciated.

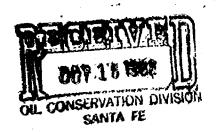
Respectfully,

Evelyn B. Melsen
Byel yn B. Nielsen

8nclosures (3)

CERCIFIED MAIL NO. P 280 587 678
RETURN RECEIPT REQUESTED

1



8velyn B. NielsenP. O. Box 1014Springfield, Virginia 22151

October 12, 1982

S. & I. Oil Company Route 3, Nox 35 Parmington, New Mexico 87401

: Davie No. 1 Well
Township 29 North, Range 15 West, N.M.P.M.
Section 2: SW/4 SW/4
Containing 40 Acres More or Less
San Juan County, New Mexico

Dear Mr. Troy Strickland:

Order for gas production and money due me for the sale of gas. Secondly, I need the total of all costs that will be used by you to offset my share of the working interest in the Davie No. 1 well. As specified by paragraphs 7 and 9 of the Compulsory Pooling Order (Case No. 7224; Order No. R-6668), the Operator can withhold certain costs from production. These costs are needed at the end of each year of production to properly file both Pederal and State taxes. Pailure by you to provide withheld costs will show that you intend to withhold from my working interest share of production my pro-rata share of costs of only (1) the supervisory costs of \$3500.00 per month while drilling and \$250.00 per month while producing; (2) a risk charge of 200 percent of the pro-rata share of reasonable well costs; and (3) my reasonable pro-rata share of drilling costs. These costs are shown in the Compulsory Pooling Order. To date you have not provided costs

attributed to me or the Estate of Iona D. Brimhall for 1981.

As shown below, I have sent a copy of this letter to the State of New Mexico Oil Conservation Division for their information.

Your cooperation would be appreciated.

Sincerely,

Evelyn B. nielsen

Evelyn B. Nielsen

cc: State of New Mexico Oil Conservation Division

CBRTIFIED MAIL NO. P280 587 677 RETURN RECEIPT REQUESTED

SEP 03 1982

SEP 03 1982

CLERK

BY LEADER AND DEPUTY

COUNTY OF SAN JUAN

STATE OF NEW MEXICO

IN THE PROBATE COURT

IN THE MATTER OF THE ESTATE OF)

10NA D. BRIMHALL, deceased.)

No. 3419

VERIFIED STATEMENT OF PERSONAL REPRESENTATIVE TO CLOSE ESTATE

OCT 16 MAZ

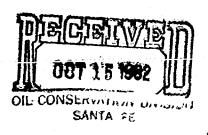
OIL CONSERVATION DIVISIO
SANTA FE

EVELYN BRIMHALL NIELSEN, personal representative of the estate the Brimhall, deceased, having been first duly sworn in the manner provided by law, states upon her oath as follows:

- 1. Evelyn Brimhall Nielsen published notice to creditors of her appointment as personal representative of the Estate of Iona D. Brimhall, deceased, providing notice that any claim against said estate should be filed within the statutory period or be barred; that such notice was given for the time and in the manner required by law, and specifically in the manner provided by §45-3-801 NMSA (1978) and that the first publication of such notice occurred on December 29, 1981. Such notice properly filed within the six month period from the date of appointment of personal representative.
- 2. Evelyn Brimhall Nielsen, personal representative of the Estate of Iona D. Brimhall, deceased, has fully administered said estate of the Decedent since no claims were presented against the estate; she has paid all expenses of administration of this estate; she has submitted for payment all required Federal and State estate and other death taxes, and the assets of the estate have been distributed to the person entitled to receive the same in the amount and manner to which she was entitled under the Last Will and lestament of Decedent admitted to probate herein.
- 3. That Evelyn Brimhall Nielsen, personal representative of the estate of lona D. Brimhall, has sent a copy of this statement to the distributee of said estate and has furnished a full account in writing of its administration to said distributee whose interest is affected thereby in the form of said final account hereto attached as part of this verified statement. Copies of said final account and this statement have been furnished to Evelyn Brimhall Nielsen, heir of the Decedent.
- 4. This statement is filed for the purpose of closing the estate of

ROPERT MARBUN, P.A. APPERION AT LAW P. D. DEN 2001

representative, pursuant to Section	n 45-3-1003 NMSA (1978), on this <u>30th</u> day of
Murch , 1982.	
	Evelyn Drumbul Wilsen, Personal Representative of the Estate of Iona D. Brimhall, deceased
VERIF	ICATION
STATE OF NEW MEXICO)	
COUNTY OF SAN JUAN)	
EVELYN BRIMHALL NIELSEN, a	ifter first being duly sworn upon her oath,
states: That all of the matters, f	acts and things set forth herein and containe
in the foregoing statement and all	attachments are true to the best of her
knowledge, information and belief.	
· · · · · · · · · · · · · · · · · · ·	Evelyn Brimball hickory
. ·	EVELYN*BRIMHALL NIELSEN
SUBSCRIBED AND SWORN TO before me d	n this 39th day of March, 1982,
ly Commission Expires:	Valuation Sanders
2-28-83	Notary Confic



ROBERT CARDIN, P.A.
ATTOMATYB AT LAW
P. O. BOX 2001
FARMINOTON, NH 87401

PROBATE COURT
SAN JUAN COUNTY, N. M.

SEP 03 1982

SEP 03 1982

CLERK

BY SAN JUAN

COUNTY OF SAN JUAN

STATE OF NEW MEXICO

described property

IN THE PROBATE COURT

IN THE MATTER OF THE ESTATE OF)

No. 3419

DECIENT 18 1982 Upoll Conservation division

INSTRUMENT OF DISTRIBUTION

THE UNDERSIGNED, personal representative of the Estate of Iona D. Brimhall, deceased, in order to make distribution of the property of the above entitled and numbered estate of Iona D. Brimhall, deceased, and in compliance with Chapter 45, N.M.S.A., relating to decedent's estate, hereby assigns, sets over, transfers and conveys to Evelyn Brimhall Nielsen as surviving heir under the terms of the mutual and joint Last Will and Testament of John A. Brimhall and Iona D. Brimhall, and as the sole and exclusive heir to the entire estate of said decedents, pursuant to the terms and provisions of said mutual and joint Last Will and Testament, all of the right, title and interest of said decedents, John A. Brimhall and Iona D. Brimhall, in and to all of the following

Real Estate

- Lots Thirty (30) and Thirty-one (31) Trails End Subdivision, Yavapai County, State of Arizona, according to the Plat thereof and on file and of record in the office of the County Recorder of said Yavapai County, Arizona, in Book 4 of Maps, Page 68 thereof.
- 2. Residence and farm land, Section Ten (10), Township Twenty-nine (29) North, Range Fifteen (15) West in Fruitland, New Mexico.
- 4. TRACT 1: 3.90+ acres, situate in the SW'SW's of Section 2, Township 29 North, Range 15 West, N.M.P.M. San Juan County, New Mexico, being described as follows:

POBERT CARDIN, P.A. ATDRNEYS AT LAW P. D. EDX 2061 BEGINNING at a point which is 544.00' N 89007'36" E from the SW Corner of said Section 2. Said Point being the center of Co. RD No. 62.

THENCE N 0039'12"E 1318.24';

THENCE N 89028'42"E 128.27';

THENCE S 0025'10" W 1317.43' to a point in the center of Co. RD No. 62;

THENCE S 89007'36" W along said centerline 129.18' to the point of beginning-less and except 0.75+ Ac. for Hwy 550 right-of-way and less and except 0.89+AC for Co. RD No. 62 right-of-way.

TOTAL VALUE:

5. Tract or parcel of real estate situate, lying and being in the County of El Paso, State of lexas, more particularly described as follows, to-wit:

Lot numbered Eleven (11) in Block numbered One (1).

Unit Five (5) of WILCO SUBDIVISION of Section 7, Block 77.

Township 1 of the Texas and Pacific Railway Company Surveys in El Paso County, Texas, according to the map and plat thereof, now of record in Plat Book 4 at page 66 of the Plat Records of El Paso County, Texas.

TOTAL VALUE:

Personal Property

- 1. Household furnishings
- 2. 1964 Rambler
- 3. 72 shares of common stock of El Paso Natural Gas Company, El Paso, Texas
- 4. 18,658 shares of common stock of Southwest Capital Corporation, Albuquerque, New Mexico
- 5. 9,037.184 shares of common stock of Fundamental Investors, Inc.
- 6. Cash on hand at date of death
- 7. Various Certificates of Deposit
- 8. Funds held in savings accounts and Animas Credit Union
- 9. Proceeds from insurance policies
- 10. El Paso Retirement Income Plan New Mexico Educators Retirement Plan

DATED	this	30th_	day	of	March,	1982
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Evely Simulation Nelson Evelyn Britishall NIELSEN, Personal Representative of the Estate of Iona D. Brimhall, deceased

STATE OF NEW MEXICO)

COUNTY OF SAN JUAN)

SS

The foregoing instrument was acknowledged before me on this 30th day

of March , 1982, by Evelyn Brimhall Nielsen, personal representative of the Estate of Iona D. Brimhall, deceased, for the purposes of consideration therein expressed.

My Commission Expires: 2-28-83

Notary Public



ADSERT CARDIN, P.A.: ATTORNEYS AT LAW (R. S. SOX SO6)

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9-28-81

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STATE OF NEW MEXICO ENERGY AND MINERALS DEPARTMENT OIL CONSERVATION DIVISION

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

CASE NO. 7224 Order No. R-6668

APPLICATION OF S & I OIL COMPANY 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 April 22, 1981, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 30th day of April, 1981, 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, S & I Oil Company, seeks an order pooling all mineral interests in all formations down to and including the Gallup formation underlying the SW/4 SW/4 of Section 2, Township 29 North, Range 15 West, NMPM, 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 imiterests.
- (5) That to avoid the drilling of wannecessary 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 oil and gas in said pool, the subject application should be approved

-2-Case No. 7224 Order No. R-6668

by pooling all mineral interests, whatever they may be, within said unit.

- (6) That the applicant should be designated the operator
- (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 well costs exceed reasonable well costs.
- (11) That \$3500.00 per month while drilling and \$350.00 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 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
- (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 July 1, 1981, the order pooling said unit should become null and void and of no effect whatsoever.

-3-Case No. 7224 Order No. R-6668

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in all formations down to and including the Gallup formation underlying the SW/4 SW/4 of Section 2, Township 29 North, Range 15 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 40-acre 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 July, 1981, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Gallup formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of July, 1981, 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 S & I Oil Company 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

-4-Case No. 7224 Order No. R-6668

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.
 - (8) As a charge for the risk involved in the drilling of the well, 200 percent of the prorata 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 distribue said costs and charges withheld from production to the parties who advanced the well costs.
- (9) That \$3500.00 per month while drilling and \$350.00 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. 7224 Order No. R-6668

- (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 Jemand 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.

STATE OF NEW MEXICO OIL CONSERVATION DIVISION

DOE D. RAMEY

Director

SEAL

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. 7224 Order No. R-6668

APPLICATION OF S & I OIL COMPANY 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 April 22, 1981, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 30th day of April, 1981, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the
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- (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 oil and gas in said pool, the subject application should be approved

+2-Case No. 7224 Order No. R-6668

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 apportunity 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 nen-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 \$3500.00 per month while drilling and \$350.00 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 July 1, 1981, the order pooling said unit should become null and void and of no effect whatsoever.

+3-Case No. 7224 Order No. R-6668

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in all formations down to and including the Gallup formation underlying the SW/4 SW/4 of Section 2, Township 29 North, Range 15 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a standard 40-acre 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 July, 1981, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Gallup formation:

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the first day of July, 1981, 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 S & I Oil Company 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 within 45 days following receipt and the Division has not objected within 45 days following receipt

Case No. 7224 Order No. R-6668

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- (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 sective from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.
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- (9) That \$3500.00 per month while drilling and \$350.00 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.

H5-Case No. 7224 Order No. R-6668

- (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 herein-

STATE OF NEW MEXICO OIL CONSERVATION DIVISION

JOE D. RAMEY

Director

Docket No. 14-81

Dockets Nos. 15-81 and 16-81 are tentatively set for May 6 and 20, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - APRIL 22, 1981

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

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

- CASE 7220: Application of McClellan Oil Corporation for a unit agreement, Chaves County, New Mexico.

 Applicant, in the above-styled cause, seeks approval for the Connor Unit Area, comprising 5,120 acres, more or less, of State and Federal lands in Township 13 South, Range 29 East.
- CASE 7221: Application of Maddox Energy Corporation for a unit agreement, Eddy County, New Mexico.

 Applicant, in the above-styled cause, seeks approval for the Flower Draw Unit Area, comprising 3,760 acres, more or less, of State lands in Townships 25 and 26 South, Renge 28 East.
- CASE 7222: Application of GMW 0il Company for a unit agreement, Lea County, New Mexico.

 Applicant, in the above-styled cause, seeks approval for the Starman Unit Area, comprising 2,803 acres, more or less, of State, Federal, and fee lands in Township 26 South, Range 35 East.
- CASE 7211: (Continued from April 8, 1981, Examiner Hearing)

Application of Gulf Oil Corporation for a unit agreement, Lea County, New Mexico.

Applicant, in the above-styled cause, seeks approval for the North Rock Lake State Unit Area, comprising 2,880 acres, more or less, of State land in Township 22 South, Range 35 East.

- CASE 7223: Application of Sun Oil Company for a dual completion and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the dual completion of a well to be drilled in Unit M of Section 1, Township 22 South, Range 37 East, to produce oil from the Wantz-Granite Wash Pool and gas from the Tubb formation and to simultaneously dedicate the SW/4 of said Section 1 to said well and to its Lynch Christmas Com Well No. 4 in Unit L.
- CASE 7224: Application of S & I Oil Company for compulsory pooling, San Juan County, New Mexico.

 Applicant, in the above-styled cause, seeks an order pooling all mineral interests in all formations underlying the SW/4 SW/4 of Section 2, Township 29 North, Range 15 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 7225: Application of Knox Industries, Inc. for an unorthodox gas well location, Lea County, New Hexico.

 Applicant, in the above-styled cause, seeks approval for the unorthodox Morrow location of its Maddox Well No. 1 to be drilled 1980 feet from the South line and 660 feet from the Most line of Section 12,

 Township 23 South, Range 34 East, Northeast Antelope Ridge Field, the S/2 of said Section 12 to be dedicated to the well.
 - CASE 7226: Application of Enserch Exploration, Inc. for salt water disposal, Roosevelt County, New Mexico.

 Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Montoya formation in the interval from 7902 feet to 7930 feet in its Rader Well No. 2 in Unit E of Section 32, Township 5 South, Range 33 East.
 - CASE 7227: Application of Alpha Twenty-One Production Company for an unorthodox gas well location and a nonstandard proration unit, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval
 of a 120-acre non-standard proration unit comprising the E/2 SW/4 and SW/4 SE/4 of Section 21, Township 21 South, Range 37 East, Hare-San Andres Gas Pool, to be dedicated to its Lansford Well No. 1 at
 an unorthodox location 660 feet from the South line and 1650 feet from the West line of said Section
 21.
 - CASE 7228: Application of Yates Petroleum Corporation for an unorthodox gas well location and simultaneous dedication, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Wolfcamp-Pennsylvanian location of its Rio Penasco "KD" Well No. 3 to be drilled 990 feet from the North line and 660 feet from the East line of Section 11, Township 19 South, Range 25 East, the N/2 of said Section 11 to be dedicated to said well and to applicant's Rio Penasco "MF" Federal Well No. 1 located in Unit F.

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- CASE 7229: Application of Yates Petroleum Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox Morrow-Pennsylvanian location of its Sharp "QS" Com. Well No. 1 to be drilled 660 feet from the South and East lines of Section 4, Township 17 South, Range 26 East, the S/2 of said Section 4 to be dedicated to the well.
- CASE 7184: (Continued from March 11, 1981, Examiner Hearing)

Application of Harvey E. Yates Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the E/2 of Section 13, Township 17 South, Range 28 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 7230: Application of Caribou Four Corners, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mesaverde and Gallup formations underlying the S/2 SW/4 of Section 7, Township 29 North, Range 14 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 7231: Application of Caribou Four Corners, Inc. for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mesaverde and Gallup formations underlying the S/2 SE/4 of Section 11, Township 29 North, Range 15 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 7232: Application of Caribou Four Corners, Inc. for compulsory pooling, San Juan County, New Mexico.

 Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Mesaverde and Gallup formations underlying the E/2 SW/4 of Section 12, Township 29 North, Range 15 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 7233: Application of Rass Enterprises Production Co. for directional drilling, Lea County, New Mexico.

 Applicant, in the above-styled cause, seeks authority to directionally drill its Montieth Well No. 3.

 the surface location of which is 2130 feet from the South line and 1980 feet from the East line of
 Section 13, Township 16 South, Range 36 East, Northeast Lovington-Pennsylvanian Pool, and drill said
 well in an easterly direction to bottom it not closer than 510 feet to the outer boundary of the
 dedicated unit, being the N/2 SE/4 of said Section 13.
- CASE 7234: Application of Ger y Oil Company for a dual completion, Rio Arriba County, New Mexico.

 Applicant, in the above-styled cause, seeks approval for the dual completion of its Farming E Well

 No. 1-E located in Unit I of Section 2, Township 24 North, Range 6 West, to produce oil from the

 Gallup formation thru the cooling-tubing annulus and gas from the Dakota formation thru tubing.

- 14 Lessee may at any time and from time to time surrender this lease as to any part or parts of the lessed premises by delivering modifies a release thereof to the lessor, or by placing a release thereof of record in the proper county.
 - This living and all his terms, conditions, and ritipulations thall extend to and be binding on all successors of said lessor or lessee.

- instrument to be filed with the lessee, a common spent to recire all payments due hereunder, and to execute division and Transfer orders con behalf of each partner, and their respective successors in title.

 10 Lessee hereby warrants and agrees to defend the title to the land herein described and agrees that the lessee, at its option, may pay and discharge any taxes, mortgages, or other liens existing, levied, or asserted on or against the above described lands and, it event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may relimbures itself by applying to the discharge of any such mortgage, as of other liens, any royalty or rentals according betweened.

 11 Notwithstanding anything in this lesse somained to the contrary, it is expressly agreed that if lessee aball commence drilling operations at any time while this lesses somained to the contrary, it is expressly agreed that if lessee aball commence drilling presented and. If production results therefrom, then as long a production continues.

 12 If within the primary term of this lesse production on the lessed premises approduction and terminate provided operations for the drilling of a well shall be commenced before or on the next ensuing rental paying date; or, production for this lesse, production on the lessed premises aball can. Our any raw i, this lesse shall not terminate provided operations at different paying of the primary term of this lesse, production on the lessed premises aball can.

 13 If the lessee, production on the lessed premises aball can.

 14 If the lessee and all royalities according hereunder shall be treated as at entirely and shall be divided among and paid operations at d. If production results therefrom, then as low a productity continues.

 13 If the lessee and all royalities according hereunder shall be treated as at entirely and shall be divided among and paid operated as one less and all royalities according hereunder shall be necessarily to the lessee to object wells on apprais
- 14. Lesere mer at any time and from time to time surrender this lease as to any part of the leased premises by delivering or motions a release thereof to the lessor, or by placing a release thereof of record in the proper county.
 - This light and all his terms, randitions, and ritinilations shall extend to and be binding on all successors of said lessor or lessee.

16. This lease shall not be terminated, in whole or in part, nor shall lessee be held liable in dailages, for failure to comply with the express or implied covenants hereof. If compliance therewith is prevented by, or if such failure is the result of, any Federal or State laws executive orders, rules, or regulations. If, at the end of the primary term hereof, such term has not been extended by production of driffing as in this lesse provided, and lessee, by reason of any of the above recited causes, is unable to dill a well on the lesser premises far oil or gas, the primary term and the rental provision hereof shall be extended automatically from year to year until the first anniversary hereof occurring ninety 1901 or more days following the removal of such delaying cause. During any period that lessee it unable to produce and/or market any products from the lessed premises by reason of any of the above recited causes, this lease shall remain in full force and effect. 17. Lessee is hereby given the right at its option, at any time and from time to time, to pool or unitize all or any part of parts of the above described land with other land, lease, or lesses in the immediate vicinity thereof, such pooling to be into units not exceeding the minimum size tract on which a well may be drilled under laws, rules, or regulations in force at the time of such pooling or unitization; provided, however, that such units may exceed such minimum by not more than ten acres if such excess is necessaries of conform to ownership subdivisions or lease lines. Lessee shall exercise said option, as to each desired unit, by executing and recording an instrument identifying the unlitted area. Any well drilled or operations conducted on any part of each such unit shall be considered a well drilled or operations conducted under this lease, and there shall be allocated to the portion of the deceived bed land included in any such unit such proportion of the actual production from all we allocated to the portion of the such proportion, computed on an acreage basis, bears to the entire acreage of such unit. And it is understood and agreed that the production of the portion of the above described land included in such unit in the same manner as though produced from the above described land under the terms of this lease. IN WITNESS WHEREOF, we sign the day and year first above written. IONA BRIMHALL, dealing in her sole and separate property NEW MEXICO STATE OF ACKNOWLEDGMENT FOR INDIVIDUAL COUNTY OF SAN JUAN Before me, the undersigned, a Notary Public, within and for said County and State, on this 19 81 personally appeared IONA BRIMH LI. to me personally known to be the identical person . who executed the within and foregoing instrument and acknowledged to me that She executed the same as her free and voluntary act and deed for the uses and purposes therein set forth: IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written. 일을 되는 경기도한 한 때문에 다른 사람들은 이 이번에 되는 그 모든 모든 것이다. My commission expires_ Notary Public The second of th Ö GAS TO OIL 밁 ö of Acres US တ ACKNOWLEDGMENT FOR INDIVIDUAL Before me, the undersigned, a Notary Public, within and for said County and State, on this_ ____, 19_____, personally appeared___ to me personally known to be the identical person ... who executed the within and foregoing instrument and acknowledged to me that executed the same as free and voluntary act and deed for the uses and purposes

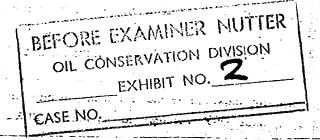
IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written.

therein set forth.

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TRACT 6: 3.89+ acres, situate in the SW/4 SW/4 of Section 2, T29N, R15W, NMPM, San Juan County, New Mexico, being described as follows: Beginning at a point which is 1189.90' N89°07'36"E from the SW Corner of said Sec. 2, said point being in the center of Co. Rd. No. 62; THENCE: NO°27'30"E, 1314.19'; THENCE: N89°28'42"E, 128.27'; THENCE: S0°25'10"W, 1313.38' to a point in the center of Co. Rd. No. 62; THENCE: S89°07'36"W along said centerline 129.18' to the point of beginning.

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and this lease shall include all lands owned by lessor adjacent to the lands herein particularly described.

2. This lease shall remain in force for a term of One (1) year and as long thereafter as oil, gas, easinghead gas, casinghead gasoline or any of them is produced.

3. The lessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells equal 1. If part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for 1. If royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line, or into age tanks.

storage tanks.

4. The lessee shall pay lessor, as royalty 1/4. of the proceeds from the sale of the gas, as such, for ges from wells where gas only is found, and where not sold shall pay 225 per annum as royalty from each such well, and while such royalty is so paid such well shall be held to be a producing well under paragraph numbered two hereof. The lessor to have gas free of charge from any gas well on the lessed premises for stoves and inside lights in the principal dwelling house on said land by making his own connections with the use-of said gas to be at the lessor's sole risk and expense. The lessee shall pay to lessor for gas produced from any oil well and used by the lesse; for the manufacture of gasoline or any other product, as royalty. I/4 of the market value of such gas at the mouth of the well. It said gas is sold by the lessee, then as royalty I/4 of the proceeds of the sale thereof.

5. This Oil and Gas Lease is a paid—up lease.

shall terminate as to both parties, unless the lessee shall on or before this date, pay or tender to the lessor or for the lessor's cover this lease, regardless of changes of ownership in said latters in the oil and case, or in the rentals to accrue thereunder, the sum of

rental and cover the privilege of deferring the commencement of drilling operations for a rental of one year. In like manner and like payments or tenders, the payment of drilling operations may be further deferred for lift pariods successively. All pay or tenders may be seen by check or draft of lessee or any assignee thereof, mailed or delivered on or before the rest paying date. With the death of the lessor, or his successor in interest, the payment or tender of rentals in the manner provides that) which shall operate as in like manner and upon successively. All payments

6. It at any time prior to the discovery of oil or gas on this land and during the term of this least the lesse shall drill a dry hole, or holes, on this land, this lease shall not terminate, provided operations for the drilling of a well shall be commenced within twelve ments from the expiration of the last repital period for which reputal has been paid, or provided that within said period the lesses for resumes the payment of reptals in the manner and amount herein above provided; and in this event the preceding paragraphs hereof governing the payment of reptals and the manner and effect thereof shall continue in force.

7. In case said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and reptals herein provided for shall be paid the said lessor only in the proportion which its interest bears to the whole and undivided fee.

The class said besor owns a less interest in the above described hand then the entire and undivided fee simple estate therein, then the provided fee class held a festor of the control of

34. Lesser may at any time and from, time to time surrender this leave as to any part or parts of the leaved promises by delivering or matters a release thereof to the lesser, or by placing a release thereof of record in the proper county.

This living and all his terms, emditions, and stipulations of all extend to and be binding on all successors of said lessor or lessee

crilling as in this lease provided, and lessee, by reason of any of the above recited causes, is unable to drill a well on the lessed premises for oil or gas, the primary term and the rental provision bereof shall be extended automatically from year to year until the first anniversity bereof occurring ninety 1901 or more days following the removal of such delaying cause. During any period that lessee is unable to produce and/or market any products from the lessed premises by reason of any of the above recited causes, this lesse shall remain in full force and effect.

17. Lesse is hereby given the right at its option, at any time and from time to time, to pool or unitize all or any part or parts of the above described land with other land, lease, or leases in the immediate vicibity thereof, such pooling to be into units not exceeding the minimum size tract on which a well may be drilled under laws, rules, or regulations in force at the time of such pooling or unitization; provided, however, that such units may exceed such minimum by not more than ten acres if such excess is necessary in order to conform to ownership subdivisions or lease lines. Lessee shall—exercite faild option, as to each desired unit, by executing and recording an instrument identifying the unitized area. Any well drilled or operations conducted on any part of each such unit shall be considered a well drilled or operations conducted under this lease, and there shall be allocated to the portion of the above described land included in an such unit such proportion of the actual production from all wells on such unit as lessor's interest, if any, in such portion, computed on an acreage basis, bears to the entire acreage of such unit. And it is understood and agreed that the production so allocated shall be conside. For all purposes, including the payment or delivery of royalty, to be the entire production from the portion of the above described land under the terms of this lesse.

IN WITNESS WHEREOF, we sign the day and year first above written.	MAYE'RE I UNDURAGE denling in how colo
	MAXINE L. HATTEMER, dealing in her sole and separate property
FREDERICK L. HATTEMER, as Joint Tenant	MAXINE L. HATTEMER, as Joint Tenant
STATE OF	
COUNTY OF CALIFORNIA ss.	ACKNOWLEDGMENT FOR INDIVIDUAL
Before me, the undersigned, a Notary Public, within and f	or said County and State, on this
day of19 81 , p	erschally appeared FREDERICK B. HATTEMER
and MAXINE L. HATTEMER, Husband and Wife	
to me personally known to be the identical persons, who exec	uted the within and foregoing instrument and acknowl-
edged to me that they executed the same as their free	
therein set forth.	
IN WITNESS WHEREOF, I have hereunto set my hand a	and official seal the day and year last above written.
My commission expires	Notary Public
ERIC Bants 19, 80	on the second Clerk
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and Fine L. Oint Reger San	recc Cour W.
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MAXINE L. 1 L. HATTEME Husband and S. & L. D.L. Section 2 Section No. of Acres	STATE OF N SOUND OF S This instrume the records of the records
MAXINE L. HAT Husbanc S. f. I Section Section No. of Acree	STATE OF S County of S This lustrum: of t of t in Book of t li By When recorded S & I Oil C Farming Con,
STATE OF:	
COUNTY OF	ACKNOWLEDGMENT FOR INDIVIDUAL
Before me, the undersigned, a Notary Public, within and fo	or said County and State, on this
	ersonally appeared
inc.	·
to me personally known to be the identical person who exect	
edged to me thatfree	and voluntary act and deed for the uses and purposes
in Witness Whereof, I have hereunto set my hand at	nd official seal the day and year last above written.
My commission expires	Matana Public

50°29'50"W, 1315.00' to a point in the center of County Rd. No. 62;

S89°07'36"W along said centerline 129.18' to the point of beginning.

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

and this lease shall include all lands owned by lessor adjac; to the lands herein particularly described.

2. This lease shall remain in force for a term of 1/2 year, and as long thereafter as oil, gas, casinghead gas, casinghead gasoline or any of them is produced.

3. The Jessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells the couply 1/4 in part of all oil produced and saved from the lessed premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessed premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessed premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessed premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessed premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessed premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessed premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessed premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessed premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessed premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessee premises, or at the lessee's option, may pay to the lessor for such 1/4 in part of all oil produced and saved from the lessee premises, or at the lessee in the less of the lessor for the less of t

attrage tanks.

1. The lessee shall pay lessor, as royalty, 1/4 of the proceeds from the sale of the gas, as such, for gas from wells where gas only is found, and where not sold shall pay \$25... per annum as royalty from each such well, and while such royalty is so paid such well shall be hid to be r producing well under paragraph min tred two hereof. The lessor to have gas free of charge from any gas well or the lessed premises for stores and inside lights in the writchal dwelling house on said land by making his own connections with the well, the use of said gas to be at the lessor's sole risk we expense. The lessee shall pay so lessor for gas produced from any oil well and used by the lessee for the manufacture of gasoline or any other product, as royalty, 1/4 of the market value of such gas at the mouth of the well, it said gas is sold by the lessee, then as royalty 1/4 of the proceeds of the sale thereof.

5. This oil and Gas lease is a logid-up lease.

1. This oil and Gas lease uses the lessee shall on or before this date, pay or tender to the lessor or for the lessor streding terminate as to both parties, unless the lessee shall on or before this date, pay or tender to the lessor or for the lessor streding terminate as to both parties, unless the lessee shall on or before this date, pay or tender to the lessor or for the lessor streding terminate as to both parties, unless the lessee shall on or before this date, pay or tender to the lessor or for the lessors treding the lesson of the sale than the proceed of the sale than the proceed of the sale than the proceed of the lessor or for the lessor or

the Bank at the successors, which bank and its successors are the lessor's agent and shall continue as the depository of any and all sums payable under

this lease, regardless of changes of ownership in said land or in the oil and gas, or in the rentals to accrue thereunder, the sum of

Dollars (8) which shall operate as a payments of defining operations for a period of one year. In like manner and upon the payments or tenders, the periods successively. All payments or tenders may be truther deferred for like periods successively. All payments the death of the periods successively. All payments the death of the lessor, or his successor in interest, the payment or tender of rentals in the manner provided above shall be the defect of the desired the defect of the desired the defect of the desired the

6. If at any time prior to the discovery of oil or has on this land and during the term of this lease, the lessee shall drill a dry hole, or holes, on this land, this lease shall not terminate, provided operations for the drilling of a well shall be commenced within twelve months from the expiration of the last rental period for which rental has been paid, or provided that within said period the lessee begins or resumes the payment of rentals in the manner and amount herein above provided; and in this event the preceding paregraphs hereof governing the payment of rentals and the manner and effect thereof shall continue in force.

7. In case said lessor owns a less interest in the above described land then the entire and undivided fee simple estate therein, then the toyelities and rentals herein provided for shall be paid the said lessor only in the proportion which his interest bears to the whole and undivided fee.

the royalites and rentals herein provided for shall be paid the said lessor only in the proportion which his interest bears to the whole and undivided fee.

8 The lesses shall have the right to use free of cost, gas, oil and water found on said laud for its operations thereon, except water from the vells of the lessor. When required by lessor, the lessee shall bury pipe lines below plow depth and shall pay for damage caused by its operations to growing trops on said land. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without written consent of the lessor. Lessee shall have the right at any time during or after the expiration of this lease to remove all cannot be recorded to the history. Instuncts, houses, buildings and other strictures placed on said premises, including the right to draw and remove all casing.

5 If the estate of either party hereto is assigned (and the privilege of assigning in whole or in part is expressly allowed), the correctable or royalities shall be binding on the lessee until after notice to the lessee and it has been furnished with the written transfer or straightful of a certified copy thereof. In the erent this lease shall be resigned as to a part or as to parts of the above described for its form him or them, such default shall not operate to defeat or affect this lesse in so far as it course a part or part of said contact, and the holder or owner of any such part or parts shall fall or make default in the payment of the proportionate part of the rest due from him or them, such default shall not operate to defeat or affect this lesse in so far as it course a part or parts of said contact and the holder or owner of any such part or parts of said rentals. It start time there do as many as four parties contacted in the first part of the proportionate part of the part

a.e. prisectived and, it production results therefrom, then as long as production continues.

12. If within the primary term of this lease production on the leased premises shall cease from any cause, this lease shall not terminate proceed operations for the dilling of a well shall be commented before or on the next ensuing rental paying date; or, provided in the primary term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate provided. If, after the expiration of the primary term of this lease, production on the leased premises shall cease from any cause, this leas, shall not terminate provided leases resumer of critising a well within sixty (60) days from such ceaseafton, and this lease shall remain in force during the prosecution of such operations and, if production results therefrom, then as long as production continues.

12. If the leased premises shall be restater be owned in severally or in separate tracts, the premises, perertheless, shall be descloped for such separate owners in the proportion instrume acreage owned by each such separate owner bears to the entire leased acreage, may be hereafter distinct by sale, devise, or otherwise, or to furnish separate measuring or receiving tanks. It is hereby acread that, in the event this lease shall be assigned as to a part or as to parts of the above described lands, and the holder or owner of any such part or parts shall fall or make default in the parment of the proportionale part of the rent due from him or them, such default thall not operate to delest or affect this fease in 80 far as it covers a part or parts of said land upon which the said leases or or assigned as the lease of any such there is any withhold parments thereof unless and until all parties designate, in writing, in a recordable instrument to be filled with the lease a common agent to receive all parments due hereunder, and to execute division and transfer orders on behalf of said parties, and their respective successors in title.

24 Lesses may at one time and from time to time surrender this lease as to any part or parts of the leased premises by delivering a release thereof to the lessor, or by placing a release thereof of record in the proper county.

Triguress and all-tip ferms, canditions, and stipulations at all-extend to and be hinding on all successors of said lessor or lessee

14. Lessee may at any time and from time to time surrender this lesse as to any part or parts of the lessed premises by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the proper county. 15 This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor or lessee

January

TILLIE D. STRANG, 4832 West 138th Street, Hawthorne, California 90250

and S& I OIL COMPANY

...... hereinafter called lessee, does witness; 1. That lessor, for and in consideration of the sum of TEN AND NO/100 Dollars (4.10.00 n hand paid, and of the covenants and agreements hereivafter contained to be performed by the lessee, has this day granted and lessed and hereby grants, lesses and lets unto the lessee for the purpose of mining and operating for and producing oil and gas, easinghead gas and casinghead gasoline, laying pipe lines, building tanks, storing oil, building power stations, telephone lines and other structures thereon to produce, save, take care of and manufacture all of such substances, and for housing and boarding employees, the following described

tract of land in San Juan county, New Mexico

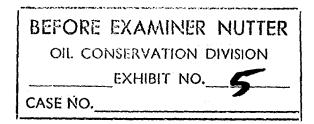
TRACT 5: 3.89+ acres, situate in the SW/4 SW/4 of Sec. 2, T29N, R15W, NMPM, San Juan County, New Mexico, being described as follows: Beginning at a point which is 1060.72' N89°07'36"E from the SW Corner of said Section 2, said point being in the center of Co.

N0°29'50"E, 1315.00'; THENCE: N89°28'42"E, 128.27'; THENCE:

S0°27'30"W, 1314.19' to a point in the center of Co. Rd. No. 62;

S89°07'36"W along said centerline 129.18' to the point of beginning.

Jeared



and this lease shall include all lands owned by lessor adjacent to the lands herein particularly described.

2. This lease shall remain in force for a term of ONE(1) year and as long thereafter as oil, gas, casinghead gas casinghead gasoline or any of them is produced.

3. The lessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells the equal 1/2 part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such 1/4 royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line, or into atorage tanks.

4. The lessee shall pay lessor, as royalty, 1/4 of the proceeds from the sale of the gas, as such, for gas from wells where gas only is found, and where not sold shall pay \$25 per annum as royalty from each such well, and while such royalty is so paid such well shall be held to be a producing well under paragraph numbered two hereof. The lessor to have gas free of charge from any gas well on the lessed premises for stoves and inside lights in the principal dwelling house on said land by making his own connections with the well, the use of said gas to be at the lessor's sole risk and expense. The lessee shall pay to lessor for gas produced from any oil well and used by the lessee for the manufacture of gasoline or any other product, as royalty, 1/2 of the market value of such gas at the mouth of the well. It said gas is sold by the lessee, then as royalty 1/4 of the proceeds of the sale thereof.

5. This Oil and Gas lease is a paid-up lease.

1. This oil terminate as to both parties, unless the lessee shall on or before this date, pay or tender to the lessor for the lessor of or the lessor of the lessor of

chall terminate as to both parties, unless the lessee shall on or before this date, pay or tender to the lessor or for the lessor in the Bank at or successors, which bank and its accessors are the lessor's agent and shall continue as the depocitory of any and all sums payable under this lease, regardless of changes of ownership in said land co in the oil and coe, or in the rentals to accrue thereunder, the sum of rental and cover the privilege of deferring the commencement of drilling operations for a period of one year. In like manner and unon the payments or tenders, the commencement of drilling operations may be further deferred for the payments or tenders may be provided by the control of the payments or tenders may be provided by the payments of tenders may be provided by the payment of tenders may be provided by the payment of the lessor, or his successor in interest, the payment or tender of rentals in the manner provided that a payment or tender of rentals in the manner provided that

6. If at any time prior to the discovery of oil or gas on this land and during the term of this lease, the lesses shall drill a dry hole, or holes, on this land, this lease shall not terminate, provided operations for the drilling of a well shall be commenced within twelve mentals from the expression of the last rental period for which rental has been paid, or provided that within said period the lesses begins or resumes the payment or rentals in the manner and amount herein above provided; and in this event the preceding pragraphs hereof poverning the payment of rentals and the manner and effect thereof shall continue in force.

7. In case said decor owns a less interest in the above discribed land than the entire and undivided fee simple estate therein, then the royalities and rentals herein provided for shall be paid the said lessor only in the proportion which his interest bears to the whole and undivided fee.

7. It, case said least owns a less intriest in the above discribed land than the entire and undivided fee simple seids to the said in each terror state to replace and individed fee.

8. The lesses shall have the right to use free of cost, gas cell stid water found on said land for its operations thereon, except rater from the vells of the basis. When required by lessor, the lesses that have found on said land for its operations the product of the basis of the basis of critical states. When required by lessor, the lesses that have found from the vells of the basis of part have the basis of basis have the basis of the basis of basis have a control to the basis of the basis of the basis of the basis of basis have a collection of the basis of the basis

14 Lessee may at any time and from time to time surrender this losse as to any part or parts of the leased premises by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the proper county.

the Trits beserved and the return conditions, and simplicitions of all extend to and be binding on all successors of said lessor or lessee

2. In case said lessor owns a less interest in the above deadribed land than the entire and undivided fee.

In case said lessor owns a less interest in the above deadribed land than the proportion which his luterest bears to the whole and undivided fee.

In the lessor, the lessor when a court of the lessor said land, no well shall be drilled nearer found on said land for its operations to growing crops on said land. No well shall be drilled nearer than 200 feet to the house or barn now on said premises active that the same of the lessor. Lesses shall have the right at any time during or after the expiration of this lessor the same stituous written consent of the lessor. Lesses shall have the right at any time during or after the expiration of this lesses to incove all mechanics, including the right to draw and remove all casting.

9. If the crute of either party hereto it assigned (and the privilege of assigning it whole or in part is expressly silvewed), the coverage of the crute of the party of the crute of the relative shall be birding on the lesses until here rootes to the lesses and it has been furnished with the order of assignment or a certified copy thereof. In the event this lever shall be assigned as to a part or, as to parts of the above deached lands, and the children or cover a part of parts shall fail or make default in the payment of the proportionate part of the critical to rentals or recyclies, lesses may withhold payments thereof unless and under the beginning of the proportional part of parts of said recitive to be first with the state of a said said recitive to be first with the state of a said said recitive to be first with the state of a said said recitive to be first with the state, as a contract of a critical copy warrants and agrees to effect the transfer of the payments to be first with the state, as a copy of the copy o

14. Lessee may at any time and from time to time surrender this leave as to any part or parts of the lessed premises by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the proper county.

15. This leave and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor or lessee.

State of New Mexico Department of Energy & Minerals Oil Conservation Division Santa, Fe, NM 87501

Re: S & I Oil Company Compulsory Pooling, San Juan County, New Mexico

Gentlemen:

I would like to advise that I, Iona Brimhall, have taken an active part in putting this lease together for my family. I feel it is a fair and equitable lease.

I have also been given ample opportunity to sign this lease, however for personal reasons I will not do this. I am also aware of the consequences involved for causing this to be "forced pocled".

I have advised Mr. E. V. Isbell of S & I Oil Company to "force pool" this acreage in order that a well may be drilled.

Respectfully Submitted.

Iona Brimhall

OIL CONSERVATION DIVISION

EXHIBIT NO.

CASE NO.

April 13, 1981

State of New Mexico Department of Energy & Minerals Oil Conservation Division Santa Fe, NM 87501

Re: S & I Oil Company Compulsory Pooling, San Juan County, New Mexico

Gentlemen:

Please be advised that I, Maxine Hattemer of 4836 West 138th St., Hawthorne, California 90250, have been given fair and ample opportunity to sign a oil lease for the captioned. I feel that it is an equitable lease, however for personal reasons I have chosen not to sign the lease.

I have advised Mr. E. V. Isbell of S & I Oil Company to Force pool this acreage in order that a well may be drilled. I am aware of the consequences involved in "force pooling".

Maxine ! temer

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION
____EXHIBIT NO._______
CASE NO.

95

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ORKING INTEREST	ESTIMATED COST ONL		cipoling owners
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December 11, 1980

Recommended by the Council of Petroleum Accountants Societies

CASE NO.

NORWER WELLES SON SON

Attached to and made a part of Model Form Operating Agreement dated December 15, 1980 between S & I Oil Company, as "Operator" and Walter L. Kennedy, Jr., as "Non-Operator".

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 1. 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 that's bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
 - (2) Salaries of First Level Supervisors in the field.
 - (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

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

4. Material

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

5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

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

7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

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

- 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 \$ 3,500.00

Producing Well Rate \$ 350.00 — Moxfoly

- (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

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

(b) Operating

%) 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 (If necessary, to be negotiated at a later date.)

empensate Operator for everyond easts incurred in the construction and installation of pansion 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 total costs if such costs are more than { but less than \$. A. % of total costs in excess of \$ but less than \$1,000,000; plus

% of total easts in excess of \$1,000,000.

Total cost small mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project chall not be treated reparately and the cost of drilling and

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.

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 dis-

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 JV, 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 and after

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

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 a factor equal to 1/100ths 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 an 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.

14. Letter they at any time and from time to time surrender this lease as to any part or parts of the leased premises by delivering or mailtime a release thereof to the lessor, or by placing a release thereof of record in the proper county. This hase and all its terms, conditions, and elipolations shall extend to and be binding on all successors of said lessor or lessee.

executive ciders, rules, or regulations. If, at the end of the primary term hereof, such failure is the result of any Federal or State laws drilling as in this lease provided, and leasee, by reason of any of the above recited causes, is unable to drill a well on the leases premises for oil or gas, the primary term and the rental provision hereof shall be extended automatically from year to year until the first analyses of accurring directy (80) or more days following the removal of such delaying cause. During any period that leasee is unable to produce and/or market any products from the leased premises by reason of any of the above recited causes, this lease shall remain in full force and effect.

17. Lesse is hereby given the right at its option, at any time and from time to time, to pool or unitize all or any part or parts of the above described land with other land, lease, or leases in the immediate vicinity thereof, such pooling to be into units not exceeding the minimum size tract on which a well may be drilled under laws, rules, or regulations in force at the time of such pooling or unitization; provided, however, that such units may exceed such minimum by not more than ten acres if such excess is necessary in order to conform to ownership subdivisions or lease lines. Lessee shall exercise said option, as to each destried unit, by executing and recording an instrument identifying the unitized area. Any well drilled or operations conducted on any part of each such unit shall be considered a well drilled or operations conducted under this lease, and there shall be allocated to the portion of the above deep last included in any such unit such proportion of the antital production from all we to a such unit as lesser's interest, if any, in such portion computed on an acreage basis, hears to the entire acreage of such unit. And it is understood and agreed that the production of the above described land included in such unit in the same manner as though produced from the above described land included in such unit in the same manner as though produced from the above described land under the terms of this lesse.

	IONA BRIMHALL, dealing in her sole and separate property
STATE OF NEW MEXICO	
COUNTY OF SAN JUAN	ss. ACKNOWLEDGMENT FOR INDIVIDUAL
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	rithin and for said County and State, on this 19 81, personally appeared IONA BRIMHALL
and	
	who executed the within and foregoing instrument and acknown her free and voluntary act and deed for the uses and purpo
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OUNTY OF	ss. ACKNOWLEDGMENT FOR INDIVIDUAL
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me personally known to be the identical person	who executed the within and foregoing instrument and acknow
ged to me thatexecuted the same as	free and voluntary act and deed for the uses and purpos
rein set forth.	
IN WITNESS WHEREOF, I have hereunto set n	ny hand and official seal the day and year last above written.
commission expires	Notary Public

wire, Joint Tenan	R and FREDERICK L. HATTEMER and M. INE L. ts, whose address is 4836 West 138th Stre	et, Hawthorne, California
90250		
		bereinsfier called lessor.
S & I OIL COMPANY		bereinsiter called lessee, does witness;
1. That lerror, for and in considing hand paid, and of the covernants and beredy grants, leaves and lets unland costinated pasoline, laying pipe to produce, rave, take care of and market of land in San Juan	eration of the sum of TEN AND NO/100 and agreements bereinaiter contained to be performed by the to the leaves for the purpose of mining and operating for and lines, building tanks, storing oil, building power stations, teleph sandulacture all of such substances, and for housing and board New Mexico	Doubte (\$10.00), lessee, has this day graphed and leaved producing oil and gas, easinghead gas shone lines and other structures thereon line employees, the following described to wit:
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San Juan County, New Me is 1189.90' N89°07'36"E center of Co. Rd. No. 6 THENCE: S0°25'10"W, 13	situate in the SW/4 SW/4 of Section 2, Taxico, being described as follows: Begins from the SW Corner of said Sec. 2, said 2; THENCE: N0°27'30"E, 1314.19'; THENCE 13.38' to a point in the center of Co. Roong said centerline 129.18' to the point	ning at a point which point being in the DE: N89°28'42"E, 128.27'; l. No. 62;
	Exhibit	2
	Exhibit Case 72	24
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This living and time and from time to time surrender this leave as to any part or parts of the leaved premises by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the proper county.

This living and till its terms conditions, and stipulations of all extend to and be binding on all auccessors of said lessor or lesses.

whole or in part, nor shall leave be nied liable in darrages, for failure to comply with the superess or implied covenants hereof, if cornect the creek, rules, or regulations if, a need of the primary term hereof, such terms as not been extended by production or criticis as in this lease provided, and lessee, by reason of any of the above recited causes, its unable to drill a well on the leased anniversary hereof occurring ninety ferm and the rental provision hereof shall be extended automatically from year to year until the first unable to produce and/or market any products from the leased premises by reason of any of the above recited causes. During any period that lease is remain in full force and effect.

17. Lessee is hereby given the right at its option, at any time and from time to time, to pool or unitize all or any part or parts of the above described land with other land, lease, or leases in the immediate vicinity thereof, such pooling to be into units not exceeding the minimum size tract on which a well may be drilled under laws, rules, or regulations in force at the time of such pooling or unitization; provided, however, that such units may exceed such minimum by not more than ten acres if such excess is necessary in order to conform to ownership subdivisions or lease lines. Lesses shall exercise said option, as to each desired unit, by executing and recording an instrument identifying the unitized area. Any well drilled or operations conducted on say part of each such unit shall be considered a well drilled or operations conducted under this lease, and there shall be allocated to the portion of the above described land included in an such unit such proportion of the actual production from all wells on such unit as lessor's interest, if any, in such porti n, computed on an acreage basis, bears to the entire acreage of such unit. And it is understood and agreed that the production so allocated shall be considered for all purposes, including the payment or delivery of ruyalty, to be the entire production from the portion of the above described land included in such unit in the same manner as though produced from the above described land under the terms of this lesse.

IN WITNESS WHEREOF, we sign the day and year first above written. MAXINE L. HATTEMER, dealing in her sole and separate property FREDERICK L. HATTEMER, as Joint Tenant MAXINE L. HATTEMER, as Joint Tenant ACKNOWLEDGMENT FOR INDIVIDUAL COUNTY OF CALIFORNIA Before me, the undersigned, a Notary Public, within and for said County and State, on this ... 19 81, personally appeared FREDERICK L. HATTEMER MAXINE L. HATTEMER, Husband and Wife to me personally known to be the identical persons, who executed the within and foregoing instrument and acknowledged to me that they executed the same as their free and voluntary act and deed for the uses and purposes therein set forth. IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written. والمتعارين والمنافرة أأوالها والمراجع والمتابع والمتعارض My commission expires_ Company of the company of the Design Notary Public record EEASE 89 Term and GAS FROM & I OIL COMPANY SAN JUAN and OIL AND J.O I. HATTEMER of Unis Date January 1 Farming ton, I Oil MAXIME STATE OF č ក ACKNOWLEDGMENT FOR INDIVIDUAL Before me. the undersigned, a Notary Public, within and for said County and State, on this_ ____, 19_____, personally appeared to me personally known to be the identical person .. who executed the within and foregoing instrument and acknowiedged to me that _____executed the same as _____free and voluntary act and deed for the uses and purposes therein set forth. IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year last above written. My commission expires.....

Notary Public

TRACT 4: 3.89+ acres, situate in the SW/4 of Section 2, T29N, R15W, NMPM, San Juan County, New Mexico, being described as follows: Beginning at a point which is 931.54' N89°07'36"E from the SW Corner of said Section 2, said point being in the center of County Rd. No. 62; THENCE: NO°32'10"E, 1315.81';

N89°28'42"E, 128.27 THENCE:

S0°29'50"W, 1315.00' to a point in the center of County Rd. No. 62; THENCE: THENCE: S89°07'36"W along said centerline 129.18' to the point of beginning.

> Exhibit 3 case 7224

2. This lease shall include all lands owned by lessor adjacent to the lands herein particularly described.

2. This lease shall remein in force for a term of 1/2 year and as long thereafter as oil, gas, casinghead gas, casinghead gasoline or any of them is produced.

3. The Jessee shalf deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells the country 1/4 in particol all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such 1/4 in particol all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such 1/4 in particol all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such 1/4 in particol all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such a producing the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line, or into atorage tanks.

4. The lessee shall pay lessor, as royalty, 1/4 of the proceeds from the sale of the gas, as such, for gas from wells where gas only is found, had where not sold shall pay 25 per annum as royalty from each such well, and while such royalty is so paid such well; shall be hild to be a producing well under paragraph numbered two hereof. The lessor to have gas free of charge from any gas well on the leased premises for stores and inside lights in the principal dwelling house on said land by making his own connections with the well produced from any of the manufacture of gasoline or any other product as royalty. 1/4 of the market value of such gas at the next by the lessee for the manufacture of gasoline or any other product as royalty. 1/4 of the market value of such gas at the next of the well, 17 said gas is sold by the lessee, shall on or before this date, pay or tender to the lessor or for the lesser treatment as to both parties, unless the lessee shall on or be

the Bank at or successors, which bank and its successors are the lessor's agent and shall continue as the depository of any and all sums payable under this lease, regardless of changes of ownership in said land or to the oil and gas, or in the rentals to accrue thereunder, the sum of

Dollars (\$_______) which shall operate as the payments of tenders may be further deferred for like payments or tenders, the owner. In like manner and upon or tenders may be fuered by check or draft of lessee or any assignee thereof, mailed or delivered on or before the restal paying date. Not with the payment of the death of the lessor, or his successor in interest, the payment or tender of rentals in the manner provided have shall be any time prior to the discovery of oil or eas on this land and death of the discovery of oil or eas on this land and death of the manner provided have shall be any time prior to the discovery of oil or eas on this land and death of the lessor.

6. If at any time prior to the discovery of oil or gas on this land and during the term of this lease, the lessee shall drill a dry hole, or holes, on this land, this lease shall not terminate, provided operations for the drilling of a well shall be commenced within twelve menths from the expiration of the last rental period for which rental has been paid, or provided that within said period the lessee hegins or resumes the payment of rentals in the manner and amount herein above provided; and in this event the preceding puregraphs hereof governing the payment of rentals and the manner and effect thereof shall continue in force.

7. In case said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided for shall be paid the said lessor only in the proportion which his interest bears to the whole and undivided fee.

8. The lessee shall have the stable to use first of the said lessor only in the proportion which his interest bears to the whole

7. In case and lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the proportion which his interest bears to the whole and undivided fee.

8 The lesses shall have the right to use free of cost, gas, oil and water found on said laud for its operations thereon, except water from the vells of the lessor. When required by lessor, the lesses chall have proposed to the proposed of the lessor. When required by lessor, the lesses chall have proposed to the proposed of the lessor. It is a proposed to the proposed of the lessor. It is a proposed to the proposed of the lessor. It is a proposed to the proposed of the propos

toosee mey at any time and from time to time surrender this leave as to any part or parts of the leaved premises by delivering the a release thereof to the leasor, or by placing a release thereof of record in the proper county.

ters, lesse and allelts terms, conditions, and stipulations at all extend to and be tinding on all successors of said lessor or lessee

20th THIS AGREEMENT, Entered into this the

ELLIS DAVIE of 7832 Cerritos Avenue, Stanton, California 90680

5 & I OIL COMPANY

hereinafter called lessor,

hereinafter called lessee, does witness:

1. That lessor, for and in consideration of the sum of the number of the sum of the covenants and agreements berelinafter contained to be performed by the lessee, has this day granted and lessed and hereby grants, leases and lets unto the lessee for the jurpose of mining and operating for and producing oil and gas, castinghead gas and examples and castinghead gasoline, laying pipe lines, building tanks, storing oil, building power stations, telephone lines and other structures thereon to produce, save, take care of and manufacture all of such substances, and for housing and boarding employees, the following described tract of land in San Juan county, New Mexico to-wit:

TRACT 2: 3.89+ acres situate in the SW/4 SW/4 of Section 2, T29N, R15W, NMPM,

San Juan County, New Mexico, being described as follows:

Reginning at a point which is 673.18' N89°07'36"E from the SW Corner of said

Section 2. Said point being in the center of Co. Rd. No. 62;

THENCE: N0°36'52"E, 1317.43 feet; THENCE:

N89°28'42"E, 128.27 feet; S0°34'30"W, 1316.62 feet to a point in the center of Co. Rd. No. 62; THENCE:

S89°07'36"W along said centerline 129.18 feet to the point of beginning. THENCE:

Exhibit 4 case 7224

and this lease shall include all lands owned by lessor adjacent to the lands berein particularly described.

2. This lease shall remain in force for a term of One (1) year and as long thereafter as oil, gas, casinghead gas, casinghead

3. The lessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells the equal 1/4 part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to 'be lessor for such 1/4 royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line, or into storage tanks.

*Norage tanks.

4. The tessee shall pay lessor, as royalty, 1/4 of the proceeds from the sale of the gas, as such, for gas from wells where gas only is found, and where not sold shall pay \$25 per annum as royalty from each such well, and while such royalty is so paid such well shall be held to be a producing well under paragraph numbered two hereof. The lessor to have gas free of charge from any gas well on the leased premises for stoves and inside lights in the principal dwelling house on said land by making his own connections with the well, the use of said gas to be at the lessor's sole risk and expense. The lessee shall pay to Jessor for gas produced from any oil well and used by the lessee for the manufacture of gasoline or any other product, as royalty. 1/4 of the market value of such gas at the mouth of the well, it said gas is sold by the lessee, then as royalty 1/4. Of the proceeds of the sale thereof.

5. This Oll and Gas Lease is a paid—up lease.

5. If operations for the drilling of a well for all or gas of not commenced on said land on or hafter.

6. If operations for the drilling of a well for all or gas of not commenced on said land on or hafter.

6. If operations for the drilling of a well for elessee shall on or before this date, pay or tender to the lessor or for the lessor-credit

Bank at Bank at the successors, which bank and its successors are the lessor's agent and shall continue as the depository of any and all sums [272]. Under this lease, regardless of changes of ownership in said land or to the oll and eas, or in the rentals to accrue thereunder, the sum of

remal and cover the privilege of deferring the commencement of drilling operations for a preside of one year. In like manner and upon like payments or tenders, the commencement of drilling operations may be further deferred for like paying successively. All payments or tenders may be mande by check or draft of lessee or any assignee thereof, mailed or delivered on or before the result paying date. Not withstanding the death of the lessor, or his successor in interest, the payment or tender of rentals in the manner provided sharp shall be below, declared, and declared or dealers of cuch parcon.

6. If at any time prior to the discovery of oil or gas on this land and during the term of this lease, the lessee shall drill a dry hole, or holes, on this land, this lease shall not terminate, provided operations for the drilling of a well shall be commenced within twelve months from the expiration of the last rental period for which rental has been paid, or provided that within said period the lessee begins or resumes the payment of rentals in the manner and amount herein above provided; and in this event the preceding paragraphs hereof governing the payment of rentals and the manner and effect thereof shall continue in force.

7. In case said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalities and rentals herein provided for shall be paid the said lessor only in the proportion which his interest bears to the whole and undivided fee.

and undivided fee.

7. In case said lessor owns a less interest in the abore described land then the entire and undivided fee simple estate therein, then the proportion which his interest bears to the whole and undivided fee.

In undivided fee.

In the control of the lessor when required by lessor, the lessee shall have from the vertex of the itsser. When required by lessor, the lessee shall have from the vertex of the itsser. When required by lessor, the lessee shall have found on said premises without written consent of the lessor. Lesses shall have the right at any time during or after the expiration of this lesse to remove all machinery. Institutes, houses, buildings and other structures placed on said premises, including the right to draw and remove all casing.

9. If the estate of of their party hireto is assigned lend the prelifege of assigning in whole or in part is expressly sollowed, the control of the lessor is assigned lend the prelifege of assigning in whole or in part is expressly sollowed, the control of the rest of their party hireto. In the event that the control of the present of a certified copy thereof. In the event this lesse that have been all the assignment or a certified copy thereof. In the event this lesse shall be assigned as to a part or as to parts of the above described hinds, and the holder or course of any such part or parts shall fall or make default in the payment of the proportionate part of the certified to remain on them, such default shall not operate to defeat or shell be assigned as to a part or as to parts of the assignment of a certified copy thereof. In the event this lesse shall be assigned as to a part or as to part or parts of said the certified to remain on the certified to remain on the certified assignment of the default in the payment of the proportionate part of the certified on remains of the certified assignment to be field with the lessee, as ommon agent to receive all payments due hereunder, and to receive all payments due hereunder, and to respect the control of said parties,

14 Lessee may at any time and from time to time surrender this lesse as to any part or parts of the lessed premises by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the proper county.

^{15.} This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor or lessee

	hereivafter called lessor.
S & I OIL COMPANY	
1. That lersor, for and in consideration of the sum of TEN AND NO/100	
n hand paid, and of the covenants and agreements hereinafter contained to be performed by the	he lessee, has this day granted and leased
and hereby grants, leases and lets unto the lessee for the purpose of mining and operating for a	nd producing oil and gas, casinghead gas
and casinghead gasoline, laying pipe lines, building tanks, storing oil, building power stations, tell	Rephone lines and other structures thereon parding employees, the following described

TRACT 5: 3.89+ acres, situate in the SW/4 SW/4 of Sec. 2, T29N, R15W, NMPM, San Juan County, New Mexico, being described as follows: Beginning at a point which is 1060.72' N89°07'36"E from the SW Corner of said Section 2, said point being in the center of Co. Rd. No. 62;

N0°29'50"E, 1315.00'; THENCE: N89°28'42"E, 128.27 THENCE:

S0°27'30"W, 1314.19' to a point in the center of Co. Rd. No. 62; THENCE:

San Juan county, New Mexico

S89°07'36"W along said centerline 129.18' to the point of beginning.

Exhibit 5 case 7224

AN expect to the lease shall include all lands owned by lessor adjacent to the lands berein particularly described.

2. This lease shall remain in force for a term of ONE (1) year and as long thereafter as oil, gas, casinghead gas, casinghead gasoline or any of them is produced.

3. The lessee shall deliver to the credit of the lessor as royalty, free of cost, in the pipe line to which lessee may connect its wells the equal the part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for such 1/4 part of all oil produced and saved from the leased premises, or at the lessee's option, may pay to the lessor for royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line, or into storage tanks.

4. The lessee shall pay lessor, as royalty, 1/4 of the proceeds from the sale of the gas, as such, for gas from wells where gas only is found, and where not sold shall pay \$25... per annum as royalty from each such well, and while such royalty is so paid such well shall be held to be a producing well under paragraph numbered two hereof. The lessor to have gas free of charge from any cas well on the leased premises for stoves and inside lights in the principal dwelling house on said land by making his own connections with the well, the use of said gas to be at the lessor's cole risk and expense. The lessee shall pay to lessor for gas produced from any oil well and used by the lessee for the manufacture of gasoline or any other product, as royalty, 1/4 of the market value of such gas at the mouth of the well. It said gas is sold by the lessee, then as royalty 1/4 of the proceeds of the sale thereof.

5. This Oil and Gas Lease is a paid-up lease.

the trace shall terminate as to both parties, unless the lessee shall on or before this date, pay or tender to the lessor or for the lessor's

this lease, regardless of changes of ownership in said land or in the oil and see, or in the rentals to accrue thereunder, the sum of and cover the privilege of deferring the commencement of drilling operations for a paried of one year. In like manner and upon ayments or tenders, the commencement of drilling operations may be further deferred for like periods successively. All payments derived by the commencement of drilling operations may be further deferred for like periods successively. All payments determine the death of the lessor, or his successor in interest, the payment or tender of rentals in the manner provided their shall be the death of the lessor, or his successor in interest, the payment or tender of rentals in the manner provided their shall be the payment of the death of the lessor, and the limitary terms of the lessor and the limitary terms of the lessor and the limitary terms of the lessor and the lessor and the limitary terms of the lessor and limitary terms of the limitary terms of the lessor and limitary terms of the limit

6. If at any time prior to the discovery of oil or gas on this kind and during the term of this lease, the lessee shall drill a dry hole, or holes, on this land, this lease shall not terminate, provided operations for the drilling of a well shall be commenced within twelve menths from the expiration of the last rental period for which rental has been paid; or provided that within said period the lessee regins or resumes the payment of rentals in the manner and amount herein above provided; and in this event the preceding paragraphs hereof governing the payment of rentals and the manner and effect thereof shall continue in force.

7. In case said here owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalities and remains herein provided for shall be paid the said lessor only in the proportion which his interest bears to the whole and undivided fee.

7. In case said lessor owns a less interest in the above described land, than the entire and undivided fee simple estate therein, then the royalities and remain before in provided for small be pold the sold lessor chip in the proportion which his interest bears to the whole search of the land. He shall be still be st

14. Lever men at any time and from time to time surrender this lease as to any part or parts of the leased premises by delivering or making a release thereof to the lessor, or by placing a release thereof of record in the proper county.

15. Take to be and at the terms conditions, and stipulations of all extend to and be binding on all successors of said lessor or lessee

14. Lessee may at any time and from time to time surrender this lesse as to any part or parts of the lessed premises by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the proper county.

15. This lease and all its terms, conditions, and stipulations shall extend to and be binding on all successors of said lessor or lessee.

16. This lease shall not be terminated, in whole or in part, nor shall lessee be held liable in damages, for fallure to comply with the express or implied covenants hereof, it compliance therewith is prevented by, or if such fallure is the result of, any Frieral or state laws, executive orders, rules, or regulations. If, at the end of the primary term hereof, auch term has not been extended by production or drilling as in this lease provided, and lessee, by reason of any of the above recited causes, is unable to drill a well on the leased premises for oil or gas, the primary term and the rental provision hereof shall be extended automatically from year to year until the first anniversary hereof occurring ninety (90) or more days following the removal of such delaying cause. During any period that lessee is unable to produce and/or market any products from the leased premises by reason of any of the above recited causes, this lease rhall remain in full force and effect.

17. Lessee is hereby given the right at its option, at any time and from time to time, to pool or unitize all or may part or parts of the above described land with other land, lease, or leases in the immediate vicinity thereof, such pooling to be into units not exceeding the infinium size tract on which a well may be drilled under laws, rules, or regulations in furce at the time of such pooling or unitization; provided, however, that such units may exceed such infinium by not more than ten acres if such excess is notes for order to conform to comform to comform so considered sites. Lessee shall exceed said option, as to each desired unit, by executing and recording an instrument identifying the unitized area. Any well drilled or operations conducted on any part of each ruch unit shall be considered a well drilled or operations conducted under this lease, and there shall be allocated to the portion of the above described land included in any such unit such proportion of the actual production from all wells on such unit at lessor's interest, if any, to such portion, computed on an acreage basis, bears to the entire acreage of such unit. And it is understeed and agreed that the production portion of the above described land included in such unit in the same manner as though produced from the above described land unider the terms of this lease.

IN WITNESS WHEREOF, we sign the day and year first above written.	
	WILLIAM G. DAVIE, dealing in his sole and separate property
	William & David
BILL B. DAVIE, as Joint Tenant	WILLIAM G. DAVIE, as Joint Tenant
BILL DENTON	Milliam 18 David
STATE OF NEW MEXICO SAN JUAN ss.	ACKNOWLEDGMENT FOR INDIVIDUAL
COUNTY OF	to the last
Before me, the undersigned, a Notary Public, within and for	or said County and State, on this
/ 1	erschally appeared WILLIAM G. DAVIE
and U BILL BY DAVIE	
to me personally known to be the identical person S who execu	*********
edged to me that they executed the same as their free	and voluntary act and deed for the uses and purposes
therein set forth.	and the second of the second o
IN WITNESS WHEREOF, I have hereunto set my hand a	nd official seal the day and year last above wriceh.
My commission expires plan & 6 19	84 Jules Dianies
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OIL, AOIL, AOIL, AULITAM G. DAV WILLIAM G. Janua e Jan	STATE OF SAN County of SAN This instrument day at o'cloc in Book the records of this When recorded, re S & I OIL COMP Farmington, No
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STATE OF	
COUNTY OF ss.	ACKNOWLEDGMENT FOR INDIVIDUAL
	or said County and State on this
Before me, the undersigned, a Notary Public, within and for	
day of 19, p	ersonally appeared
to me personally known to be the identical person who execute	uted the within and foregoing instrument and acknowl-
edged to me thatexecuted the same asfree	and voluntary act and deed for the uses and purposes
therein set forth.	
IN WITNESS WHEREOF, I have hereunto set my hand a	nd official seal the day and year last above written.

State of New Mexico
Department of Energy & Minerals
Oil Conservation Division
Santa. Te, NM 87501

Re: S & I 011 Company Compulsory Pooling, San Juan County, New Mexico

Gentlemen:

I would like to advise that I, Iona Brimhall, have taken an active part in putting this lease together for my family. I feel it is a fair and equitable lease.

I have also been given ample opportunity to sign this lease, however for personal reasons I will not do this. I am also aware of the consequences involved for causing this to be "forced pooled".

I have advised in. E. V. Isbell of S & I Oil Company to "force pool" this acreage in order that a well may be drilled.

Respectfully Submitted,

Iona Brimhall

Exhibit7 case 7224 State of New Mexico Department of Energy & Minerals Oil Conservation Division Santa Fe, NM 87501

Re: S & I Oil Company Compulsory Pooling, San Juan County, New Mexico

Gentlemen:

Please be advised that I, Maxine Hattemer of 4836 West 138th St., Hawthorne, California 90250, have been given fair and ample opportunity to sign a oil lease for the captioned. I feel that it is an equitable lease, however for personal reasons I have chosen not to sign the lease.

I have advised Mr. E. V. Isbell of S & I Oil Company to Force pool this acreage in order that a well may be drilled. I am aware of the consequences involved in "force pooling".

Maxine Hattemer

Exhibit 8 case 7224

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Exhibit 9 Case 7224

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OTHER EQUIPMENT:			
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Production Seo SACKS	13,000		
Liper			
Liner		_	
PAR		17,000	2,000
Sq. Job.		1400	
ORMATION TREATMENT:			
Acidizine	JNC.] ·	
Frocturing Equipment AND MATERIALS	20,000		
FluidGal. Oil	2 400		
\$0,000 Gal Water Sand 60,000 Lbs.	2,000 ZHC.		
Tonk Rental A TANKS	1200	23,200	
PECIAL SERVICES: (Surveys and Tests)	0.00		· .
Perforating	2,500		
Electric and Radioactive Logging	8 200		8,200
Drill Stem Tests.			acco
Cores		10,700	
ATERIALS:	1000		٠ .
Drilling Mud and Chemica's	15,000	ł	15,000
Exilling Gas or Air	6,000	i	6000
Poter Bits	10100	1	7000
Fuel		1	
Cement Equipment (shors, collars, etc.)	2,500]	300
Bridge Plays and Petatrons SuperVISION	5,000	22-	3,000
Miscell energy (welding, houling, rental of tongs, etc.)	5,000	33,500	3,500
PROJUCTION Equipment, TK., TREATER AND	30,000	30,000	
CCESS AND LOCATION: Pring UNIT	16,000	4,000	4,000
Exh. b. + 10 Total Direct Cost	272,900	272,900	145,300
Exh. b. + 10 Total Direct Cost (45e 7124 Plus 5 % Contingency	13,600	13,600	2,300
The state of the s	عديد عمروا مروا ويتاها	00/ /	
ESTIMATED TOTAL COST	286,500	286,500	\$152,600
ORKING INTEREST:			ich aling owner to pay
	•	of octual well cost	subject to operating
	ogseement,		
December 11, 1980	and the second substantial section (see Section). See Section (section).		

Proposed By Strickland, Soll Co.

Recommended by the Council of Petroleum Accountants Societies



EXHIBIT "C'

Attached to and made a part of Model Form Operating Agreement dated December 15, 1980 between S & I Oil Company, as "Operator" and Walter L. Kennedy, Jr., as "Non-Operator".

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 of 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 that'! bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
 - (2) Salaries of First Level Supervisors in the field.
 - (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

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

4. Materia

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 \$260 or less excluding accessorial charges.

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

9 Legal Expense

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

10 Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

- 1. Overhead Drilling and Producing Operations
 - i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:
 - (X) Fixed Rate Basis, Paragraph 1A, or
 - () Percentage Basis, Paragraph 1B.

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

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not (X) be covered by the Overhead rates.
- A. Overhead Fixed Rate Basis
 - (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 3,500.00

Producing Well Rate \$ 350.00 Menth/y

- (2) Application of Overhead Fixed Rate Basis shall be as follows:
 - (a) Drilling Well Rate
 - [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
 - [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days
 - [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.
 - (b) Producing Well Rates
 - [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
 - [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
 - [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
 - [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
 - [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis (1) Operator shall charge the Joint Account at the following rates: (a) Development Percent (

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

(b) Operating

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

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

2. Overhead - Major Construction (If necessary, to be negotiated at a later date.)

To compensate Operator for everhead costs incurred in the construction and installation of fixed assets, pansion 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 total costs if such costs are more man \$ _but less than \$_ Α. but less than \$1,000,000; plus % of total costs in excess of \$_ % of total easts 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 preject chall not be treated reparately and the cost of drilling and workever wells shall be

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 dis-

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.

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 a factor equal to 1/100ths 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 an 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.

KELLAHIN and KELLAHIN

Attorneys at Law

500 Don Gaspar Avenue
Post Office Box 1769

Santa Fe, New Mexico 87501

Telephone 982-4285 Area Code 505

March 31,1981

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

RE: S&I Oil Company

Care 7224

Dear Joe:

Jason Kellahin W. Thomas Kellahin

Karen Aubrey

Please set the enclosed application for hearing on April 22, 1981.

Very truly yours,

W. Thomas Kellahin

WTK: jm Enclosure

1

STATE OF NEW MEXICO

DEPARTMENT OF ENERGY AND MINERALS

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF S & I OIL COMPANY FOR COMPULSORY POOLING SAN JUAN COUNTY, NEW MEXICO

APPLLCATON

Case 7224

COMES NOW S & I OIL COMPANY, by and through its attorneys, KELLAHIN & KELLAHIN, and applies to the Oil Conservation Division of New Mexico for a compulsory pooling order for the SW/4SW/4 of Section 2, T29N, R15W, NMPM, San Juan County, New Mexico and in support thereof would show:

- 1. Applicant desires to be designated operator of the pooled unit.
- 2. Applicant is the owner of the right to drill and develop the oil and gas minerals underlying the above described 40 acre tract, and proposes to drill a well to test the formations underlying this tract.
- 3. Applicant has sought voluntary agreement from other owners of interests underlying the described lands, but has been unable to obtain such agreement with Hattemer & Brimhall for the drilling of the proposed well.
- 4. The address of the non-consenting owners to the best of applicant's information and belief are:

Maxine Hattemer
4836 West 138th Street
Hawthorne, California 90250

3,89 acres Fruitland, New Mexico 87416

WHEREFORE applicant prays the Division to enter its order pooling the mineral interests, whatever they may be, underlying the SW/4SW/4 of Section 2, Township 29 North, Range 15 West, N.M.P.M., San Juan County, New Mexico, together with provision for applicant to recover its reasonable costs of drilling and completing the proposed well out of production, plus its necessary operating costs, and costs of supervision, and for a risk factor of 200% for the risk of drilling and completing the proposed well, and for such other and further provisions as may be proper.

Iona Brimhall

P.O. Box 414

Respectfully submitted,

S & I OIL COMPANY

Kellahin & Kellahin

P.O. Box 1769

Santa Fe, New Mexico (505) 982-4285

ATTORNEYS FOR APPLICANT

STATE OF NEW MEXICO

DEPARTMENT OF ENERGY AND MINERALS OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF S & I OIL COMPANY FOR COMPULSORY POOLING SAN JUAN COUNTY, NEW MEXICO

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Iona Brimhall 3.89 acres P.O. Box 414 Fruitland, New Mexico 87416

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Respectfully submitted,

S & I OIL COMPANY

Kellahin & Kellahin P.O. Box 1769 Santa Fe, New Mexico (505) 982-4285 87501

ATTORNEYS FOR APPLICANT

STATE OF NEW MEXICO

DEPARTMENT OF ENERGY AND MINERALS OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF S.& I OIL COMPANY FOR COMPULSORY POOLING SAN JUAN COUNTY, NEW MEXICO

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Respectfully submitted,

S & I OIL COMPANY

P.O. Box 1769 / Santa Fe, New Mexico (505) 982-4285

ATTORNEYS FOR APPLICANT

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.	7224
APPLICATION OF S & I OIL FOR COMPULSORY POOLING, SCOUNTY, NEW MEXICO.	Orđer No. R- COMPANY SAN JUAN	(0668
ORDER (OF THE DIVISION	kac
BY THE DIVISION:		
This cause came on f	for hearing at 9 a.m. or	2 1 00
19 81, at Santa Fe, New	Mexico, hefore rooms	April 22
NOW, on this	day of April	Daniel S. Nutter
Director, having consider	day of April , 19	the Divisio
recommendations of the Francisco	on the testimony, the r	ecord, and the
recommendations of the Exampremises,	aminer, and being fully	advised in the
FINDS:		
(1) That due public	notice having been give	en as required by
law, the Division has juri	sdiction of this cause	and the subject
matter thereof.		and bublect
(2) That the applica	nt, S & I Oil Company	•
seeks an order pooling all	220	-11 6
dense to and including the Gallapt	underlying the SU/	all formations
of Section 2 Township	anderlying the SW/4 S	W/4
of Section 2, Township		ge 15 West
Mexico.	San Juan	County, New
	•	4

- (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.

- That \$ 3500.00 per month while drilling and -3per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the \$ 350.00 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.
 - 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
 - (13) That upon the failure of the operator of said pooled proof of ownership. unit to commence drilling of the well to which said unit is dedicated on or before July 1, 1981 pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

ORDEDEO:
IT IS THEREFORE ORDERED: whatever they may be formation
IT IS THEREFORE ORDERED: (1) That all mineral interests, whatever they may be, formation with the College SW/4 SW/4 SW/4 all formation sunderlying the SW/4 SW/4 sw/4 all formation sunderlying the SW/4 SW/4 sw/4 sw/4 sw/4 sw/4 sw/4 sw/4 sw/4 sw
all formationsumder 15 West
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in the all
NMPM, spacing are hereby pooled to form a standard acre spacing are hereby pooled to form a standard to a well to be drilled
NMPM, a standard drilled
are hereby pooled by dedicated to a well to be different .
and proration unit to be
t a standard located unit shall
PROVIDED HOWEVER, that the operator of said the first day of commence the drilling of said well on or before the drilling and shall thereafter continue the drilling
PROVIDED none said well on or before the silling
commence the drilling of the drilling of the drill thereafter continue the drilling
commence the drilling of said well on or before the commence the drilling of said well on or before the continue the drilling of said well with due diligence to a depth sufficient to test the formation;
of said well with due ullis formation;
11 anaratul
PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the commence the drilling of said well on or this order shall be null
the drilling of said well on of sever shall be null
commence the drawn order (1) of this order obtains
commence the drilling of said well on or before the
land void and of no effect whatso
and void and of no effect whatsoever, and void and void and of no effect whatsoever, and void and vo
a time extension

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 S&I Oil Company 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.
- 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.
- 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 d 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 \$ 3500.00 per month while drilling and

 \$ 750.00 per month while producing are hereby fixed as
 reasonable charges for supervision (combined fixed rates); that the
 operator is hereby authorized to withhold from production the
 proportionate share of such supervision charges attributable to
 each non-consenting working interest, and in addition thereto, the
 operator is hereby authorized to withhold from production the
 proportionate share of actual expenditures required for operating
 such well, not in excess of what are reasonable, attributable to
 each non-consenting working interest.

- (10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.
- (11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests share of production, and no costs or charges shall be withheld from production attributable to royalty interests.
- (12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in 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.