

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 3A, 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 be covered by the overhead rates, or
- (x) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

- () shall be covered by the overhead rates, or
- (x) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,000.00
(Prorated for less than a full month)

Producing Well Rate \$ 500.00

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

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work 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 or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar 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 shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (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 Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent in Canada, as applicable. The adjusted rates shall be the rates of adjustment.

B. Overhead - Percentage Basis

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

BEFORE THE
OIL CONSERVATION DIVISION
 Case No. 12855 Exhibit No. 8
 Submitted By: **Richardson Production**
 Hearing Date: July 11, 2002

ERNST & YOUNG

2001 SURVEY

MONTHLY DRILLING WELL FIXED OVERHEAD RATES

MONTHLY PRODUCING WELL FIXED OVERHEAD RATES

New Mexico

Monthly Drilling Well Fixed Overhead Rates

Monthly Producing Well Fixed Overhead Rates

responses

Wells

Depth	Monthly Drilling Well Fixed Overhead Rates				Monthly Producing Well Fixed Overhead Rates			
	Minimum	Average	Median	Maximum	Minimum	Average	Median	Maximum
0 - 5,000	\$1,510	\$3,567	\$3,500	\$6,534	\$200	\$381	\$350	\$719
5,001 - 10,000	\$3,000	\$4,772	\$4,250	\$7,507	\$200	\$523	\$527	\$918
10,001 - 15,000	\$4,250	\$6,121	\$6,000	\$8,061	\$425	\$639	\$600	\$1,101
15,001 - 20,000	\$9,131	\$9,131	\$9,131	\$9,131	\$1,219	\$1,219	\$1,219	\$1,219
Over 20,000								
No Depth Limit	\$1,500	\$5,822	\$5,641	\$10,123	\$325	\$1,246	\$830	\$7,118